



Scottish Prison Service

2019/20 Annual Audit Report to the Accountable Officer and the Auditor General for Scotland

October 2020



Table of contents

1. Key messages	1
2. Introduction	4
3. Annual report and accounts	7
4. Financial sustainability	16
5. Financial management	19
6. Governance and transparency	23
7. Value for money	26
8. Appendices	33

1. Key messages

Annual accounts audit

The annual report and accounts for the year ended 31 March 2020 were considered by the Risk Monitoring and Audit Committee on 2 October 2020 and authorised for issue by the Accountable Officer on the same date. We report an unqualified opinion within our independent auditor’s report.

We have drawn attention in our independent auditor’s report to Note 1 Statement of Accounting Policies. ‘Key sources of judgement and estimation uncertainty’ of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property values. Our opinion is not modified in respect of this matter.

We specifically updated our risk assessment and audit plan in light of COVID-19 and recognised this as a key audit risk. Our findings as the relate to this risk are documented under each section of this report.

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.

Wider scope audit

Financial sustainability

COVID-19 has had, and is having, an impact in terms of the financial plans and capacity pressures facing SPS.

SPS has identified a funding gap for 2020/21 of £19.2million; of which £10.8million relates to COVID-19. SPS has identified associated risks with achieving a balanced budget in 2020/21.

A medium term financial strategy was prepared however it is acknowledged that this will need to be reviewed / updated in light of COVID-19.

Financial management

SPS operated within budget during 2019/20, reporting an underspend of £4.042million in year.

SPS reported underspends in both its maintenance programme and capital programme in 2019/20. Given the ageing profile of the SPS estate such underspends should be reviewed and scrutinised to ensure no long term implications for the estate.

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.

Governance and transparency

SPS has experienced a number of changes in its Senior Leadership Group in the last year and this Group now consists entirely of interim appointments at Chief Executive and Director level. It is anticipated that, once the current pandemic is over, the new Senior Leadership Group will create a more stable platform to guide SPS over the next few years.

In response to COVID-19, SPS enhanced its governance by implementing interim arrangements to expedite urgent decision making. During the period of lockdown, the frequency of meetings of the Executive Management Group and Advisory Board increased. meetings. Planning is now being carried out to move the business back towards a normal operating position.

Value for money

The refreshed Corporate Plan 2019-22 was published in 2019. The Plan is designed to be delivered over a three year period whilst being flexible enough to accommodate change.

The 2019/20 Annual Delivery Plan set out 20 Essential Actions to be delivering in year. Ten of these were completed; with the remaining ten either delayed on reprofiled. In part this was due to COVID-19.

SPS also report that Covid-19 pandemic which started in the later part of quarter four has had an impact on performance outcomes. SPS’ performance on seven of the 17 indicators deteriorated compared with prior year. Six indicators have improved in year and there has been no movement on the remaining four.



The 2018/19 audit of the Scottish Prison Service – Report prepared by the Auditor General for Scotland for Parliament

In 2019/20, the Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for the Scottish Prison Service. Those factors included issues relation to the financial position, , high levels of prisoner population, staffing levels, performance outcomes and the prison estate.

SPS is currently working in conjunction with the Scottish Government to provide a response to Parliament on the report prepared by the Auditor General on the 2012/19 external audit. Observations include:

- Sickness absence rates have declined in comparison with the previous year.
- Ex gratia payments have increased despite the fall in sickness absence rates.
- The prison population remained over 8,000 until March 2020 when the impact of Covid-19 resulted in fewer people being sent to custody due to the suspension of court business. Upon the resumption of court business, it is anticipated, and is starting to be observed, that this declining trend will reverse and the numbers of people in custody is expected to increase significantly.

We will continue to monitor SPS' response to the report during 2020/21, taking into account the current environment which it is operating in.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Azets
October 2020

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 2019/20.

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 2019/20 audit of the Scottish Prison Service (“SPS”).
2. We outlined the scope of our audit in our External Audit Plan, which was considered by the Risk Monitoring and Audit Committee (RMAC) at the outset of our audit. The core elements of our work include:
 - an audit of the 2019/20 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 Interim Chief Executive, Head of Corporate Risk, Planning and Change 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 Ethical Standards. 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 any member of your audit team.

Openness and transparency

11. This report will be published on Audit Scotland's website 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 2019/20 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2020 were considered by the Risk Monitoring and Audit Committee on 2 October 2020 and authorised for issue by the Accountable Officer on the same date. We report an unqualified opinion within our independent auditor’s report.

We have drawn attention in our independent auditor’s report to Note 1 Statement of Accounting Policies. ‘Key sources of judgement and estimation uncertainty’ of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property values. Our opinion is not modified in respect of this matter.

Audit conclusion

12. The annual report and accounts for the year ended 31 March 2020 were considered by the Risk Monitoring and Audit Committee on 2 October 2020 and authorised for issue by the Accountable Officer on the same date.
13. Our independent auditor’s report includes:
 - An unqualified opinion on the financial statements;
 - An unqualified opinion on regularity; and
 - An unqualified opinion on other prescribed matters.
14. We have drawn attention in our independent auditor’s report to Note 1 Statement of Accounting Policies. ‘Key sources of judgement and estimation

uncertainty’ of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property values. Our opinion is not modified in respect of this matter.

Our assessment of risks of material misstatement


15. The assessed risks of material misstatement described in Exhibit 1 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 1.

Exhibit 1 – Our assessed risks of material misstatement and how the scope of our audit responded to those risks

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.

Noted in the 2019/20 External Audit Annual Plan


- 
16. We have not identified any indication of management override in the year. We have reviewed the 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.

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.


Noted in the 2019/20 External Audit Annual Plan

- 
17. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for Scottish Government grant funding.
 18. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income 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.

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.

Noted in the 2019/20 External Audit Annual Plan


- 
19. 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 financial statements. To inform our conclusion we carried out testing to confirm that the SPS’ policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Estates valuation

As at March 2019, the SPS held property, plant and equipment with a carrying value of £1.144 billion. The scale of the current estate, the continuous changes 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, significant maintenance is required to keep the prison operational. We are also aware that a replacement prison for HMP Barlinnie is being considered and may be announced in the near future which may impact on the value of the current prison. There is a risk that the valuation of this site could be incorrectly recorded within the annual accounts. HMP Barlinnie building had a net book value of £45 million as at March 2019, therefore a misstatement of its valuation could result in a material misstatement in the annual accounts.

