

# Scottish Prison Service

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Prison Service and the Auditor General for Scotland

October 2023

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# Key messages

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## 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified. This means that the auditor is content that the accounts show a true and fair view and have been properly prepared to follow relevant standards and guidance and that income and expenditure for the year is lawful.
- 2 Material adjustments have been made to the annual report and accounts as a result of the audit process. No additional audit procedures were required.

## Financial management and sustainability

- 3 The Scottish Prison Service (SPS) reported an overspend of £0.27 million in relation to their revised budget of £498.7 million in 2022/23. This was despite additional funding of £22.2 million being applied during the course of the year.
- 4 Appropriate financial management arrangements are in place as well as adequate arrangements to prevent and detect fraud or other irregularities. Controls within the main financial systems were operating effectively, however a number of improvements have been identified to further strengthen the control environment in relation to journal authorisation and payroll. Similarly, SPS needs to do more to demonstrate it has effective cyber security and IT service delivery arrangements in place.
- 5 The finance team continues to carry a number of vacancies and may lack the capacity to effectively support audit work going forward.
- 6 SPS faces a challenging financial position and this is likely to continue for the foreseeable future. Increased funding has been made available through the 2023/24 Scottish Government budget, but a resource shortfall is forecast and SPS has over committed in its capital budget. Limited progress has been made on the development of a medium-term financial strategy.

## Vision, leadership and governance

- 7 SPS has a clear vision and strategy and is in the process of updating its Corporate Plan. Governance arrangements are appropriate, however improvements should be made to improve openness and transparency.
- 8 A number of key governance and policy documents are out of date and require review. This includes the Framework Agreement between SPS and Scottish Ministers.

## Use of resources to improve outcomes

- 9** SPS has arrangements in place to ensure Best Value but has not yet developed an appropriate framework document to demonstrate this.
- 10** SPS increased performance levels during 2022/23 but should consider developing performance targets to support and measure improvement.
- 11** There are significant concerns about the performance of the Scottish Courts Custody and Prisoner Escort Services (SCCPES) contract.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of the Scottish Prison Service (SPS). The scope of the audit was set out in our Annual Audit Plan presented to the March 2023 meeting of the Risk Monitoring and Audit Committee (RMAC). This Annual Audit Report comprises:

- significant matters arising from an audit of SPS’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial management
  - Financial sustainability
  - Vision, leadership, and governance
  - Use of resources to improve outcomes.

**2.** This report is addressed to the board of SPS and the Auditor General for Scotland and will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities and reporting

**3.** SPS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. SPS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**4.** The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**5.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of SPS from its responsibility to address the issues we raise and to maintain adequate systems of control.

**6.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor independence

**7.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence. Our 2022/23 audit fee was £119,110. This includes an additional audit fee of £8,650 due to delays in receiving all the supporting evidence necessary to complete our work.

**8.** We would like to thank board members, RMAC members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the five-year appointment.

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# 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

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## Main judgements

Audit opinions on the annual report and accounts are unmodified. This means that the auditor is content that the accounts show a true and fair view and have been properly prepared to follow relevant standards and guidance and that income and expenditure for the year is lawful.

Material adjustments have been made to the annual report and accounts as a result of the audit process. No additional audit procedures were required. Audit opinions on the annual report and accounts are unmodified.

Actions to address some prior year recommendations remain ongoing.

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## Audit opinions on the annual report and accounts are unmodified

9. The Risk Monitoring and Audit Committee (RMAC) approved the annual report and accounts for the Scottish Prison Service for the year ended 31 March 2023 on 11 September 2023. As reported in the independent auditor's report, the audit opinions were that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Overall materiality was assessed as £6.5 million

**10.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**11.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

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### Exhibit 1 Materiality values

| Materiality level       | Amount        |
|-------------------------|---------------|
| Overall materiality     | £6.50 million |
| Performance materiality | £4.55 million |
| Reporting threshold     | £250,000      |

**12.** The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**13.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70 per cent of overall materiality reflecting our assessment of the risk profile of the organisation and that this is year one of our audit appointment.

