



Scottish Prison Service

2021/22 Annual Audit Report to the Accountable Officer and the Auditor General for Scotland

September 2022



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Key messages

This report concludes our audit of Scottish Prison Service for 2021/22.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	<p>We issued an unqualified audit opinion.</p> <p>We have no matters to report regarding the adoption of the going concern basis or to disclosures relating to material uncertainties.</p>
Key findings on audit risks and other matters	<p>We have reported our audit findings on pages 12-26.</p> <p>We are pleased to report that the audit progressed well and was completed in accordance with the agreed timetable. The accounts and working papers presented for audit were of a very good standard.</p>
Audit adjustments	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial, to management and to request that management corrects them.</p> <p>There have been two non-significant audit differences identified during the audit: one adjusted and one unadjusted. We agreed a small number of presentational amendments with the finance team.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess your business processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope audit

Auditor judgement



The publication of the Scottish Government Resource Spending Review provided SPS with a flat cash settlement of £370 million per annum for the next five years.

SPS have identified a funding gap of £14.7 million for 2022/23, largely reflecting the impact of inflation. SPS is likely to require to rely on achieving significant cash efficiency savings in each year of the Spending Review, presenting a major financial challenge to the sustainability of the current operating model for the Prisons Service.



Financial Sustainability

SPS has an ambitious and important capital programme that continues to suffer from delays, in particular to repairs to HMP Greenock and replacement of the HMP Barlinnie facility. The impact of COVID has contributed to capital underspends in recent years. Improving the efficiency and effectiveness of the current estate remains a strategic priority. However, with limited capacity and restraint of resources requiring prioritisation of projects, it is not currently clear that SPS is capable of delivering the capital investment required to adequately maintain the existing estate.

We note that Kilmarnock Prison will be the first PFI contract asset to return to the public sector in 2024 alongside the workforce currently employed by SERCO and associated facilities management services. In the context of an overall flat cash settlement for the Prison Service, more needs to be done to establish and plan for the financial, operational and strategic risks associated by this transfer.

Auditor judgement



Financial Management

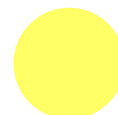
SPS reported a net overspend of £6.9 million against the 2021/22 revenue budget and a capital underspend of £4.6 million.

The main cause of the revenue overspend was an increase in maintenance costs, including dilapidations costs of £3 million associated with the expected lease exit from Calton House in the next year, and the inflationary impact on utilities costs.

We have noted an improvement to revenue budget monitoring processes during 2021/22 providing SPS with more reliable year end estimates in the context of reporting a significant overspend position. More work needs to be done to improve the reliability of capital budgeting and monitoring.

We found the systems of internal control to be adequate.

Auditor judgement



Governance & Transparency

The interim Chief Executive was appointed on a permanent basis during the year. As reported in each of the last three years, the majority of SPS' senior leadership group continues to be appointed on an interim basis and this position does not support fully effective leadership outcomes.

We note that interim arrangements put in place in the previous year in response to COVID-19 remain in place. Work is ongoing to move the business back towards a more 'normal' operating position.

The SPS has made good progress in addressing prior year recommendations to improve the performance of the internal audit function and the Scottish Government's Directorate for Internal Audit and Assurance was appointed as the SPS auditors, effective 1 April 2022.

We note that internal audit have provided a limited assurance opinion on SPS systems of internal control highlighting weakness in risk management and internal audit arrangements.

The COVID-19 pandemic has created significant operational challenges for the Prison Service which has continued to operate effectively during this difficult period. These uncertainties have impacted on the ability of management to progress the development of longer-term corporate planning for the Service. As noted in the financial planning section above, there is now a more urgent need to address longer-term strategic and operational service planning issues.

Auditor judgement



The 15 prisons operated by SPS or by the private sector, provide an operational limit on prisoner numbers that can be accommodated safely within the Prisons environment. Effective management of the prisoner population is therefore a key element impacting SPS activities and prisoner outcomes. Our reporting has previously drawn attention to the historically high prisoner population levels which have contributed to a strain on management and staff resources and to a more challenging operating environment within prisons, particularly impacted by the COVID pandemic.

Prisoner numbers have remained at levels below the 2020 peak throughout the year, but remain at historically high levels. This has particularly been influenced by a backlog of cases within the Scottish Courts and Tribunals Service which has led to more prisoners being held on remand, but with fewer custodial sentences reducing prisoner numbers. In addition, we note the increasing number of violent incidents being recorded by the Service.

SPS' performance on five of the 17 indicators has improved, seven have deteriorated compared with prior year and there has been no movement on the remaining five. Overall, this represents a slight deterioration on prior year performance levels indicating that SPS is still transitioning from responding to COVID to a more 'business as usual' model.

Sickness absence levels rose significantly from 15.2 days to 18.3 average days per employee in 2021/22, mainly representing the impact of COVID, and putting additional strain on SPS services.

We note an increase in the number of exit packages paid to staff reporting a medical condition during the year. The cost of exit packages has risen to £3.9 million from an existing high level of £2.1 million in 2020/21. SPS should review these arrangements to ensure they provide value for money and represent an efficient use of human and financial resources. These costs reflect the impact of an ageing workforce, changes to the retirement age for prison officers and high sickness absence levels linked to the pandemic. However more needs to be done by the SPS to prepare a more effective workforce strategy.



Value for Money

Definition

Our wider scope audit involves consideration of the Scottish Prison Service's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



Introduction

We carried out our audit in accordance with Audit Scotland’s Code of Audit Practice and maintained auditor independence.

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.

Scope

1. This report summarises the findings from our 2021/22 audit of the Scottish Prison Service (SPS).
2. We outlined the scope of our audit in our Annual Audit Plan, which we presented to the Risk Monitoring and Audit Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2021/22 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



Responsibilities

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 in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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. This is the final year of our appointment as external auditors under the current appointment contract. We would like to thank all management and staff for their co-operation and assistance

during our audit and over the period of our appointment.

time. Comments can be reported directly to any member of your audit team.

Auditor independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the 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

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any

Annual report and accounts

The annual report and accounts are the SPS' 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 2021/22 annual report and accounts.

Annual report and accounts

Unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2022 were considered by the Risk Monitoring and Audit Committee on 8 September 2022. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

We found that SPS has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers. Accounts presented for audit were of a very good standard.

Overall conclusion

11. The annual report and accounts for the year ended 31 March 2022 were considered by the Risk Monitoring and Audit Committee on 8 September. 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.
12. Our audit opinion was based on the SPS approving the financial statements and signing the letter of representation. Within the letter of representation, the Accountable Officer confirmed that there are no subsequent

events that require amendment to the financial statements.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our 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 below.

Significant risk areas and how the scope of our audit responded to those risks

1. Management override

Significant risk description

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the 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*.

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the Scottish Prison Service's controls for specific transactions.

Audit procedures

- Review of the Scottish Prison Service's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

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 income transactions in such a

way as to lead to a material misstatement in the reported financial position.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and prepayments around the year end.

Audit procedures

- Evaluate each material revenue stream and review controls over revenue accounting.
- Substantive testing on all material revenue streams.
- Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.

Key observations

At the planning stage of our audit, we concluded that the revenue recognition risk was present in all revenue streams except for SPS' revenue resource allocation from Scottish Government.

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 Scottish Prison Service's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

3. Expenditure recognition

Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Scottish Prison's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

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 Scottish Prison's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Estates valuation (significant accounting estimate)

Significant risk description

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 nonspecialised 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.

There is a risk of material misstatement to the financial statements relating to asset valuations.

How the scope of our audit responded to the significant risk

Key judgements

Given the subjectivity and judgements involved in arriving at the significant accounting estimates there is an inherent risk involved in arriving at the estates values at year end.

Audit procedures

- Consider the competence, capability and objectiveness of the external valuer in line with *ISA (UK) 500 Audit Evidence*.
- Review the valuation report and consider the assumptions used by the external valuer against external sources of evidence.
- Consider the scope of the external valuers work and the information provided to the external valuer for completeness.

Key observations

SPS has an extensive estate covering a range of buildings across Scotland. The value of land and buildings was £1,121.6 million as at 31 March 2022. SPS values its assets on a five-year cycle, within indexation applied in intervening years to take account of price movements.

In 2021/22 the District Valuer revalued two prisons and ten surplus land assets. We conducted testing on the revaluations and gained reasonable assurance over the accuracy of the estates valuation and that those assets were accounted for appropriately. We confirmed that the indexation has been applied correctly to the remaining assets as per the valuer's report.