Noted in the 2019/20 External Audit Annual Plan

- 
20. In 2019/20 the District Valuer revalued HMP Barlinnie. We conducted testing on the revaluations and gained reasonable assurance over the accuracy of the estates valuation and that assets were accounted for appropriately.
 21. 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 valuation obtained.
 22. Overall, we concluded that the asset value over HMP Barlinnie has been appropriately reflected in the financial statements.

Update to our initial risk assessment

23. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We

have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by SPS and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

¹ A key audit risk is one which may result in a material misstatement to the financial statements or significantly impact on our audit judgements and conclusions on the four wider scope

dimensions; financial sustainability, financial management, governance and transparency and value for money.

24. In response to this risk we identified a number of potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

- Property valuations
- Content of the annual report and accounts
- Access to audit evidence
- Timescales/administrative processes.

Property valuations

25. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.

26. SPS, in accordance with its accounting policies, carries out a full revaluation of land, dwelling and other buildings at five yearly intervals. In the intervening years, both specialised and non-specialised assets are valued on a rolling programme revaluing, on average, four establishments each year. Appropriate indices provided by the Valuer are used to restate values in the intervening years between full valuations. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

27. In the current year the Agency commissioned a valuation for HMP Barlinnie, HMP YOI Cornton Value, HMP Greenock, HMP Inverness, HMP Addiewell and HMP Kilmarnock. The valuation report received from the external valuers (“District Valuer Services, a division of the Valuations Office Agency”) stated the following:

Material Valuation Uncertainty



The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors.

As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented

set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

DVS, Valuation Office Agency, Asset Valuation Exercise 2020, Prepared for Scottish Prison Service

28. SPS is required to revalue its properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. A material uncertainty in a valuer’s report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.

29. SPS has disclosed this uncertainty within its Statement of Accounting Policies (Key Sources of judgement and estimation uncertainty).

30. IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.

31. SPS has disclosed in its financial statements that ‘the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts’ and has therefore not disclosed any sensitivities on the property valuations. In future years, we would encourage SPS to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the sources of estimation uncertainty.

Action plan point 1

32. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users’ understanding of the

financial statements. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

Content of the annual report and accounts

33. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FReM) which covered the following:

- The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
- Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

34. SPS took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.

Access to audit evidence

35. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.

36. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

37. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.

38. 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.

Timescales/Administrative processes

39. In Scotland, the administrative deadline for the submission of audited accounts of central government bodies to Audit Scotland remains at 30 October 2020. The legislative deadline for laying accounts in the Scottish Parliament also remains at 31 December 2020.

40. RMAC considered the annual report and accounts on 2 October 2020. The Accountable Officer approved the accounts on the same date.

An overview of the scope of our audit

41. The scope of our audit was detailed in our External Audit Plan, which was considered by the RMAC in May 2020. 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.

42. 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.

43. Our standard audit approach is based on performing a review of the key financial systems in place, 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 management team. In performing our work we have applied the concept of materiality, which is explained below.

Our application of materiality

44. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

45. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out.

We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

46. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
47. Our initial assessment of materiality for the financial statements was £6.5million. On receipt of the 2019/20 draft accounts, we reassessed materiality and kept it at £6.5million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality: Our assessment is made with reference to operating expenditure as users of the accounts are primarily interested in how SPS funding has been spent in delivering expected performance.	6.500
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	4.875

48. We noted within our External Audit Plan that we would report to SPS all audit differences in excess of 250,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

49. We identified no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. There were no unadjusted differences to the unaudited annual accounts.

Other matters identified during our audit

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

Other information in the annual report and accounts

51. “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

52. 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.
53. 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

54. 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. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

Governance statement

55. We consider the coverage of the governance statement to be in line with our expectations.
56. Based on the audit work carried out, 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

57. 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

58. 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.

59. In our opinion 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.

Qualitative aspects of accounting practices and financial reporting

60. 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 financial statements. 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.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>We have included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</p> <p>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 experts was appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Agency will continue to operate for at least 12 months from the signing date.
The potential effect on the financial statements 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 are not already included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	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.

Qualitative aspect considered	Audit conclusion
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements 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.



COVID-19 has had, and is having an impact, in terms of the financial plans and capacity pressures facing SPS.

SPS has identified a funding gap for 2020/21 of £19.2million; of which £10.8million relates to COVID-19. SPS has identified associated risks with achieving a balanced budget in 2020/21.

A medium term financial strategy was prepared however it is acknowledged that this will need to be reviewed / updated in light of COVID-19.

The prison population remained over 8,000 until March 2020 when the impact of Covid-19 resulted in fewer people being sent to custody due to the suspension of court business. Upon the resumption of court business, it is anticipated, and is starting to be observed, that this declining trend will reverse and the numbers of people in custody may increase significantly.

Significant audit risk

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

Financial sustainability: increasing capacity pressure

SPS is facing increasing pressure in terms of prisoner numbers and is approaching maximum capacity. In June 2019, there were c.8,200 prisoners, and this has decreased slightly to c.8,150 as at January 2020. The maximum number of prisoners that can be accommodated by SPS is 8,499 as a result of the use of emergency contingency measures to expand the operating capacity of SPS.

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:

- an increase in the number of long term prison sentences reduces “turnover” within the system and acts as a limit on capacity;
- older prisoners with higher personal care and healthcare management;
- increasing requirements for separation and monitoring of prisoners (including management of the female prisoner population, historic sex offenders, those with a serious and organised crime gang affiliation and violent prisoners).

These capacity issues place SPS under increasing financial pressure and as capacity demands are expected to rise further there is increasing operational risk.

Excerpt from the 2019/20 External Audit Plan

62. SPS has a current daily operating capacity of 7,669 prisoners and during the year 2019/20, the average number of prisoners was 8,198. The population surpassed 8,000 in February 2019, reaching a high of 8,274 in November 2019.
63. The prison population remained over 8,000 until March 2020 when the impact of Covid-19 resulted in fewer people being sent to custody due to the suspension of court business.
64. Upon the resumption of court business, it is anticipated, and is starting to be observed, that this declining trend will reverse and the numbers of people in custody is expected to increase significantly, bringing with it the added complication of delivering service whilst adhering to physical distancing requirements.
65. We consider the size of the prisoner population to represent a significant ongoing risk for the SPS. During the coming year we will monitor SPS’ plans to move the business back to a normal operating position and the associated impact on prisoner numbers, capacity and financial pressures.

2020/21 financial plans

66. The Scottish Government Budget 2020/21 was agreed by the Scottish Parliament in February 2020, and provides for a SPS resource allocation of £374.4million (£342.2million excluding capital

charges). This is an increase of £30million on the 2019/20 opening budget and an increase of £9.8million against the 2019/20 Revised budget (Spring Budget Revision).