**14.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**15.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

**16.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.



17. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual report and accounts

| Issue  | Resolution  |
|--|---|
| <p><b>1. Private Finance Initiative (PFI) model corrections</b></p> <p>As part of our review of the PFI models, material adjustments were required to correct the models for HMP Addiewell and HMP Kilmarnock to bring them in line with the underlying contracts. The model for HMP Kilmarnock had never been updated and HMP Addiewell had not been updated since 2011 and had assumed a flat indexation percentage of 2.5%. The actual prices of the contracts are updated each December and are increased in line with the Retail Price Index (RPI).</p> <p>Given the higher levels of RPI in recent times, the difference between the model prices and the updated contract prices were considerably different. To correct this, prior year and current year adjustments were required to be made to the service element of the PFI Commitments. The adjustments were a £67.056 million increase to the commitment in 2022/23 and £70.437 million in 2021/22.</p> | <p>SPS adjusted the service elements due in future periods by £67.056 million to reflect the current and predicted levels of RPI. Office for National Statistics (ONS) publication of RPI and predictions were used.</p> <p>This was judged to be a <a href="#">key audit matter</a>.</p> <p>(See <a href="#">paragraph 18</a>)</p>   |
| <p><b>2. Assets not revalued in year</b></p> <p>SPS has in place a rolling revaluation programme that is supplemented by indexation. This means that any asset not revalued by the valuer in year are re-measured using a Building Cost Information Service (BCIS) index. This year the indexation resulted in material changes that were not reviewed or re-assessed. We requested that SPS review these indexed assets and discuss the issue with their valuer (District Valuer Services (DVS)). The DVS agreed to carry out a desktop exercise to ensure the carrying amount of assets does not differ materially from the current value.</p>   | <p>SPS re-assessed the value of their assets not revalued in year. This resulted in a decrease in buildings and dwellings cost of £89.854 million and a decrease in buildings and dwellings accumulated depreciation of £73.474 million. The net impact on Property Plant and Equipment in the Statement of Financial Position was a reduction of £16.380 million.</p> <p>This was judged to be a <a href="#">key audit matter</a>.</p> <p>(See <a href="#">paragraph 24</a>)</p> |
| <p><b>3. Ex gratia payments to operational prison employees</b></p>  | <p>The errors identified were immaterial and below our reporting threshold and no adjustments were required to the accounts.</p>  |

| Issue  | Resolution   |
|--|--|
| <p>Ex-gratia payments were introduced in 2004 for operational prison employees working over their contracted hours to maintain service.</p> <p>Weaknesses in the control environment were first reported by external audit in 2018/19. In the current year we followed-up on previous recommendations and identified that no progress had been made.</p> <p>We found errors in payments made and there was very limited evidence of controls in place for the authorisation, approval or submission of these ex-gratia claims.</p> | <p>SPS agreed to commission a review of its policy to identify steps to improve the effectiveness of ex-gratia payments, and to review the completeness and accuracy of ex-gratia payments with reference to source documentation. This work has not yet taken place.</p> <p>This was judged to be a <a href="#">key audit matter</a>.</p> <p>(See <a href="#">paragraph 19</a>)</p> |

**18.** As detailed in [Exhibit 2](#), the PFI models for HMP Addiewell and HMP Kilmarnock had not been updated for several years meaning the service element of the commitment was materially understated. While the PFI contract for HMP Kilmarnock will end in March 2024, HMP Addiewell continues until 2033. It is important that the PFI model is updated annually to bring it in line with the prices agreed at each review date.

## Recommendation 1

**SPS should update the PFI model for HMP Addiewell annually. This will ensure that any future service element commitment is accurately reflected in the financial statements.**

**19.** Ex-gratia payments were introduced in 2004 in exchange for operational prison employees working over their contracted weekly hours in order to maintain service. In the prior year Annual Audit Report the external auditors followed-up a recommendation in relation to ex-gratia payments. The issue was first raised in 2018/19.

**20.** In 2022/23, ex-gratia payments for employees working over their contracted weekly hours totalled £6.3 million. This is an increase of 46% on 2021/22 (£4.3 million). Sickness absence, an ageing workforce, dismissals on ill-health grounds and failures in performance by the Scottish Custody and Prisoner Escort Services Contract provider all impact on the level of these payments.

**21.** Our testing identified errors in five out of 15 cases, and we found very limited evidence of authorisation or approval in the items sampled. The errors identified, whilst trivial, resulted from weaknesses at various points in the authorisation, approval and submission process.

**22.** It is important that SPS reviews the process for authorising, approving and submitting ex-gratia claims for staff working over their contracted weekly hours.

## Recommendation 2

SPS should undertake a full review of the authorisation, approval and submission process for ex-gratia claims by employees working over their contracted hours to ensure that appropriate controls are in place and can be evidenced. All under and over payments should also be paid or recovered as appropriate.