The assets were in total valued up by £64 million, of which £63.3 million were annual indexation movements, mainly reflecting prisons replacement cost increase. The remaining £0.7 million related to the above twelve assets revalued in the year. As most of the assets are revalued on the depreciated replacement cost, the upward movement represents the increase in the tender price index (TPI) at the end of the financial year. The TPI increase reflects impacts of the world events such as the Ukraine war, oil prices increase, shortages in construction workers and continuation of extended lead times for materials.

We confirmed that SPS provided the valuer with the most up-to-date information to support the valuation process. We also confirmed that SPS finance team considered the result of the valuation for inconsistencies with their knowledge and data, without identifying any.

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.

We considered the competence, capability and objectiveness of the external valuer and concluded these were appropriate.

Overall, we concluded that the valuation of assets as shown in the accounts is appropriate.

5. Provisions (significant accounting estimate)

Significant risk description

SPS in its financial statements includes provisions for legal obligations in respect of, for example, staff and prisoner claims. SPS engage the services of the Scottish Government Legal Directorate, the Department of Work and Pensions and other legal firms to assist in preparing estimates of potential liabilities for staff and prisoner claims.

There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the subjectivity and judgements involved in arriving at the significant accounting estimates there is an inherent risk involved in arriving at the provisions values at year end.

Audit procedures

- Consider completeness of the disclosed provision.
- Confirm valuations of the provisions are reliable and reasonable.

Key observations

We have examined working and calculations behind all provisions categories and have selected a sample of provisions to confirm their accuracy with no issues identified. We have also assessed completeness of the disclosures by confirming the list of claims and provisions with individual departments of SPS outwith the finance section to gain independent assurance. In addition, we have reviewed the ledger codes with legal expenses and assessed for any unusual movements. Our conclusion is that the provisions and contingent liabilities notes are accurate and complete.

Other risk factors

Impact of COVID-19 on the financial statements

14. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of central government bodies. We have continued to monitor the impact COVID-19 could have on the annual accounts, considering any government and/or relevant wider announcements as they pertain to the audit.
15. We have not identified any areas of increased risk of material misstatement to the financial statements and/or our audit opinion in response to COVID-19.

Key accounting estimates

16. Changes to ISA (UK) 540 “Auditing Accounting Estimates and Related Disclosures” places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stage.
17. We have identified asset valuation and provisions as significant accounting estimates and have recognised key audit risks in relation to these.
18. We have revisited this assessment throughout the audit and have identified any other accounting estimates that we deemed to be significant to the overall financial statements. Consideration was given to depreciation and amortisation rates, impairment, provision for

doubtful debts, leases and accruals.

HMP Barlinnie / HMP Glasgow

19. The early development of the HMP Glasgow project has commenced and with planning permission in place SPS is engaging with contractors to decide on the design solutions. The next stage of the development is to sign a pre-construction contract for the design.
20. We noted in our plan that there was a risk that the valuation of HMP Barlinnie could be incorrectly recorded within the financial statements and depending on the development and Ministerial announcements on HMP Glasgow. At the time of drafting of this report no such formal announcement was made and risk has not materialised.

IFRS 16 Leases

21. IFRS 16 is due to be implemented from 1 April 2022 for all government bodies who have not yet adopted the new standard.
22. SPS has a number operating leases for its properties, vehicles and equipment that would need to be brought into the Statement of Financial Position under IFRS 16. In preparing for the new standard, SPS has undertaken an assessment to calculate the impact that this would have on the accounts.
23. SPS calculated the impact as at that date and disclosed the expected future impact of this new accounting standard on its

2022/23 financial statements. SPS expects to recognise £3.7 million of leased assets as at 1 April 2022.

24. We have reviewed management calculations, assumptions used and checked the disclosures completeness and concluded these are appropriate.

An overview of the scope of our audit

25. The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Risk Monitoring and Audit Committee in March 2022. 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.
26. 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.
27. 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

28. 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.
29. 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.
30. 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.

31. Our initial assessment of materiality for the financial statements was £6.9 million. On receipt of the 2021/22 draft accounts, we reassessed materiality and kept it at £6.9 million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality: Our initial assessment is based on approximately 1.8% of SPS' expenditure in 2021/22 which is considered one of the principal considerations for users of the financial statements when assessing financial performance.	6.900
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	5.175

32. We noted within our Annual 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

33. We identified no material adjustments to the unaudited

annual accounts. There was one adjusted classification error of £1.7 million, with 2020/21 comparative also adjusted for £1.1 million. Both adjustments were processed by SPS and had Nil impact on the net expenditure position. See Appendix 3 for the detail.

34. We identified one unadjusted misstatement in relation to the digital services prepayment of £1.7 million. This was an isolated error with Nil effect on the net expenditure and increasing both prepayments and trade payables balances by £1.7 million, with Nil effect on the net assets. See Appendix 3 for the detail.

35. 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

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

Other stock write-off

37. In the midst of the pandemic and in response to it SPS has acquired a number of PPE items, goggles, sanitisers and masks. Not all of these were fit for purpose and some had short expiry dates. This resulted in a total provision for write off of £1.2 million of PPE items, which includes £0.9 million recognised in the prior year and additional £0.3 million recognised in 2021/22.

38. We noted a significant increase in the number of the Civil Service and other compensation schemes – exit packages and its cost in 2021/22. SPS spent £3.9 million on 76 exit payments to its staff (£2.1 million and 45 in 2020/21 respectively). The majority of these were paid under compensation for dismissal on grounds of efficiency due to ill-health under the pension scheme.

39. We identified that there were three Civil Service and other compensation schemes – exit packages totaling to £0.436 million and each individually above the £95k cap. The requirement to obtain ministerial approval for exit packages above this cap was revoked by HM Treasury in February 2021, however the internal governance arrangements for approving Civil Service and other compensation schemes – exit packages could be strengthened and we report in detail in the value for money section of this report.

Other information in the annual report and accounts

40. “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

41. 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.

42. 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

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

Governance statement

44. We reviewed the draft governance statement as part of our audit work and consider the coverage of the governance statement to be in line with our expectations.

45. Internal Audit provides a report on an annual basis which includes an independent opinion over the risk management, control and governance arrangements to support the governance statement. The expected 2021/22 opinion is of limited assurance (reasonable assurance in the prior year). This has been appropriately reflected in the governance statement.

46. We have concluded that the governance statement has been prepared in accordance directions from Scottish Ministers and is

consistent with the financial statements.

should be happy to provide additional services.

Remuneration and staff report

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

Regularity

48. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.
49. 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.

Fraud and suspected fraud

50. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period, nor have any incidents come to our attention as a result of our audit testing.
51. Our work as auditors is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose. In the event that the directors wish to obtain enhanced assurance with regard to the effectiveness of internal control in preventing and detecting fraud we

Non-compliance with laws and regulations

52. As part of our standard audit testing we have reviewed the laws and regulations impacting the business. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations stopping the business from continuing as a going concern or that would necessitate a provision or contingent liability.

Subsequent events disclosure

53. Following completion of our audit fieldwork SPS entered into a contract with Kier Group on 12 July 2022 for pre-construction works associated with the development of HMP Glasgow as a replacement for HMP Barlinnie. Management confirmed that the carrying value of the existing prison is not affected as no formal decision has been made by Scottish Ministers as to the future of HMP Barlinnie.
54. SPS made an additional disclosure to the notes in the financial statements to reflect this development. We are satisfied that the disclosure is appropriate.

Accounting systems and internal control

55. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit

procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the SPS. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

- 56. We are pleased to report we have not identified any significant system weaknesses.

Current year recommendations

- 57. We have identified four recommendations this year. These relate to: development of the medium term financial strategy, preparations for the Kilmarnock Prison PFI contract end, capital programme delivery capability, and establishing an effective workforce planning. These are listed in Appendix 2.

Follow up of prior year recommendations

- 58. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 2.

Qualitative aspects of accounting practices and financial reporting

- 59. During the course of our audit, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our audit conclusions on these qualitative aspects are as follows:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are consistent with the requirements of the FReM.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.

Qualitative aspect considered	Audit conclusion
	<p>Significant estimates were made in relation to the valuation of land and buildings, and legal provision. These estimates were informed by advice from qualified, independent experts.</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 these experts was appropriate.</p>
<p>The appropriateness of the going concern assumption</p>	<p>We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the SPS will continue to operate for at least 12 months from the signing date.</p>
<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We did not identify any uncertainties, including any significant risk or required disclosures, which are not already included in the annual accounts.</p>
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the annual report or material inconsistencies with the financial statements.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>

Qualitative aspect considered	Audit conclusion
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.

Financial sustainability

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



Auditor judgement



The publication of the Scottish Government Resource Spending Review provided SPS with a flat cash settlement of £370 million per annum for the next five years.