67. The Scottish Government capital allocation for 2020/21 is £67.8million. This includes the ring-fenced element of the 2019/20 capital allocation relating to slippage in the Women's Estate and HMP Glasgow projects of £28.8million.

68. The most recent financial update / budget monitoring position prepared by SPS notes that there is a funding gap of £19.2million in 2020/21; of which £10.8million relates to COVID-19.

69. SPS has identified a number of risks associated with achieving a balanced budget for 2020/21 which will require to be managed throughout the year. These include:

- COVID 19 spend exceeding the forecasts provided;
- Any savings identified to mitigate COVID 19 costs might not materialise;
- Uncertainty over the remaining performance year and the route map to recovery;
- Impact of workforce planning on the remainder of the financial year;
- Impact on construction over the remainder of the financial year will impact on the capital forecasts;
- Market uncertainty on the valuation of the prison estate;
- Longer term Financial implications of decisions made during COVID 19 and how this will impact on future spending plans.

70. Monthly reporting to Scottish Government has commenced and SPS expect to face additional scrutiny in relation to forecasts, Covid19 expenditure and other cost pressures.

Longer term financial strategy

71. During the year, SPS contributed to the Scottish Government Spending Review process by submitting a four-year spending plan and a draft Medium Term Financial Strategy was prepared.

72. Financial sustainability remains a challenge and it is recognised that work is required to further develop the financial strategy to more accurately reflect the emerging position taking cognisance of the impact of Covid-19. This will be informed by various other SPS strategies including, Digital, Workforce Planning and Estates Strategies and information on population management.

Long term capital investment programme

73. 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.

74. 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.

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 2019/20, reporting an underspend of £4.042million in year.

SPS reported underspends in both its maintenance programme and capital programme in 2019/20. Given the ageing profile of the SPS estate such underspends should be reviewed and scrutinised to ensure no long term implications for the estate.

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.

Significant audit risk

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

Financial management: financial planning and budget management

We recommended as part of our 2016/17 audit that in conjunction with movement in the governance structure in alignment with the 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs. SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective. In 2018/19 we also assessed these as continuing risks to SPS with progress being made towards addressing these issues. The review of the finance structure is on track to be completed by 31 March 2021.

In December 2019, SPS forecast a 2019/20 resource budget underspend of £2million and a capital budget underspend of £0.3million. For 2019/20 there remains a significant risk of ineffective financial management.

Excerpt from the 2019/20 External Audit Plan

76. A SPS review of the Finance Structure is currently underway to consider the issues and recommendations made in our prior year audits 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.
77. SPS has incurred an underspend of £4.042million in year. Over the last five years, SPS has repeatedly reported year end outcomes comfortably within budget. Budget setting and budget monitoring and reporting arrangements have been detailed within paragraphs 84 to 92 respectively.

Financial performance

78. Despite the financial pressures felt by the SPS in year, an underspend was achieved. Total outturn for the year was £374.606million against the SBR budget position of £378.648million, giving rise to an underspend of £4.042million.
79. The underspend arose primarily as a result of slippage in the maintenance programme that was scheduled to take place in the last quarter (c.£1million).
80. Other cost pressures, that were estimated earlier in the year came in lower than anticipated, either due to the timing of settlements or due to delays in the ability to utilise the funding prior to the end of the financial year (c.£1.7million). Depreciation charges were £973,000 below budget.
81. Capital was underspent by £543,000 due to slippage in the Digital Strategy. In October 2019, the Scottish

Government requested that SPS ring fence an element of the 2019/20 capital allocation relating to the slippage in the Women's Estate and HMP Glasgow projects in order to return to the Scottish Government. £35.7million was returned. The revised budget allocation for 2019/20 was £11.8million. We have highlighted in previous years that SPS reported underspends against its capital allocation. Given the ageing profile of the SPS estate such underspends should be reviewed and scrutinised to ensure no long term implications for the estate. Given the ageing profile of the SPS estate and the reported underspends on both the maintenance programme and capital programme such underspends should be reviewed and scrutinised to ensure no long term implications for the estate. We will continue to monitor the capital programme and outturn over the coming year.

2019/20 Performance against SBR budget

	Revised budget £million	Actual outturn £million	Variance £million
Total Departmental Expenditure Limits (DEL)	295.923	300.967	(5.044)
Total outside DEL Expenditure	78.026	77.681	0.345
Annually Managed Expenditure (AME)	0.657	0	0.657
Total	374.606	378.648	(4.042)

Operating expenditure

82. Operating expenditure of £364.270million incurred in year consisted £186.676million (51.2%) of staff costs and £67.113million (18.4%) of PFI service charges and prisoner escort service costs, with 30.4% of total operating expenditure therefore consisting of all other operating costs.
83. Staff costs have increased by 7.6% compared with 2018/19 and other operating expenditure has increased by 4.5% in year. The largest contributing factor to the increase in staff costs is an increase in pension contributions. At the Autumn Budget Revision (ABR) SPS received £6.2million from Scottish Government as a contribution to the costs of increased pension contributions.

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.

87. For 2019/20, SPS received a resource allocation of £346.2million (£312.2million excluding capital charges). Following the Autumn Budget Revision (ABR) and Spring Budget Revision (SBR), SPS received a total resource allocation for 2019/20 of £365.4million (£332.4million excluding capital charges). At the ABR, SPS received £6.2million from Scottish Government (SG) as a contribution to the costs of the increased pension contributions. At the SBR, SPS requested £14.0million in additional resource funding. This included an additional £1.2million to cover any other essential maintenance costs or emerging cost pressures.

Budget setting

84. 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.
85. 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 Interim Chief Executive who has responsibility for challenging submissions and holds ultimate authority as to what costs can and cannot be included.
86. 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 public establishments and HQ Directorates/Areas. The Finance Manager of each establishment is then responsible for setting an

88. 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

89. 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.
90. 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.

91. From our review of papers and regular attendance at RMAC, we note that financial monitoring reports are well received. The reports are considered to be succinct, logical and key points clearly set out for users' benefit.
92. Whilst a £4.042million underspend arose in year, we are satisfied that SPS' actual resource outturn was closely aligned to budget and forecasts.

Systems of internal control

93. 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.
94. 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 2020/21 audit.
95. 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.
96. 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.
97. 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

98. 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.

99. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Investigation work is now complete and the results recorded on the NFI system.
100. We reviewed SPS' participation in the NFI scheme in February 2020, including an assessment of progress in addressing identified matches. We are satisfied that SPS has taken a reasonable and proportionate approach to investigating matches and actively participated in the 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.



SPS has experienced a number of changes in its Senior Leadership Group in the last year and this Group now consists entirely of interim appointments at Chief Executive and Director level. It is anticipated that, once the current pandemic is over, the new Senior Leadership Group will create a more stable platform to guide SPS over the next few years.

In response to COVID-19, SPS enhanced its governance by implementing interim arrangements to expedite urgent decision making. During the period of lockdown, the frequency of meetings of the Executive Management Group and Advisory Board increased. Planning is now being carried out to move the business back towards a normal operating position.

Governance and transparency

Governance arrangements

101. The Chief Executive is a member of the Advisory Board, which is supported and advised by Executive Management Group (EMG) and the Risk Monitoring and Audit Committee (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.
102. During 2019/20 SPS has however experienced a number of changes to its Senior Leadership Group:
- The Chief Executive, Colin McConnell retired from SPS and has since taken up a senior role with the Scottish Government. Teresa Medhurst was appointed as Interim Chief Executive on 30 March 2020.
 - There are interim Executive Directors in each of the three Directorates.
 - As a result, the entire SPS Leadership team comprises interim appointments.
103. SPS hope that once the worst of the current pandemic is over, it will be possible to create a more stable platform of Senior Leadership to guide the SPS over the next few years.

Responding to COVID-19

104. As a result of Covid-19 SPS' governance structures were enhanced with interim arrangements designed to expedite urgent decision making in a rapidly changing environment.
105. During the period of lockdown, Executive Directors and the Chief Executive met daily. The Executive Management Group continued to meet every 2 weeks. The Advisory Board met every 2 weeks by video conference and continued with its normal meeting schedule.
106. SPS has been utilising the skills, experience and advice of its Non-Executive Director cadre on the Advisory Board during this time.
107. SPS established a National Corona Virus Response Group (NCRG) which, in the early phases of the pandemic response, was chaired by SPS' Head of Health and Justice. As the pandemic progressed and SPS moved into phase 3 of its pandemic response, the chair of the NCRG became the responsibility of the Director of Operations. This

continues to be the case. The NCRG provides the link between the strategic direction and SPS' operational estate, communicating with both internal and external stakeholders to translate and direct the strategic direction into operational policy, practice and procedure.

108. A Strategic Oversight Group (SOG), chaired by the Interim Chief Executive was established to oversee the NCRG and to provide a link with Scottish Government, National Health Service and other key strategic stakeholders to ensure that the pandemic is managed in line with SG and public health guidance.
109. Local Corona Virus Response Groups (LCRG) were also initiated at each establishment to co-ordinate the local response.
110. Planning is being undertaken to begin to move the business back towards a normal operating position. SPS intend to steadily reintroduce planned activities over short planning bursts. This will be aligned to the SG route map, but will be designed to fit within recognised corporate planning principles.

Risk management

111. 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.
112. 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.
113. Updates to the Corporate Risk Register ensure that the significant operational and financial challenges currently faced by the organisation are appropriately recognised within.

Internal audit

114. An effective internal audit service is an important element of SPS' governance arrangements. SPS operates an in-house internal audit function (AAU).
115. The 2019/2020 performance year was challenging for the Audit and Assurance Unit (AAU) and it was not possible to complete the entirety of the 2019/2020 Audit Plan, due to the following factors:

- Conclusion of audit assignments which had slipped from the previous year;
 - Additional adhoc audit assignments added to the plan at the behest of the Chief Executive; and
 - Resourcing challenges which saw AAU entering the performance year with a vacant post and a staff member on a phased return to work.
116. The extent of the above challenges had an impact on the delivery schedule of audits, which was further impacted towards the end of the year by the coronavirus pandemic.
117. Despite the circumstances noted above and based on the audit work performed, the AAU provided a *reasonable assurance* finding overall for the SPS for 2019/20.
118. Of 64 operational audits carried out, 37 resulted in substantial audit assurance, 24 in reasonable audit assurance and 3 in limited audit assurance.

2020/21 internal audit arrangements

119. The Head of Audit retired in June 2020. SPS intend to carry out a formal review of the structure of the AAU in the coming year. This scope of this review will cover an external quality assessment in line with Public Sector Internal Audit Standards (PSIAS) which requires such an assessment every 5 years.

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 was published in 2019. The Plan is designed to be delivered over a three year period whilst being flexible enough to accommodate change.

The 2019/20 Annual Delivery Plan set out 20 Essential Actions to be delivering in year. Ten of these were completed; with the remaining ten either delayed or reprofiled. In part this was due to COVID-19.

SPS also report that Covid-19 pandemic which started in the later part of quarter four has had an impact on KPI figures for the reporting year. SPS' performance on seven of the 17 indicators has deteriorated compared with prior year. Six indicators have improved in year and there has been no movement on the remaining four.

SPS is currently working in conjunction with the Scottish Government to provide a response to Parliament on the report prepared by the Auditor General on the 2012/19 external audit. Observations include:

- Sickness absence rates have declined in comparison with the previous year.
- Ex gratia payments have increased in 2019/20 despite the fall in sickness absence rates.
- The prison population remained over 8,000 until March 2020 when the impact of Covid-19 resulted in fewer people being sent to custody due to the suspension of court business.

Value for money

Corporate Plan 2019-22

120. The Corporate Plan 2019-22 was developed in response to the unanticipated challenges SPS faced in 2018/19. This included an increase in demand for prison places and a population that was becoming more complex along with associated financial challenges.
121. The Corporate Plan 2019-22 was published on 5 April 2019. The Plan is designed to be delivered over a three-year period whilst being flexible enough to accommodate change. In the Plan priorities are expressed through five Strategic Themes (Development, Engagement, Impact, Standards and Collaboration) and Outcomes. 23 Key Aims state explicitly what must be delivered in order to achieve each Outcome.
122. For each year of the Plan, SPS develop an Annual Delivery Plan (ADP). The ADP sets out the Essential Actions to be delivered during the course of the year in order to deliver its Strategic Outcomes. 2019/20 covered the first ADP in the life of the Plan. The ADP for 2019/20 contained 20 Essential Actions (EAs).