SPS have identified a funding gap of £14.7 million for 2022/23, largely reflecting the impact of inflation. SPS is likely to require to rely on achieving significant cash efficiency savings in each year of the Spending Review, presenting a major financial challenge to the sustainability of the current operating model for the Prisons Service.

SPS has an ambitious and important capital programme that continues to suffer from delays, in particular to repairs to HMP Greenock and replacement of the HMP Barlinnie facility. The impact of COVID has contributed to capital underspends in recent years. Improving the efficiency and effectiveness of the current estate remains a strategic priority. However, with limited capacity and restraint of resources requiring prioritisation of projects, it is not currently clear that SPS is capable of delivering the capital investment required to adequately maintain the existing estate.

We note that Kilmarnock Prison will be the first PFI contract asset to return to the public sector in 2024 alongside the workforce currently employed by SERCO and associated facilities management services. In the context of an overall flat cash settlement for the Prison Service, more needs to be done to establish and plan for the financial, operational and strategic risks associated by this transfer.

Significant audit risk

60. During the year we have identified significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability

Significant risk description

COVID-19, and more recently inflation, have had a significant impact on both capital and revenue expenditure of SPS and, as reported in 2020/21, work is still ongoing to quantify the potential impact on medium- and long-term financial plans.

The most recent Resource Spending Review published by the Scottish Government allocates SPS with a flat cash position of £370 million per annum for the next five years and until 2026/27. This will offer both challenge and opportunity to SPS and will require a good quality medium term financial strategy.

SPS' ability to address those issues and to be financially sustainable is dependent on additional financial support and efficient use of the resources. Management continue to liaise with Scottish Government to ensure SPS can respond to these operational challenges in a sustainable way.

Key observations

Our work and conclusions on SPS' budget, financial strategy and management of the prison operations is set out below. This notes a significant focus on addressing the 2022/23 funding gap and creating a strategy for the next three to five years. Scottish Government has committed to funding in 2021/22 and continues to liaise with justice bodies to ensure the justice system can respond to these capacity challenges in a financially sustainable way.

Short term financial planning

61. The Scottish Government Budget 2022/23 was agreed by the Scottish Parliament in February 2022, and provides SPS with a total budget allocation of £476.4 million (£442.4 million excluding capital charges). This is an increase of £16.2 million (3.5%) on the 2020/21 opening budget and an increase of £32.9 million

(7.4%) against the 2020/21 Revised budget (Spring Budget Revision).

62. On top of the budget allocation an additional £2 million in relation to *Recover, Renew and Transform (RRT)* programme has been committed to SPS by the Scottish Government and aimed at increasing collaboration in criminal justice system in Scotland.

63. The budget includes a number of assumptions for inflation, prisoner population numbers and private contracts cost.
64. The increase in budget relates to private contracts inflation of £5 million (these are contractually linked to RPI and CPI), pay awards and inflation of £4 million, Womens' National Facility project of £3.3 million, COVID/RRT programme related cost of £2 million and other projects.
65. The key financial pressure in the coming year is the inflationary increases in a wide spectrum of costs including the cost of living increases, high fuel cost and utility cost. The additional wider factors include the impact of Brexit and war in Ukraine. One of the most immediate impacts was visible when the food provision contracts were renegotiated by SPS recently and their cost increased c.8%.
66. Despite the increase in the budget, SPS estimated £14.7 million of additional gap in funding for 2022/23 with the £10.9 million of it relating to inflation alone. The above estimate assumes receiving of the £2 million of the RRT funding from the Scottish Government.
67. SPS is currently in conversation with the Scottish Government about addressing this funding gap and this is informed by the recently published Spending Review. SPS plans to submit the need for additional funding as a part of the Autumn Budget Revision exercise, which usually concludes in August.
68. When SPS submits information for the Autumn Budget Revision the year end position is going to be an early estimate. Hence the actual budget revision and potential additional funding will not be finalised until the Spring Budget Revision (SBR) when the position on the funding gap should be more settled. This is expected to be in late 2022 or early 2023 in accordance with the SBR timetable.

Medium term financial strategy

69. The update of the Medium Term Financial Strategy (MTFS) has been impacted by COVID-19 and further delayed into this year. Focusing on lessening the impact of the pandemic resulted in some strategies not being fully developed, including the Estates and Digital strategies not yet being fully detailed or costed.
70. During the past two years, the new SPS' leadership team priorities was to deal with managing the pandemic and as a result revising and updating the existing MTFS has been moved to March 2022. The recent publication of the Resource Spending Review and the refreshed position on the capital spending position provides a basis for moving forward to develop a MTFS.
71. The current SPS' approach to the medium-term financial planning is to take the recently published Spending Review as a starting point and align it with the Corporate Plan objectives. The

Resource Spending Review sets SPS with a flat cash position of £370 million for the next five-year period ending 2026/27. With the current economic environment and unpredictability of the prison population levels this presents a significant financial and operational challenge to the Service and will likely require a programme of year on year cash efficiency savings to achieve a sustainable financial position.

- 72. The existing operating model is unlikely to remain sustainable within the future financial environment.
- 73. Financial sustainability remains a challenge and it is recognised that work is required to further develop the financial strategy to reflect the emerging position taking cognisance of the impact of the above factors and reflect dynamically changing circumstances.

Recommendation 1

- 74. SPS’ directorates and establishments are still working through identifying events and their financial impact for 2022/24. One of the events identified to date is the end of the current PFI contract for HMP Kilmarnock in March 2024 and transfer of this prison operation to SPS.

Recommendation 2

Long term capital investment programme

- 75. 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.

- 76. The Capital Spending Review published by the Scottish Government in February 2021 and updated in May 2022 allocated the following capital spending resource to the SPS.

Exhibit 2: Capital Budget

Year	Capital budget
2022/23	£72.8m
2023/24	£97.0m
2024/25	£192.3m
2025/26	£80.3m

Source: Scottish Government Capital Spending Review 2023-2026

- 77. The current key components of the Major Infrastructure Work programme for delivery over the next five years are:
 - the Women’s National Facility - estimated construction completion date is March 2023 with operational opening date is Summer 2023;
 - two Community Custodial Units for women are expected to be opened in August and October 2022;
 - redevelopment of HMP Glasgow, with the estimated construction completion date in the Summer of

- 2026 and operational opening by the end of 2026;
 - redevelopment of HMP Highland estimated construction completion date is by end of 2024 with operational opening Spring 2025, albeit the timing of this project is largely dependent on funding being committed by Scottish Government;
 - headquarters “Work smart” initiative; and
 - ‘Cable’ project for phone facilities and an infrastructure to provide a kiosk type services in every prison cell.
78. All of the above key capital projects were delayed because of COVID-19 impact on the construction industry. The key projects affected by the pandemic this year include The Women’s National Facility and the Community Custody Units. The work has been pushed back to 2021 and further into 2022. Both have been delayed as a result of material supply chain issues being in turn a consequence of Brexit and COVID.
79. Expected capital expenditure on key projects in 2022/23 is presented in the exhibit below.

Exhibit 3: Expected capital spend in 2022/23

Project name	Expected spend
Women’s National Facility	£25m
HMP Highland	£20m
HMP Glasgow	£4m
Cabling project	£7m

Source: Scottish Prison Service

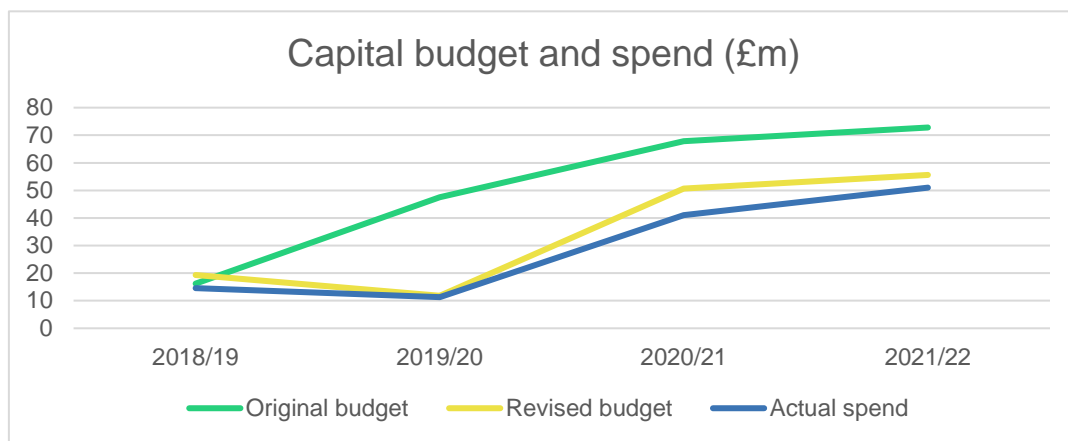
80. Women’s National Facility, including two community custodial units is a large capital project managed by SPS. The previous estimate of the work required was too optimistic and the works are expected to end by March 2023 with the capital expenditure ‘locked in’, so SPS is not foreseeing additional cost beyond already committed and noted in the table above. The two custodial units are expected to be opened in August and October 2022.
81. The progress on the replacement of HMP Highland and HMP Glasgow have been delayed over the years and more recently because of the pandemic. The contract for HMP Highland pre-construction services (design) and certain advance/enabling works contracts have been awarded and the project is currently at the design stage. This stage has been prolonged due to a re-design requirement to improve carbon neutrality of the new prison. To speed up the construction process early preparatory works are expected to be performed and overlapping with the ongoing design stage.
82. Pre-construction contract is to be signed this year for the design only stage of HMP Glasgow.
83. This year SPS is also planning a ‘Cable’ project in all of its prisons. This will provide all the cells with telephones, and the infrastructure for self-service kiosks that will be installed in the future. The kiosks would give the prisoners ability to select required services, including food requirements, television and

also provide health monitoring facilities.

84. SPS has a history of capital budgets underspends as presented in the table below and indicates a need for a more robust

capital projects planning. We note a slight improvement in the performance this year, as the underspend was at 8.3% of the revised budget (19.1% in the prior year).

Exhibit 4: Capital budgets vs actual



Sources: SPS’s financial statements and Scottish Government’s budgets

85. We do note an improvement in the use of the capital budget in 2021/22 and management hopes to use the full 2022/23 capital budget allocation.

requiring prioritisation of projects, including consideration of older facilities repairs value for money aspect, it is not currently clear that the SPS is capable of delivering the capital investment required to adequately maintain the existing estate.

86. Uncertainties around the impact of pandemic, supply chain and inflation combined with increased demand for major capital projects, present a higher risk that future capital costs may increase and further delays are possible.

88. Management recognise these challenges and are currently developing and updating the capital plans.

87. The impact of COVID has contributed to capital underspends in recent years. Improving the efficiency and effectiveness of the current estate remains a strategic priority. However, with limited capacity and restraint of resources

Recommendation 3

Financial management

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



Auditor judgement



SPS reported a net overspend of £6.9 million against the 2021/22 revenue budget and a capital underspend of £4.6 million.

The main cause of the revenue overspend was an increase in maintenance costs, including dilapidations costs of £3 million associated with the expected lease exit from Calton House in the next year, and the inflationary impact on utilities costs.

We have noted an improvement to revenue budget monitoring processes during 2021/22 providing SPS with more reliable year end estimates in the context of reporting a significant overspend position. More work needs to be done to improve the reliability of capital budgeting and monitoring.

We found the systems of internal control to be adequate.

Financial performance

Financial outturn in 2021/22

89. During this challenging year, SPS recorded an overspend of £1.6 million. Total outturn for the year was £445.1 million against the SBR budget position of £443.5 million. The overspend was within the Justice Directorate departmental limit and therefore does not represent a regularity breach.
90. The Departmental Expenditure Limit (DEL) overspend consisted of a £6.9 million revenue overspend (excluding capital charges), netted off by the capital underspend of £4.6 million.
91. The key items contributing to the revenue overspend included an increase in maintenance costs of £4 million and utilities costs of £1 million. The PPP/PFI contracts underspend of £1 million relates to service credits received.
92. In 2021/22 the capital profiles were revisited to establish any known impact of the COVID-19 pandemic. SPS identified £17.2 million of capital underspend as a result of the disruption to on site construction services and it was returned to the SG as a part of the Spring Budget Revision (SBR) exercise. This part of the capital budget was agreed with the Scottish Government to be re-phased to 2022/23 and does not form an additional budget for that year.
93. The post-SBR capital allocation for 2021/22 was underspent by the total of £4.6 million, mostly due to slippage in the Women's National Facility project.
94. We have highlighted in previous years that SPS consistently reports underspends against its capital allocation. Given the ageing profile of the SPS estate and the reported underspends on both the maintenance programme and capital programme, such underspends should be further reviewed and scrutinised to ensure no long term implications for the effective operation of the estate.

Exhibit 5: Performance against SBR budget

	Revised Budget £m	Actual outturn £m	Variance £m
Total Departmental Expenditure Limits (DEL)	366.940	370.255	3.315
Total outside DEL Expenditure (*)	76.363	75.328	(1.035)
Annual Managed Expenditure (AME)	214	(488)	(702)

	Revised Budget £m	Actual outturn £m	Variance £m
Total	443.517	445.095	1.578

(*) PPP/PFI contracts

Revenue results

95. Operating expenditure of £395.5 million incurred in year consisted of £202.8 million (51%) of staff costs and £64.9 million (16%) of PFI service charges and prisoner escort service costs, with c.32% of total operating expenditure therefore consisting of all other operating costs. This split is consistent with prior years.
96. Staff costs have increased by 3.8% compared with 2020/21 and other operating expenditure has increased by 6.5% in year. The staff cost increase is broadly in line with the prior year movement, but the other cost increased more significantly in 2021/22 due to repairs and maintenance and PFI/PPP cost increases.
97. The increase in the repairs in maintenance refers to a dilapidation cost of £3 million in relation to Calton House lease end. In addition, the maintenance and utilities cost increased with the UK inflation rates have had an impact on these costs.

Budget monitoring

98. SPS returned £3 million of the resource funding to the Scottish Government and requested an additional £2 million for capital

charges during the Spring Budget Revision.

99. In the previous year, we noted that the revenue estimate was significantly different when compared to the year end result. This year we observed an improvement in that process - the actual outturn was within 1% variance when compared to the estimate reported in December 2021. This is indicative of improved levels of budget scrutiny and control throughout the financial year.
100. As noted in our Recommendation 3 more needs to be done to improve the monitoring and reporting on capital programme.

Systems of internal control

101. 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.
102. 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 to be refreshed by Spring 2023.

103. The central finance team focus has been on supporting the organisation through the pandemic and maintaining business as usual. We are satisfied that the skills and experience of the current team are appropriate.
104. We also note that SPS managed to recruit an interim Director of Finance to strengthen its finance function. Whilst this is welcome, the Service will require a strong finance function to support the organisation through future financial challenges and will need a strong and experienced finance leader to help manage these inevitable challenges.

Prevention and detection of fraud and irregularity

105. SPS is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
106. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found SPS' arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative (NFI)

107. The NFI is a counter-fraud exercise coordinated by Audit Scotland, working together with a range of Scottish public bodies to identify fraud and error.
108. The most recent NFI exercise commenced in January 2021. These were investigated by the end of September 2021 and the NFI portal updated with outcomes by the deadline of 31 March 2022.
109. NFI exercise did not identify any fraud or error. A review of the work carried out was completed by internal audit.
110. Earlier in the year we recommended to SPS to report the results of the NFI to the RMAC and this has been actioned in May 2022.

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.



Auditor judgement



The interim Chief Executive was appointed on a permanent basis during the year. As reported in each of the last three years, the majority of SPS' senior leadership group continues to be appointed on an interim basis and this position does not support fully effective leadership outcomes.

We note that interim arrangements put in place in the previous year in response to COVID-19 remain in place. Work is ongoing to move the business back towards a more 'normal' operating position.

The SPS has made good progress in addressing prior year recommendations to improve the performance of the internal audit function and the Scottish Government's Directorate for Internal Audit and Assurance was appointed as the SPS auditors, effective 1 April 2022.

We note that internal audit have provided a limited assurance opinion on SPS systems of internal control highlighting weakness in risk management and internal audit arrangements.

The COVID-19 pandemic has created significant operational challenges for the Prison Service which has continued to operate effectively during this difficult period. These uncertainties have impacted on the ability of management to progress the development of longer-term corporate planning for the Service. As noted in the financial planning section above, there is now a more urgent need to address longer-term strategic and operational service planning issues.

Governance and transparency

Governance arrangements

111. The Chief Executive is a member of the Advisory Board, which is supported and advised by Executive Management Group and the Risk Monitoring and Audit Committee. 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, but the Board membership has changed as noted below.
112. During 2021/22 SPS has experienced some stability in its Senior Leadership Group. Teresa Medhurst, previously appointed on interim basis, secured her post on permanent basis in March 2022. There are however still interim Executive Directors in each of the remaining three Directorates.
113. SPS is currently procuring the services to carry out a review of the corporate structure. The purpose is to undertake a structural review to ensure that the organisation is fully aligned to the strategic intent and development of SPS and to make recommendations to the Chief Executive on the structure, roles and responsibilities of the SPS directorates.

New appointments

114. The Advisory Board is chaired by a non-executive member and comprises Chief Executive,

executive directors and 5 external non-executive director members.