Summary of performance in 2019/20

123. Due to the unprecedented population management pressures, combined with the associated financial challenges, the 2019-20 year was challenging for the SPS performance and it was not possible to deliver the full extent of the essential actions. Ten of the 20 Essential Actions for 2019/20 were delivered in full with ten being delayed or reprofiled.
124. Recognising the multi year dimension to the corporate plan, and cognisant of the pressures on the SPS, a number of essential actions within the performance year were consciously re-profiled by the Executive Management Group for delivery either towards the end of the year or into a subsequent performance year. However this delivery schedule was further impacted by the coronavirus pandemic which resulted in a reprioritisation of resources and a necessary suspension of many planned developments.
125. The overriding priority for the SPS was, and is, to ensure the continuity of safe and secure service delivery for those in its care and for those who work in its service. Through its recovery planning arrangements SPS intend to prepare a new prioritised delivery plan to ensure it continues to deliver best value in our prison system.

SPS 2019/20 performance against its Essential Actions

	Essential Action	Performance
Strategic Theme: Development		
Strategic Outcome: We will have the right people, with the right skills in the right place at the right time.		
1	Implement changes to the recruitment and training of Prison Officers from 2020.	COMPLETED
2	Design a suite of Continuous Professional Development (CPD) materials for staff working with young people or women in custody.	COMPLETED
3	Introduce new management and leadership development approaches for managers at F band and above.	COMPLETED
Strategic Theme: Engagement		
Strategic Outcome: Everyone has a voice and contributes meaningfully to our corporate improvement journey.		
4	Develop and implement a staff engagement strategy.	RE-PROFILED
5	Develop a Framework for Engagement with service users	RE-PROFILED

	Essential Action	Performance
Strategic Theme: Impact		
Strategic Outcome: Our services are efficient, effective and provide value for money.		
6	Develop a Strategic Assessment of the organisation.	COMPLETED
7	Develop and implement an electronic purchase to pay solution based upon the Scottish Government's PECOS product.	RE-PROFILED
8	Reduce the days lost to sick absence, by implementing a programme of activity to support our staffs' health, wellbeing and work/life balance.	COMPLETED
9	Review SPS Operational Structures and the activity day within prisons.	DELAYED
10	Achieve our published Equality Outcomes, through a range of activities, as well as fulfilling our obligations under the Equality and Human Rights legislation.	COMPLETED
Strategic Theme: Standards		
Strategic Outcome: Our prisons are safe, healthy and positive places in which to live and work.		
11	Develop a new suite of KPIs.	RE-PROFILED
12	Embed the Operations Directorate Audit and Assurance Group into day to day prison management arrangements in order to improve the recording, management and monitoring of audit outcomes, inform policy delivery and support the development of Prisons Resource Library (PRL) standards.	DELAYED
13	Reduce violence and manage the increased risk presented by Serious Organised Crime Groups (SOCG) and increased number of High Risk Nominals in our care; utilising the National Strategic Threat Group (STRAG), local establishments Tactical Tasking and enhancing our links with our partner agencies.	COMPLETED
14	Develop a revised individual case management model.	DELAYED
15	Implement a new mothers and babies policy and measure the impact of the SPS Families Strategy.	COMPLETED
16	Develop the principles for new model of custody for women.	COMPLETED
17	Review the SPS Young Person's Strategy	RE-PROFILED
Strategic Theme: Collaboration		
Strategic Outcome: Growing and strengthening our stakeholder and partner networks and relationships to achieve better outcomes for those in and leaving our care.		
18	Develop a health and wellbeing strategy that recognises the challenges of the changing demographics of the prisons population.	RE-PROFILED
19	Develop a new partnership agreement process for the design and delivery of prison interventions/services.	COMPLETED
20	Develop a Prisons Strategy that takes account of the changing demographics and operational demands.	RE-PROFILED

Key performance indicators

126. 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.
127. Work was undertaken in 2019/20 to review the existing KPIs and identify options for the development of a new suite. With regard to the existing KPIs, a report was considered by the SPS EMG which set out recommendations in respect of their retention, discontinuation or modification. Emerging options for the development of new KPIs were heavily reliant on Staff Survey and Prisoner Survey data. Given concerns arising about the future viability of these as data sources due to a trend of falling return rates, the EMG agreed to commission an additional piece of work to finalise proposals for new KPIs. The time, resource and input at senior level required to undertake this work meant that it has been re-profiled to 2020/21.

2019/20 Key Performance Indicators

128. 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.
129. It is also worth noting that the impact of the Covid-19 pandemic which started in the later part of quarter four had an impact on the SPS's KPI figures for the reporting year.
130. As included within Appendix 9a of the 2019/20 Annual Report and Accounts, SPS' performance on seven of the 17 indicators has deteriorated compared with prior year (see red colour coding). Six indicators have improved in year (see green colour coding) and there has been no movement on the remaining four (see yellow colour coding). The table below sets out these results.
131. Full commentary on the managing of operational performance and associated KPIs can be found within the Performance Summary section of the SPS 2019/20 Annual Report and Accounts.

Comparison of KPI performance for over the last three financial years

		2019/20	2018/19	2017/18
KPI1a	Extreme Risk Escapes	0	0	0
KPI1b	Escapes at other supervision level	0	0	1
KPI2a	Serious Prisoner on Staff Assaults**	12 (12)	10	14
KPI2b	Minor & No Injury Prisoner on Staff Assaults**	358 (401)	410	283
KPI2c	Serious Prisoner on Prisoner Assaults**	112 (125)	135	94
KPI2d	Minor & No Injury Prisoner on Prisoner Assaults**	2,892 (3,629)	2,994	2,120
KPI 3a	Purposeful Activity Hours	6,082,903	6,258,125	6,500,470
KPI 3b	Average Purposeful activity Hours per week per Convicted prisoner	19	20	21
KPI4a	% of education classes spent delivering literacy skills	38.3%	36.0%	37.6%
KPI4b	% of education classes spent delivering numeracy skills	24.5%	20.8%	17.3%
KPI5a	Vocational & Employment Related Qualifications	24,569	26,883	18,793
KPI5b	Vocational & Employment Related Qualifications at SCQF level 5 or above	1,526	1,781	1,976
KPI16	Employability Prospects Increased	-	-	-

		2019/20	2018/19	2017/18
KPI17	Reduced Substance Abuse***	-	45%	47%
KPI18	% of ICM Case Conferences with CJSW in attendance	88.1	86.7%	88.0%
KPI19	Average Annual Cost Per Prisoner Place****	38,213	35,601	35,293
KPI10	Reducing Carbon Emissions	-	-	-

** The data in brackets would have been reported if the SPS had not changed the definition of the KPI Assaults from 1 October 2019. This change was agreed by the EMG, and the Cabinet Secretary is aware of the change in definition. The new figures are recorded by the number of incidents and not by the numbers of people involved, unless it is a serious assault, where it is clearly defined, then it will be reported as more than 1. Also, perpetrator has to be found Guilty in Orderly Room, and/or incident reported to Police.