115. The following changes in the governance arrangements have occurred during the period:
- Ann McKechin became the chair of the Board on 30 March 2022;
 - Lynn Clow and Stephen Uphill joined the Board as non-executive directors; and
 - Ian Harley became a chair of the RMAC in December 2021.
116. All new Board members undertook an induction process prior to their first Board meeting. This included meetings with the chief executive and the Director of Justice in the Scottish Government, meetings with the individual SPS directors and establishments visits. SPS plans a further workshop for the new members as a part of finalising the induction.
117. We reviewed the induction process and concluded that it provides those charged with governance with the information and platform to do so effectively.

Responding to the COVID-19 pandemic

118. The new governance arrangements resulting from COVID-19 SPS' governance structures enhancement continued this year. The interim arrangements were designed to expedite urgent decision making in a rapidly changing environment.

119. 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.
120. SPS established a Strategic Oversight Group, chaired by the Chief Executive early in the pandemic to oversee the National Corona Virus Response Group and to provide a link with Scottish Government, National Health Service and other key strategic stakeholders to ensure that the pandemic was managed in line with SG and public health guidance. As the pandemic progressed, a Clinical Prisons Advisory Group, chaired by a Senior Public Health Advisor on behalf of the Chief Executive was established to provide, support, guidance and contemporary Public Health advice to the SPS.
121. Work is ongoing to move the business back towards a normal operating position. SPS intend to steadily reintroduce planned activities over 6 monthly planning bursts. This will be aligned to the SG route map, but will be designed to fit within recognised corporate plan.
122. Work on the corporate structure is underway following recommendations from the review of the corporate structure. Any proposed change to directorate portfolio's will need concluded and discussed with stakeholders in the SG.

Risk management

123. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk management arrangements helps bodies to make effective decisions and secure better use of resources.
124. 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.
125. 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

126. During 2020 an external quality assessment of the in-house SPS Internal Audit function was commissioned by SPS management. This highlighted a significant number of areas of non-compliance with the Public Sector Internal Audit Standards (PSIAS). In response to these findings, the SPS Chief Executive considered a range of options for the future delivery and management of internal audit.
127. Following an options appraisal exercise, the Scottish Government's (SG) Directorate for Internal Audit and Assurance (DIAA) was identified as the

preferred option to provide this service going forwards. As of 1 April 2022 the SG DIAA was formally appointed as the SPS' internal auditors.

128. Internal Audit provided a limited assurance opinion for 2021/22 to SPS. At the time of drafting of our report the detail behind the opinion and progress made by Internal Audit were not available to us to comment on as the reports has still to be formally presented to the SPS Accountable Officer.
129. In addition to the above Internal Audit function SPS maintained an internal Operational Audit function through its Audit and Assurance Unit (AAU). It completed 41 of 45 audits during the year, including 17 with substantial assurance, 19 with reasonable assurance, 2 with limited assurance and further 3 had disclaimer opinions due to lack of sufficient appropriate evidence. As AAU has now been disbanded, the work of the Operational Audit function has moved into the SPS Operations Directorate.

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 the SPS' reporting of its performance.



Auditor judgement



The 15 prisons operated by SPS or by the private sector, provide an operational limit on prisoner numbers that can be accommodated safely within the Prisons environment. Effective management of the prisoner population is therefore a key element impacting SPS activities and prisoner outcomes. Our reporting has previously drawn attention to the historically high prisoner population levels which have contributed to a strain on management and staff resources and to a more challenging operating environment within prisons, particularly impacted by the COVID pandemic.

Prisoner numbers have remained at levels below the 2020 peak throughout the year, but remain at historically high levels. This has particularly been influenced by a backlog of cases within the Scottish Courts and Tribunals Service which has led to more prisoners being held on remand, but with fewer custodial sentences reducing prisoner numbers. In addition, we note the increasing number of violent incidents being recorded by the Service.

SPS' performance on five of the 17 indicators has improved, seven have deteriorated compared with prior year and there has been no movement on the remaining five. Overall, this represents a slight deterioration on prior year performance levels indicating that SPS is still transitioning from responding to COVID to a more 'business as usual' model.

Sickness absence levels rose significantly from 15.2 days to 18.3 average days per employee in 2021/22, mainly representing the impact of COVID, and putting additional strain on SPS services.

We note an increase in the number of exit packages paid to staff reporting a medical condition during the year. The cost of exit packages has risen to £3.9 million from an existing high level of £2.1 million in 2020/21. SPS should review these arrangements to ensure they provide value for money and represent an efficient use of human and financial resources. These costs reflect the impact of an ageing workforce, changes to the retirement age for prison officers and high sickness absence levels linked to the pandemic. However more needs to be done by the SPS to prepare a more effective workforce strategy.

Prisoners population

130. The prisoner population is the key factor around which SPS builds its activities. The population is complex and is influenced by a number of causes.
131. SPS has a daily operating capacity of 7,669 prisoners and during the year 2021/22, the average number of prisoners was 7,505 (7,349 in 2020/21). The prisoner population was at c.7,340 at the beginning of June 2022. The population therefore remains at a constant level with some key movements discussed below.
132. This financial year has seen an introduction of the legislation to restrict drugs via email and increased a number of prisoners being managed under SPS' substance policy. Another trend visible this year has been an increase of almost 18% in terms of the prisoners in remand combined with decreases of those prisoners who were convicted.
133. The increase in remand population is a result of the backlog of legal cases requiring to be managed by the Scottish Courts and Tribunals Service, of which there remains a significant amount outstanding. The above fluctuations impact how SPS has to manage its resources and provide required services.
134. The prisoners population continues to become more complex as a result of the increasing proportion of those in

SPS care who have to be accommodated separately due to their legal status (remand or convicted), sex, age or offending history, for example, those with a history of sexual offending and individuals with links to Serious and Organised Crime. Managing these complexities alongside the necessary regime restrictions has presented significant challenges for the SPS in the past two years. These various sub-populations accounted for nearly 60% of the total prisoners population. In effect, while some of the prisons were operating above the design capacity at points during the year, others were operating significantly under capacity.

135. There is an increased uncertainty in the likely future prisoner population outcomes and this has made it more challenging for management to plan for financial and operational sustainability.

Performance management framework

136. 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.
137. SPS extended the life of the current Corporate Plan by one year, to the end of 2022/23 financial year, to facilitate longer-

term alignment with the Scottish Government’s Vision for Justice in Scotland, to be achieved through the development of the SPS Corporate Plan 2023-28.

- 138. The Corporate Plan 2019-22 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.
- 139. 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. The 2022/23 Delivery Plan has therefore been drafted to provide a bridge between the current and next corporate plan.
- 140. Quarterly performance monitoring and reporting to the executive management group and Advisory Board was maintained throughout the 2021/22 reporting year.

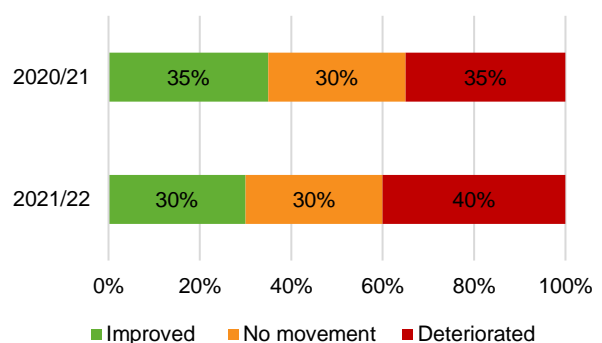
Performance against corporate plan

- 141. 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.

- 142. SPS’ performance on five of the 17 indicators have improved, seven have deteriorated compared with prior year and there has been no movement on the remaining five.

Exhibit 6: Performance in 2021/22



Source: SPS Financial Statements 2021/22

- 143. Our analysis at Exhibit 6 shows a slight decline in performance compared to the prior year. The areas of improvement and deterioration reversed to an extent between safety and development areas.
- 144. In the last two years the performance indicators were strongly impacted by the COVID-19 restrictions. SPS treated prisoners and staff safety as a priority which explains the deterioration of other types of indicators in the prior year. In 2021/22 the safety measures remained the priority and the uplifting of the restrictions allowed SPS to improve some of its prisoners engagement indicators.
- 145. In 2021/22 SPS noted significant increase in prisoners on staff

assaults which was due to fluctuating impact of COVID-19 restrictions and an increase in on remand/short term population.

- 146. The assaults on SPS staff were related to the staff intervening in prisons incidents.
- 147. There was also a significant increase in prisoners on prisoners assaults and this occurred mainly in large male establishments and was linked to rival groups violence. This was partly the result of the police forces success in fighting organised crime which in turn meant that more prisoners of such background were imprisoned and increasing the violence levels inside the prisons.
- 148. Management expects that 2022/23 and next year being a transition out of COVID-19 measures and movement towards business as usual and expects this to have a positive impact on its key performance indicators.
- 149. The improvements were visible in 100% increase in vocational and employment qualifications linked to easing of the COVID-19 restrictions. Similarly, the numeracy skills delivery and purposeful activities increased slightly when compared to the last year. These are more promising results although some of them are still below pre-COVID-19 levels.

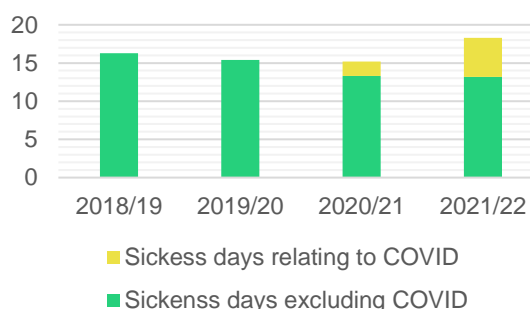
Sickness Absence

- 150. Levels of absence within the SPS continue to be high and increased by 20% from 15.2 in prior year to an average 18.3 days in 2021/22.

However, when adjusted for COVID-19 impact, the numbers decreased slightly when compared to last year and continue the decreasing trend over the last five years.

- 151. Impact of COVID-19 is estimated to have increased the average days lost by 5.1 per employee which is a significant increase on 2020/21 1.9 days.
- 152. The Average Working Days Lost (AWDL) to sickness absence per employee is detailed in Exhibit 7 below.

Exhibit 7: Average sickness absence (days)



Source: SPS Annual Report and Accounts

- 153. To address this issue a new Attendance Management Policy, developed in consultation with trade unions, was launched in April 2021. Due to the COVID-19 pandemic, SPS took the decision to postpone the introduction of the new policy until 5 April 2021.
- 154. The new policy has been developed to support a person centred and proactive approach to managing absence, taking account of all circumstances and providing opportunities to allow colleagues, as far as possible, to

maintain attendance at work. What this means in practice is that the employee and line manager are expected to be far more active in considering what steps can be taken to maintain a healthy environment and discuss these at the earliest opportunity.

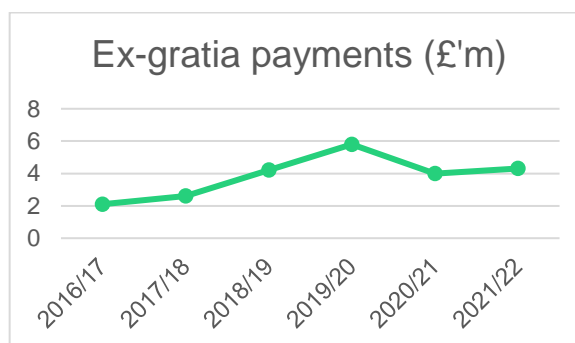
155. As SPS continues to support those affected by the pandemic, and also look more broadly to the future, SPS has committed as part of Equality Outcomes for 2020/22 to carry out activities which are designed and implemented to improve the Mental Health and Wellbeing of their employees. These activities will be informed by the needs of our workforce and guided by professionals including its Occupational Health service provider.

Ex-gratia payments

156. 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.
157. Ex-gratia payments were introduced in 2004. 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.

158. In 2021/22, SPS made £4.3 million in ex-gratia payments; an increase of £0.3 million in comparison with the prior year.

Exhibit 8: Ex-gratia payments



Source: SPS' Annual Report and Accounts

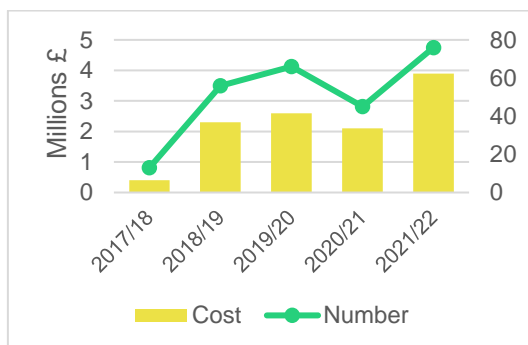
159. The increase in the payments was largely due to the increase in the sickness absence levels and failures in performance by the Scottish Court Custody and Prisoner Escort services provider (GEOAmev PECS). These staff and services shortages required additional time from other staff and increased the ex-gratia payments.

Exit packages and workforce planning

160. We noted a significant increase in the number of the Civil Service and other compensation schemes – exit packages and its cost in 2021/22. SPS spent £3.9 million on 76 exit payments to its staff (£2.1 million and 45 in 2020/21 respectively). This increase was caused by an ageing workforce which was managed through dismissals on ill health grounds with relating compensation payments.

161. While the relative increase in the Civil Service and other compensation schemes – exit packages was partly exacerbated by their lower number in 2020/21. Exhibit 9 below shows an upward trend in the exit packages over the last 5 years.
162. The number and cost of the Civil Service and other compensation schemes – exit packages rose sharply in 2021/22 when compared to pre-COVID years.

Exhibit 9 Exit packages cost and number



163. While these exit packages did not require Scottish Government approval we would expect the internal SPS arrangements to be more established to evidence consideration and authorisation of these at a sufficiently high level of the organisation.
164. Sickness absence, ageing workforce, the levels of ex-gratia payments and dismissals on ill health grounds are interlinked and should be looked at together to establish an effective workforce strategy going forward. This is going to be done within the latest Resource Spending Review allocating SPS with the flat cash position over the next 5 years and

will provide a serious challenge to manage.

165. We would also encourage SPS to review its current policy on Civil Service and other compensation schemes – exit packages to ensure this provides value for money and is supported by appropriate governance arrangements.

Recommendation 4

Fairness and Equality

166. As outlined in the Scottish Public Finance Manual, accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. Audit Scotland has requested that, at least once during the term of our audit appointment, we carry out work on the organisation's approach to arrangements relating to the best value theme of fairness and equality.
167. We have therefore reviewed arrangements at SPS in the following areas:
- commitment to fairness and equalities within the organisation;
 - delivery of fairness and equalities outcomes through service delivery; and
 - promotion of fairness and equalities in the wider community.
168. We are satisfied that appropriate arrangements are in place for SPS to secure fairness and equality in its operations.

Appendices



Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

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

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

- apply on a consistent basis the accounting policies and standards approved by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual 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 2022 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 2021/22 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 or the board 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 auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report is consistent with the financial statements and 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 is consistent with the financial statements and has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

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

- adequate accounting records have not been kept; or
- the 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; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

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

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

Independence

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

Non-audit services

We did not provide any non-audit services to SPS in the year.

Confirmation of independence

We confirm that we have complied with the 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 and SPS, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action Plan

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

Action plan grading structure

The recommendations are rated to help SPS assess the significance of the issues and prioritise the actions 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. Financial Sustainability</p> <p>Rating</p> <p>Grade 4</p> <p>Paragraph Ref</p> <p>73</p>	<p>Issue</p> <p>COVID-19 has continued to have a significant impact on both capital and revenue expenditure of SPS and, as reported in 2020/21, work is still ongoing to quantify the potential impact on medium- and long-term financial plans.</p> <p>The most recent Spending Review published by the Scottish Government allocates SPS with a flat cash position of £370 million per annum for the next five years and until 2026/27. This will offer both challenge and opportunity to SPS and will require a good quality medium term financial plan.</p> <p>SPS' ability to address those issues and to be financially sustainable is dependent on additional financial support and efficient use of the resources. Management continue to liaise with Scottish Government to ensure SPS can respond to these operational challenges in a sustainable way.</p> <p>Risk</p> <p>There is a risk that will not be able to deliver and finance its services.</p> <p>Recommendation</p> <p>SPS should prioritise the development of realistic</p>	<p>Management response:</p> <p>The development of a MTFS will be a primary focus during 2022/23 to ensure that the Scottish Prison Service is able to identify an operational and strategic financial approach to best respond to the challenges outlined in the Resource Spending Review.</p> <p>Responsible officer:</p> <p>Interim Director of Finance</p> <p>Implementation date:</p> <p>December 2022</p>