*** Annual Prevalence Testing did not take place in 2019-20.

****The average cost per prisoner place excludes capital charges, exceptional payments and the cost of the Court Custody and Prisoner Escort Contract. SPS publishes cost and performance information on the latter separately on its website.

The 2018/19 audit of the Scottish Prison Service – Report prepared by the Auditor General for Scotland for Parliament

132. In 2019/20, the Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for the Scottish Prison Service. Those factors included Finances, Prisoner Population, Staffing, Performance and the Prison Estate.
133. The Parliament’s Public Audit and Post Legislative Scrutiny (PAPLS) committee took evidence from the Auditor General, SPS and Scottish Government during 2019/20. SPS is currently working in conjunction with the Scottish Government to provide a response to the PAPLS committee. Actions have been taken during the year to address some of these pressures as noted below:

Sickness Absence:

134. Levels of absence within the SPS continue to be high although they have declined in comparison to the prior year. Progress has been made in reducing these numbers and the average working days lost (AWDL) is consistently falling on a monthly basis within the performance year.
135. The Average Working Days Lost (AWDL) to sickness absence per employee is detailed in the table below:

Average Working Days Lost to Sickness Absence	
2019/2020	15.4
2018/2019	16.3

136. SPS is committed to fostering a positive working environment that proactively promotes and protects the physical and mental wellbeing of its employees. SPS were therefore fully aware and concerned by the level of sick absence in 2018/19 and maximising attendance was a corporate priority for 2019/20. SPS’ Maximising Attendance Strategy has four pillars; employee wellbeing, policy, culture and case management.
137. A new Attendance Management Policy, developed in consultation with trade unions, was published internally in March 2020. However, due to the Covid-19 pandemic, implementation has been postponed to a future date.
138. Since August 2019 AWDL has reduced every month. The AWDL of 15.4 in March 2020 is a decrease of 1.8 days from the high point of 17.1 in July 2019. SPS will continue to prioritise attendance management to promote good practice and provide a framework for the effective management of sickness absence, with principles founded on positive behaviours consistent with organisational values, that affords dignity and respect to staff at all times.
139. The impact of Covid-19 has had a negative effect on absence levels and SPS staff continue to be affected as a result of illness, isolation, shielding or related circumstances. SPS is starting to see the number of individuals absent with COVID-19 systems reduce.

Ex-gratia payments

140. To maintain service delivery, SPS continues to incur costs in terms of voluntary, non-contractual (ex gratia) payments to officers for working increased hours to cope with absences.
141. 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.
142. In 2019/20, SPS made £5.763million in ex-gratia payments; an increase of £1.516million in comparison with the prior year. While sickness absence rates have reduced, ex-gratia payments continue to increase.

Ex gratia payments	
2016/17	£2.149million
2017/18	£2.574million
2018/19	£4.247million
2019/20	£5.763million

143. There were a number of specific challenges SPS faced in 2019/20 that resulted in an increase in ex-gratia payments:
- **Population management pressures:** SPS were faced with unique population management pressures in 2019/20, averaging in excess of 500 extra people every day in its care. As a result, SPS introduced a phased population management model that would see both private prisons and a number of public sector prisons routinely operating beyond both their design capacity and funded operational staff complement position. SPS had no fiscal authority to increase its staffing complement levels therefore was required to offer additional ex gratia in these public sector establishments throughout this period in order to maintain an appropriate level of prison officers to ensure safety and opportunity for both staff and those in its care.
 - **Staff absence:** Staff sickness levels improved during the course of 2019/20. However, because most establishments do

not have a built in variable to allow for particular circumstances such as maternity/paternity leave, pregnant workers, those on return to work programmes and staff suspension, there is a reliance on ex-gratia to cover these posts. This situation has been made more challenging by changes to legislation enhancing leave entitlement. It will be necessary going forward, for SPS to consider how effective variables can be built in to staff complements to address these issues.

- **Recruitment and retention:** SPS also experienced unique recruitment and retention challenges during the year. The organisation experienced a spike in turnover, with turnover rates broadly doubling from 4.5% to 8% in 2019/20. This change, coupled with the EMG agreement in March 2019 to put on hold operational recruitment in order to re-shape Prison Officer training, left all SPS establishments considerably below their complemented position, necessitating a far greater reliance upon ex gratia than would have otherwise been necessary.

144. 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 for one out of a sample of 31 tested that authorisation of the claim was not in place.

Prior year action plan point 4

Capacity

145. SPS has a current daily operating capacity of 7,669 prisoners and during the year 2019/20, the average number of prisoners was 8,198. The population surpassed 8,000 in February 2019, reaching a high of 8,274 in November 2019.
146. The prison population remained over 8,000 until March 2020 when the impact of Covid-19 resulted in fewer people being sent to custody due to the suspension of court business.
147. Upon the resumption of court business, it is anticipated that this declining trend will reverse and the numbers of people in custody will increase significantly, bringing with it the added complication of delivering service whilst adhering to physical distancing requirements.

148. Around 10% of individuals who were released from custody have now returned to custody. Of this figure, a number have been returned to custody as a result of an outstanding warrant. A broad learning review will be undertaken with partners to ensure that any future early release arrangements (if they are required) will benefit from this review).

led campaigns to recruit a new Chief Executive and associated senior civil service posts.

Financial sustainability

149. The Scottish Parliament approved the 2019/20 budget for SPS of £395.4m. During the year, changes to the budget were made at the budget revision stages resulting in an increase in resource funding to meet additional cost pressures identified at the early stages of the financial year and to assist with the increase in employer pension contributions effective from 1 April 2019. Capital funding was also surrendered to Scottish Government relating to the re-phasing of the development of the prison estate.

150. During the year, SPS contributed to the Scottish Government Spending Review process by submitting a four-year spending plan and a draft Medium Term Financial Strategy was prepared. The Scottish Government has committed £442m to SPS for 2020-21. Financial sustainability remains a challenge and it is recognised that work is required to further develop the financial strategy to more accurately reflect the emerging position taking cognisance of the impact of Covid-19. This will be informed by various other SPS strategies including, Digital, Workforce Planning and Estates Strategies and information on population management.

Governance

151. SPS is committed to developing its people and senior leaders and is committed to providing secondment opportunities which benefit individual staff, the SPS and the broader civil service cadre. This presents great opportunities for the SPS to suitably develop its existing workforce and draw on different skillsets, knowledge and experience.