Action plan point	Issue & recommendation	Management comments
	medium term financial strategy.	
2. Kilmarnock PFI contract	Issue We note that Kilmarnock Prison will be the first PFI contract asset to return to the public sector in 2024 alongside the workforce currently employed by SERCO and associated facilities management services.	Management response Work has already commenced in the planning for HMP Kilmarnock to return to public ownership with the appointment of a project director and funding set aside in 2022/23 for a transition team.
Rating		
Grade 3		
Paragraph Ref	Risk There is a risk that upon the transfer of PFI ownership the prison operations and services at Kilmarnock will become disrupted.	Discussions on the increased funding requirements with SG have also taken place within the context of the application of the RSR proposal. The risks on insufficient funding have been identified
74	Recommendation In the context of an overall flat cash settlement for the Prison Service, more needs to be done to establish and plan for the financial, operational and strategic risks associated by this transfer.	Responsible officer: Interim Director of Finance
		Implementation date: December 2022 for Transition funding in 2023/24. December 2023 for Implementation funding from 2024/25 onwards

Action plan point	Issue & recommendation	Management comments
3. Capital programme	Issue The impact of COVID has contributed to capital underspends in recent years. Improving the efficiency and effectiveness of the current estate remains a strategic	Management response The recent underspends in recent years has largely been a result of the construction industry being affected by the pandemic and the transition of Brexit.
Rating		

Action plan point	Issue & recommendation	Management comments
<p>Grade 3</p> <p>Paragraph Ref</p> <p>88</p>	<p>priority. However, with limited capacity and restraint of resources requiring prioritisation of projects, including consideration of older facilities repairs value for money aspect, it is not currently clear that the SPS is capable of delivering the capital investment required to adequately maintain the existing estate.</p> <p>Risk</p> <p>There is a risk that the capital investment and maintenance programmes are not delivered impacting negatively on SPS operations.</p> <p>Recommendation</p> <p>SPS should develop capital and maintenance plan to address the needs of the estate and assess capability do deliver their capital plan.</p>	<p>The effects of these issues is expected to be less severe in the future with the construction industry and SPS learning to operate more effectively in this challenging environment.</p> <p>SPS is working closely with SG to ensure that an appropriate medium term plan and funding is in place to maintain the current estate and have a programme to replace the ageing establishment.</p> <p>In 22/23 Funds have been committed to support the work of replacing 3 existing establishments as well as investment in a maintenance programme at Dumfries and Greenock.</p> <p>The proposed recruitment of a capital accountant will provide a resource to improve budget scrutiny and planning as well as working with the departments and establishments in SPS to develop an asset maintenance and replacement strategy.</p> <p>Responsible officer:</p> <p>Interim Director of Finance</p> <p>Implementation date:</p> <p>March 2023</p>

Action plan point	Issue & recommendation	Management comments
4. Workforce planning	<p>Issue</p> <p>Sickness absence, ageing workforce, the levels of ex-gratia payments and compensations for dismissals on ill health grounds are interlinked and should be looked at together to establish an effective workforce strategy going forward. This is going to be done within the latest Resource Spending Review allocating SPS with the flat cash position over the next 5 years and will provide a serious challenge to manage.</p> <p>We would also encourage SPS to review its current policy on Civil Service and other compensation schemes – exit packages to ensure this provides value for money and is supported by appropriate governance arrangements.</p> <p>Risk</p> <p>There is a risk that operations of SPS are adversely impacted by the lack of highly motivated workforce.</p> <p>There is a risk that value for money is not achieved in relation not compensation payments and that the governance arrangements are not appropriate.</p> <p>Recommendation</p> <p>To produce an effective workforce strategy.</p>	<p>Management response:</p> <p>SPS accept the recommendation to produce an effective workforce strategy and to strengthen the governance and value for money arrangements around consideration of capability cases against civil service criteria for compensation.</p> <p>Responsible officer:</p> <p>Head of HR</p> <p>Implementation date:</p> <p>The workforce planning strategy will be shaped by the strategic plan for 2023-28 and the Resource Spending Review. Therefore this will be implemented in spring 2023.</p>
Rating		
Grade 4		
Paragraph Ref		
165		

Action plan point	Issue & recommendation	Management comments
	<p>To consider value for money of the Civil Service and other compensation schemes – exit packages.</p> <p>To strengthen the governance arrangements around Civil Service and other compensation schemes – exit packages.</p>	

Follow up of prior year recommendations

IT Controls

Initial rating	Issue & recommendation	Management comments
Grade 2	<p>Issue</p> <p>The following control weaknesses were identified and not addressed at the previous reporting date:</p> <ul style="list-style-type: none"> • SPS is not fully aware of the personal information held; • Risk • 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>Recommendation</p> <ul style="list-style-type: none"> • A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold. 	<p>Original recommendation</p> <p>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.</p> <p>Implementation date:</p> <p>March 2021</p> <p>2020/21 update</p> <p>Slippage has occurred on this work as a result of the pandemic and the retirement of a key member of staff. The Information Asset register is currently 75% complete.</p> <p>Implementation date:</p> <p>Summer 2021</p>
Current status	Update	
Ongoing	<p>The Information Asset Register has been completed. As new electronic systems are developed, and Data Protection Impact Assessments are completed, they will be added to the register.</p> <p>There are no remaining windows 7 clients. All desktop PCs are running at Windows 10 with a view to upgrading to Windows 11, indeed some trialling is going on with windows 11 at the time of writing.</p> <p>Progress has been made in ensuring that a copy of backups are now kept offline at a third party (an immutable copy) as well as our own on premise</p>	

Initial rating	Issue & recommendation	Management comments
	<p>backup system, however progress remains outstanding in implementing scheduled tests. We do however have reason to restore from backups for operational reasons on a regular basis.</p> <p>Responsible officer: Head of Digital Services</p> <p>Implementation date: September 2022</p>	

Ex-gratia claims

Initial rating	Issue & recommendation	Management comments
<p>Grade 3</p>	<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> <p>2019/20 comments</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>

Initial rating
Issue & recommendation
Management comments

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.

An initial report by the Short Life Working Group will be produced in late Autumn for consideration by the Interim Chief Executive.

Responsible officer:

Director of Corporate Services

Implementation date:

March 2021

2020/21 comments:

In response to the COVID-19 pandemic, SPS temporarily changed the way in which ex-gratia claims were submitted for processing in March 2020. This decision paused the work of the short life working group that had been set up to review the ex-gratia payment process.

Pay related claims are now submitted manually by each establishment management team on a monthly basis directly to the SPS pay team. The previous process that utilised e-HR for ex-gratia claims has not yet been reinstated and SPS are embarking on an ambitious HR digitalisation journey that will transform the way in which HR services are delivered across the organisation. The initial priority is to implement a new system and process for the management of ex gratia. The revised system will address the concerns previously highlighted in past audits and provide a more robust assurance process around the management of ex gratia. In response to the COVID-19 pandemic, SPS temporarily changed the way in which ex-gratia claims were submitted for processing in March 2020. This decision

Initial rating	Issue & recommendation	Management comments
		<p>paused the work of the short life working group that had been set up to review the ex-gratia payment process.</p> <p>Pay related claims are now submitted manually by each establishment management team on a monthly basis directly to the SPS pay team. The previous process that utilised e-HR for ex-gratia claims has not yet been reinstated and SPS are embarking on an ambitious HR digitalisation journey that will transform the way in which HR services are delivered across the organisation. The initial priority is to implement a new system and process for the management of ex gratia. The revised system will address the concerns previously highlighted in past audits and provide a more robust assurance process around the management of ex gratia.</p> <p>Responsible officer: Director of Corporate Services</p> <p>Implementation date: Spring 2022</p>

Current status	Update
Ongoing	<p>The HR Digital Transformation (HRDT) programme of works has superseded the Short Life Working Group (internal review). Following the successful transition of e-HR to the Cloud in July 2021 and subsequent system upgrade, work has started to develop online pay claim and expenses processes, including Ex-Gratia. Workshops were held during June - October 2021 with key stakeholder groups including HR, wider staff groups (senior/middle managers, staff and PLRs), Operations Directorate and Audit to discuss the Ex-Gratia process, in particular approval mechanisms, which will help, inform proposals for revised online claim processing moving forward.</p> <p>The continuing advancement of e-HR as a secure data source coupled with the benefits of increased self-service opportunities realises the potential to deliver a more effective gateway between the HR and Payroll applications and will address the concerns previously highlighted in past audits and</p>

Initial rating	Issue & recommendation	Management comments
	<p>provide a more robust assurance process around the management of Ex-Gratia. The aim is to have electronic processes in place by late summer 2022. In the meantime, the interim Ex-Gratia claims process developed during the pandemic remain in place.</p> <p>Responsible officer: Director of Corporate Services</p> <p>Implementation date: Summer 2022</p>	

Internal audit

Initial rating	Issue & recommendation	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</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</p>