152. As a result of this commitment, and the retirement of the previous Chief Executive, the SPS Chief Executive and Directors are all interim appointments.

153. These interim measures may be reassessed upon the conclusion of successful Scottish Government

8. 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 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, Chief Executive, as Accountable Officer is 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 2019/20 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 2020 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 2019/20 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;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
- SPS has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- 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 Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998;
- 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;
- 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 audit the annual report and accounts and give an opinion on whether:

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements 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.

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. In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by SPS to provide any non-audit services during the year.

Audit Team

One of our External Audit Managers, Stacey Law, left 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 had no involvement in the 2018/19 audit. Stacey is well known to the entire external audit team.

We have considered the potential resulting independence issues in accordance with FRC's Ethical Standards. We have identified the following potential threats to our independence: self-interest, familiarity and intimidation. We have responded to each of these threats by implementing appropriate safeguards.

Confirmation of independence

We confirm that we comply with FRC's Ethical Standards. 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 Azets, SPS, its Advisory 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 weakness and opportunity for improvement that we have identified during our audit.

Action plan grading structure

The recommendation has been rated to help SPS assess the significance of the issue and prioritise the action required.

The rating structure is summarised as follows:

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

Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Sources of estimation uncertainty – sensitivity analysis</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>31</p>	<p>Issue</p> <p>IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.</p> <p>SPS has disclosed in its financial statements that ‘the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts’ and has therefore not disclosed any sensitivities on the property valuations.</p> <p>Risk</p> <p>There is a risk of non-compliance with accounting standards.</p> <p>Recommendation</p> <p>In future years, we would encourage SPS to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the any sources of estimation uncertainty.</p>	<p>Accepted – in years where judgements are made about the any sources of estimation uncertainty – sensitivity analysis will be carried out.</p> <p>Responsible officer: Head of Financial Policy & Services</p> <p>Implementation date: Immediate</p>

Appendix 3: Follow up of prior year recommendations

1. IT controls

Initial rating	Issue & recommendation	2018/19 Management comments
Grade 2	<p>Issue</p> <p>The following control weaknesses were identified.</p> <ul style="list-style-type: none"> • Password complexity requirements are not currently enabled; • SPS is not fully aware of the personal information held; • Windows 7 is used by SPS (including Windows 10 and Linx) and from January 2020 this package will no longer be supported; and • Backups are taken daily however there is no regular programme for testing backups. <p>Risk</p> <ul style="list-style-type: none"> • Weak password policy increases the opportunity for fraud and data loss; • Risk of non-compliance with GDPR; • Unsupported systems are more vulnerable to cyber-attacks; and • Risk to loss of information if systems were to become corrupt and a viable back up is not available. <p>Recommendations</p> <ul style="list-style-type: none"> • SPS implement c complexity requirements such as alphanumeric requirements in order to avoid users from setting simple passwords; • A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold; • SPS start upgrading operating systems to Windows 10 where this has not been done already; and • Backups are tested regularly in order to gain assurance that data could be retrieved if required. 	<p>Recommendation 1</p> <p>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)</p> <p>Implementation date:</p> <p>Complete</p> <p>Recommendation 2</p> <p>SPS is in the process of compiling an information asset register of all information held by SPS including personal data.</p> <p>Implementation date:</p> <p>March 2021</p> <p>Recommendation 3</p> <p>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.</p> <p>Implementation date:</p> <p>June 2020</p> <p>Recommendation 4</p> <p>ISS do restore backups and have completed a recent restore for some core applications.</p> <p>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.</p> <p>Implementation date:</p> <p>April 2020</p> <p>Responsible officer:</p> <p>Director of Operations, Operations Directorate</p>

Current status Management response 2019/20

On-going

Recommendation 2

Compilation of a comprehensive information register has been delayed by a lack of resource and the COVID-19 pandemic. We are still aiming to have a high level information asset register completed by March 2021.

Implementation date:

March 2021

Recommendation 3

The windows 10 rollout has in general gone well and the deployment at the establishments completed were done quickly once on site. The majority of Establishments have been completed. Additionally in many cases Windows 10 laptops have replaced desktop machines, largely as part of the Covid 19 response.

The Covid 19 response has had a major impact on the Windows 10 rollout, Namely

- Laptops have been deployed as a response to the requirement for remote working, this has replaced many old machines.
- We have had to stop the deployment of the standard Win10 desktops to establishments to concentrate on Covid 19 response.
- We have had to redirect some of our Win10 hardware toward the Virtual Visits (VV) deployment and assess there will be a need for additional VV units from existing Win10 stock.

The following establishments remain for Win 10 upgrades, Grampian, Greenock, Inverness, Dumfries, Cornton Vale and the remainder of HQ. DS assess this requires 750 units. There will be a requirement to buy additional units (or redeploy older but still compliant equipment) which needs a decision quickly to allow us to recommence. The rollout is just over 75% complete as at Jun 2020.

Implementation date:

June 2020 to complete March 2021.

Recommendation 4

Systems are backed up, but a restore is tested only when it is required through some sort of issue.

A full recovery of a system should occur, but would require the application owner to carry out the majority of the testing, as Digital Services are not placed to determine whether (say) all aspects of PR are working as expected.

Implementation date:

Complete

Responsible officer:

Director of Operations, Operations Directorate

2. Review of Asset Useful Lives Accounting Policy

Initial rating	Issue & recommendation	Previous management comments
<p>Grade 3</p>	<p>Observation</p> <p>We identified that 68% of fixed assets within the Fixed Asset Register were held at a nil NBV. As part of our controls review, we did not identify any control deficiencies or weaknesses in SPS’s asset verification procedures. This indicates the useful lives as per SPS’s depreciation accounting policy could be understated.</p> <p>Recommendation</p> <p>SPS conduct a review of the depreciation accounting policy for reasonableness.</p>	<p>2017/18 comments</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>Action owner:</p> <p>Head of Financial Policy and Services</p> <p>Due Date:</p> <p>31 March 2019</p> <p>2018/19 comments</p> <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>Responsible officer: Head of Financial Policy and Services</p> <p>Implementation date: 31 March 2020</p>
Current status	Management response – 2019/20	
<p>Complete</p>	<p>The review was completed in year and the revised policy presented to the RMAC in December. The revised policy is included in the 2019/20 Annual Report & Accounts.</p>	

3. Establishment level journals

Initial rating	Issue & recommendation	Previous management comments
Grade 2	<p>Observation</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>Recommendation</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>2017/18 comments</p> <p>As part of our central review of field month end processes, we will build in additional spot checks of journals.</p> <p>Responsible officer:</p> <p>Head of Finance and Policy Services</p> <p>Implementation date:</p> <p>30 June 2018</p> <p>2018/19 comments</p> <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>Responsible officer:</p> <p>Head of Finance and Policy Services</p> <p>Implementation date:</p> <p>30 June 2019</p>
Current status	Management response – 2019/20	
Complete	Monthly sample check of journals now include both Establishments and HQ units.	

4. Ex gratia claims

Initial rating	Issue & recommendation	Previous management comments
Grade 3	<p>Issue</p> <p>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>Risk</p> <p>There is risk that erroneous ex gratia payments are paid.</p> <p>Recommendation</p> <p>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 improvement 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>Responsible officer:</p> <p>Director of Operations, Operations Directorate and CEO Office</p> <p>Implementation date:</p> <p>March 2020</p>

Current status	Management response – 2019/20
On-going	<p>Audit update 2019/20</p> <p>We found for one out of a sample of 31 tested that authorisation of the claim was not in place.</p> <p>Management response</p> <p>An internal review of the Ex-gratia Payment System was carried out. This was commissioned by the then Chief Executive Colin McConnell, who retired from the SPS in March 2020.</p> <p>The work however has been interrupted by the Covid-19 outbreak. As a result, the Short Life Working Group has not yet concluded and made recommendations to the new Chief Executive.</p> <p>An initial report by the Short Life Working Group will be produced in late Autumn for consideration by the Interim Chief Executive.</p> <p>Responsible officer:</p> <p>Director of Corporate Services</p> <p>Implementation date:</p> <p>March 2021</p>

5. Internal audit

Initial rating	Issue & recommendation	Previous management comments
Grade 2	<p>Issue</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>Further, the RMAC did not have sufficient sight of progress against the implementation of recommendations raised by AAU.</p> <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>Risk</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>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>Recommendations</p> <p>AAU progress reporting to RMAC should be further enhanced to provide a clearer link back to the agreed annual plan.</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>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>	<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> <p>Recommendation 1 –Progress Reports</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> <p>Implementation date:</p> <p>December 2019</p> <p>Recommendation 2 - Development of a Tracker</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>Implementation date:</p> <p>December 2019</p> <p>Recommendation 3 - Alignment of the Audit Plan with Corporate Risk Register</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>Responsible officer</p> <p>Head of Audit & Assurance</p>

Current status	Management response – 2019/20
On-going	<p>The SPS are in the process of commissioning an external organisation to undertake a thorough review of internal audit within the SPS. This review will consider the recommendations within this report as part of this review and the expected outcome should include:</p> <ul style="list-style-type: none">• An assessment of how well internal audit functions conform to the International Standards.• An evaluation of performance in respect of the internal audit charter and expectations of the Advisory Board, the Risk Monitoring and Audit Committee and the Executive Management Group.• The identification of opportunities to improve performance and increase the value of internal audit to the organisation <p>The Internal Audit Review is anticipated to be completed later in the year.</p> <p>Responsible officer: Head of Corporate Risk and Change</p> <p>Implementation date: Summer 2021 (depending on scope and scale of recommendations – this may need to reviewed).</p>

6. Financial Management

Initial rating	Issue & recommendation	Management comments
<p>Grade 3</p>	<p>Observation 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. Limited assurance financial control reviews were identified by internal audit in 2016/17.</p> <p>Recommendation In conjunction with movement in the governance structure in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs.</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"> 1. A series of pre audit support visits were instigated and undertaken by a member of the AAU. 2. A quarterly finance managers' meeting has been formalised. 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. 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. <p>Responsible officer: Head of Corporate Risk and Change</p> <p>Implementation date: 31 March 2018</p>
Current status	Management response 2019/20	
<p>On-going</p>	<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>Responsible officer: Head of Corporate Risk and Change</p> <p>Implementation date: 31 March 2021</p>	

7. Value for money

Initial rating	Issue & recommendation	Management comments
<p>Grade 3</p>	<p>Observation 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>Recommendation 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&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>Responsible officer: Director of Strategy and Stakeholder Engagement</p> <p>Implementation date: 31 December 2018</p> <p>2018/19 comments 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. 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>Responsible officer: Director of Strategy and Innovation</p> <p>Implementation date: 2019/20</p>

Current status	Management response 2019/20
On-going	<p>Work was undertaken in 2019-20 to identify options and principals for the development of a new set of indicators. A report on this was considered by the EMG in February 2020.</p> <p>As a result of that report, it was agreed that work should be taken forward to formulate proposals for a new set of KPIs, based on the following principals:</p> <ul style="list-style-type: none">• The KPIs should be rebalanced to include measures which are more qualitative and outcome focused and better reflect the experience of living and working in prisons. Therefore, some existing indicators should continue - particularly those focusing on safety and security while others should be re-formulated or removed entirely.• KPIs should be better aligned to HMIPS monitoring and inspection standards in order to promote consistency in reporting.• Wherever possible, the existing data sets should be used to avoid additional burdens on systems or staff resources. <p>We are continuing work to develop more qualitative measures that could underpin a new set of KPIs. However, this work has been suspended since the Covid-19 outbreak and will recommence as soon as circumstances and resources permit. It would remain our intention to have new KPI proposals during 2022.</p> <p>Responsible officer: Director of Strategy and Stakeholder Engagement</p> <p>Implementation date: March 2022</p>

8. SPS Finance Policy and Manual

Initial rating	Issue & recommendation	Management comments
<p>Grade 2</p>	<p>Observation 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>Recommendation 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&GM and will carry out a full review by 31 March 2019.</p> <p>Responsible officer: Head of Finance and Policy Services</p> <p>Implementation date: 31 March 2019</p> <p>2018/19 comments 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>Responsible officer: Head of Finance and Policy Services</p> <p>Implementation date: 31 March 2020</p>
Current status	Management response 2019/20	
<p>On-going</p>	<p>The refresh of the Financial Policy & Guidance Manual is underway and considerable progress has been made however this has been delayed due to resourcing constraints within the finance team for a significant part of the year.</p> <p>This continues to be a priority but the fluctuating demands on the organisation as a result of Covid-19 may result in further delays.</p> <p>Responsible Officer: Head of Financial Policy & Services</p> <p>Implementation Date: Summer 2021</p>	



© Azets 2020. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

Accounting | Tax | Audit | Advisory | Technology