Initial rating	Issue & recommendation	Management comments
	<p>address the risks and meet the needs of the business.</p> <p>Recommendation</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>for it being carried out will be articulated to RMAC.</p> <p>Responsible officer</p> <p>Head of Audit & Assurance</p> <p>2019/20 comments</p> <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:</p> <p>Head of Corporate Risk and Change</p> <p>Implementation date:</p> <p>Summer 2021 (depending on scope and scale of recommendations – this may need to reviewed).</p> <p>The report produced by BDO covered a wide range of recommendations on Internal Audit (IA) which still needs to be considered to determine the strategy going forward. As an interim measure</p>

Initial rating	Issue & recommendation	Management comments
		<p>Scottish Government Directorate for Internal Audit & Assurance has recently been appointed to provide the SPS IA function with strategic support (at SCS level) and through the temporary appointment of a Head of Internal Audit role. The priority is to support SPS with delivery of their agreed 2021/22 audit plan.</p> <p>Responsible officer: Head of Corporate Risk and Change</p> <p>Implementation date: Spring 2022</p>
Current status	Update	
Ongoing	<p>A memorandum of understanding has been agreed with the Scottish Government to provide a shared service for Internal Audit and Assurance for all SPS internal core audit work during 2022 and beyond.</p>	

Financial management

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>SPS' 13 Finance Managers are directly accountable to the Operations Directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office. Limited assurance financial control reviews were identified by internal audit in 2016/17</p> <p>Recommendation</p> <p>In conjunction with movement in the governance structure in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs.</p> <p>SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective.</p>	<p>HQ Finance has provided resource to mentor a number of Finance Managers. Tri -Directorate work is on-going regarding the management and performance assessment of Finance Managers in prisons.</p> <p>SPS has implemented a number of actions:</p> <ol style="list-style-type: none"> 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:</p> <p>Head of Corporate Risk and Change</p> <p>Implementation date:</p> <p>31 March 2018</p> <p>2019/20 comments</p>

Initial rating
Issue & recommendation
Management comments

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.

Progress is being made and the review is on target to conclude before 31st March 2021.

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.

The objective is to reduce the number of financial non-compliance issues and to strengthen financial governance and assurance.

Responsible officer:

Head of Corporate Risk and Change

Implementation date:

31 March 2021

2020/21 comments

A draft report was produced at the end of 2020 for consideration by the Interim Chief Executive however due to the post-holder leaving the organisation and a delay in the recruitment campaign as a result of COVID, there has been no capacity to progress this work at the moment. Interim arrangements are currently being progressed to appoint a Temporary Director of Finance to provide strategic oversight and input at SCS level for the finance function and to support any wider structure review undertaken.

Initial rating	Issue & recommendation	Management comments
		<p>Responsible officer: Head of Corporate Risk and Change</p> <p>Implementation date: Spring 2022</p>
Current status	Update	
Ongoing	<p>During 21/22 an Interim Finance Director was appointed. This allowed work to commence on the development of a Medium Term Financial Strategy (MTFS). In conjunction with the production of a MTFS a review of the finance function has also commenced in 21/22 with objectives of:</p> <ul style="list-style-type: none"> (i) an improved co-ordinated and integrated finance function across SPS, (ii) providing economies of scale and improved efficiency with developing a centre of excellence by centralisation of finance activities, and (iii) increased focus on strategic financial planning. <p>Responsible Officer: Interim Director of Finance</p> <p>Implementation Date: Autumn 2022</p>	

Value for Money

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>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</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.</p>

Initial rating	Issue & recommendation	Management comments
	<p>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</p> <p>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>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:</p> <p>Director of Strategy and Stakeholder Engagement</p> <p>Implementation date:</p> <p>31 December 2018</p> <p>2018/19 comments</p> <p>The review has progressed through 2018/19. Work has been overseen by a KPI Advisory Group comprising senior representation from across SPS and the Scottish Government. Extensive consultation and engagement activity has taken place including a Knowledge Exchange Event in two parts; focus groups with staff and those in our care; and engagement with Third Sector representatives at a meeting of the Criminal Justice Voluntary Sector Forum.</p> <p>It is anticipated that outline proposals will be presented to the Chief Executive at the end of March 2019 with a view to developing the new set of indicators in 2019/20 linked to the Strategic Themes</p>

Initial rating

Issue & recommendation

Management comments

and Outcomes set out in the new Corporate Plan 2019/22.

Responsible officer:

Director of Strategy and Innovation

Implementation date:

2019/20

2019/20 comments

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.

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:

- 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.

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

Initial rating	Issue & recommendation	Management comments
		<p>would remain our intention to have new KPI proposals during 2022.</p> <p>Responsible officer:</p> <p>Director of Strategy and Stakeholder Engagement</p> <p>Implementation date:</p> <p>March 2022</p> <p>2021/22 comments</p> <p>This work will form part of the new SPS Improvement Framework which is set out in the SPS Delivery Plan 2020/22 - Action 9.</p> <p>An indicative timeline of March 2022 has been set for the development of new Outcomes and Indicators. This work will be progressed in tandem with the development of a new Justice Strategy for Scotland to ensure outcomes flow from and support national objectives for custodial care and SPS is already fully engaged in these discussions with SG colleagues.</p> <p>Responsible officer:</p> <p>Director of Strategy and Stakeholder Engagement</p> <p>Implementation date:</p> <p>Spring 2022</p>

Current status	Update
Ongoing	<p>SPS is now seeking to more effectively integrate data and analysis on a quarterly basis through the Improvement Framework (IF) reporting process, which is aligned with the five strategic aims outlined in the 2022 Vision for Justice in Scotland strategy. This integrative process is highlighting a range of procedural and structural areas of misalignment, which the Improvement team is then liaising with colleagues across SPS to</p>

Initial rating	Issue & recommendation	Management comments
	<p>address. The KPI system as it currently stands (which is maintained by OD) remains nested within each quarterly IF submission until a revised suite of corporate metrics are developed.</p> <p>Work on a revised suite of corporate metrics is now being taken forward as part of the process to develop SPS's new 2023-2028 Corporate Plan. The new metrics will be developed to reflect the values, priorities and outcomes SPS has collectively agreed as part of the corporate plan development process, making use of a range of data sources from across the organisation, where data quality is considered to be robust enough.</p> <p>Responsible officer: Director of Strategy and Stakeholder Engagement</p> <p>Implementation date: 1st April 2023, in line with the new 5 year Corporate Plan</p>	

SPS Finance Policy and Manual

Initial rating	Issue & recommendation	Management comments
Grade 2	<p>Observation</p> <p>There is risk that the SPS Finance Manual does not reflect up to date practices, which could result in inconsistent and/or inappropriate procedures and controls being operated.</p> <p>Recommendation</p> <p>We recommend SPS undertakes a full review of the manual, and continues to review content on a timely basis to ensure it remains appropriate and reflects current practice.</p>	<p>Financial Policy and Services will continue the regular review of the FP&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</p> <p>A full content review has been completed and updates are currently work in progress. There have been significant staff changes in year impacting on progress, with chapters being prioritised for review throughout the year.</p>

Initial rating	Issue & recommendation	Management comments
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Responsible officer:

Head of Finance and Policy Services

Implementation date:

31 March 2020

2019/20 comments

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.

This continues to be a priority, but the fluctuating demands on the organisation as a result of Covid-19 may result in further delays.

Responsible Officer:

Head of Financial Policy & Services

Implementation Date:

Summer 2021

2020/21 comments

The refresh of the Financial Policy & Guidance Manual is underway and considerable progress has continued to be made however this has been impacted due to Covid-19.

This continues to be a priority but the ongoing resourcing constraints within the finance team may result in further delays.

Responsible Officer:

Head of Financial Policy & Services

Implementation Date:

Autumn 2021

Initial rating	Issue & recommendation	Management comments
Current status	Update	
Ongoing	<p>The refresh of the Financial Policy & Guidance Manual is ongoing and considerable progress has continued to be made however this has been impacted due to resourcing issues in the year.</p> <p>Responsible Officer: Interim Director of Finance</p> <p>Implementation Date: Spring 2023</p>	

Appendix 3 Audit misstatements

Adjusted misstatements

2021/22

Adjusted difference	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	DR £	CR £	DR £	CR £
Repairs and maintenance		1,724,241		
IT expenditure	1,724,241			
<i>Being re-classification of IT expenditure</i>				
Net impact on (income) / expenditure	Nil			

2020/21

Adjusted difference	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	DR £	CR £	DR £	CR £
Repairs and maintenance		1,119,660		
IT expenditure	1,119,660			
<i>Being re-classification of IT expenditure</i>				
Net impact on (income) / expenditure	Nil			

Unadjusted misstatements

2021/22

Unadjusted difference	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	DR £	CR £	DR £	CR £
Trade payables			1,700,516	
Prepayments				1,700,516
<i>Being de-recognising a digital services prepayment</i>				
Net impact on (income) / expenditure	Nil			



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