## Our audit work responded to the risks of material misstatement identified in the annual report and accounts

**23.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in the annual report and accounts

| Audit risk   | Assurance procedure  | Results and conclusions  |
|--|--|--|
| <p><b>Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Detailed testing of journal entries.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul> | <p>We undertook the assurance procedures and found:</p> <ul style="list-style-type: none"> <li>the design and implementation of controls over journal entry processing requires improvement (see <a href="#">paragraph 41</a>)</li> <li>management are not aware of any inappropriate or unusual activity</li> <li>the detailed testing of journal entries and unusual transactions did not identify any issues or errors</li> <li>no significant transactions outside the course of business were identified</li> <li>the detailed testing of income and expenditure around the year-end did</li> </ul> |

| Audit risk  | Assurance procedure   | Results and conclusions  |
|---|---|--|
|   | <ul style="list-style-type: none"> <li>Focussed testing of accounting accruals and prepayments.</li> </ul>  | <p>not identify any issues or errors</p> <ul style="list-style-type: none"> <li>detailed testing of accruals and prepayments identified no issues.</li> </ul> <p><b>Conclusion:</b> We did not identify any instances of management override of controls. We did however identify that the policy for journal authorisation needs to be updated to include a wider reaching remit.</p>   |
| <p><b>Estimation in the valuation of provisions</b></p> <p>At 31 March 2022, SPS had provisions totalling £17.232 million.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> | <ul style="list-style-type: none"> <li>Review of specific cases as required with HR and Legal Services who hold all information relating to each case.</li> <li>Review communication from solicitors confirming their advice on prospects of each case.</li> <li>Injury Benefits is the largest value provision. My CSP monthly charge reports can be reviewed for this.</li> </ul> | <p>We undertook the assurance procedures and found:</p> <ul style="list-style-type: none"> <li>the detailed testing of specific cases were agreed back to source documentation (HR, Legal Services and the Civil Service Pension Scheme) and no issues or errors were identified</li> <li>the communication from solicitors confirmed the amounts disclosed in the financial statements.</li> </ul> <p><b>Conclusion:</b> We did not identify any errors in relation to the valuation of provisions. We have concluded that the methodology applied in the estimation is reasonable.</p> |

**24.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- Estimation in the valuation of land and buildings**

At 31 March 2022, SPS held land, buildings and dwellings with a net book value of £1,122 million. There is a significant degree of subjectivity in the valuation of land, buildings and dwellings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. This level of estimation means there is a risk of

material misstatement to the financial statements relating to asset valuations.

**Results and conclusions:** We reviewed the work of the valuer and the controls in place over the valuation exercise. In addition to this, the detailed testing of assets that were revalued in year identified no errors. However, as noted above, we identified that the indexation applied in year was not reasonable. The indexation resulted in significant material changes in value which were not reviewed or re-assessed. As a result, we requested SPS discuss the issue with their valuer in order to utilise their expertise. The valuer carried out a desktop exercise that provided a more reasonable value for these assets and provided sufficient assurance that the carrying amount does not differ materially from the current value.

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### Recommendation 3

SPS should update their accounting policy for Property Plant and Equipment to establish a working definition of what constitutes a material difference between the carrying amount and current value of an asset. Any asset value changes from indexation that breach the material difference should then be subject to an official revaluation carried out by their valuer.

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#### • Implementation of IFRS 16

The expected impact of IFRS 16 on SPS's financial statements is £3.7 million. While this balance is not material, the overall closing lease balance in 2021/22 was £13.252 million. Since this is the first year of adoption of IFRS 16, there is a risk that the disclosures included in the financial statements may be incorrect.

**Results and conclusions:** We reviewed the workings, journals and disclosures in relation to IFRS 16. Some errors were identified and adjusted (see paragraph 25). Once adjusted, the final workings, journals and disclosures were concluded to be in line with IFRS 16.

**25.** When reviewing the IFRS 16 workings and disclosures, there were a number of errors identified. We identified that the Right-of-Use (RoU) asset created for each existing operating lease was calculated incorrectly. The errors were corrected which resulted in a £54,000 increase to the 'Other' RoU asset cost. This increased the depreciation charge in year by £16,000.

#### There were a number of material misstatements identified within the annual report and financial statements

**26.** Other than the corrected material misstatements detailed as a significant finding in [Exhibit 2](#) and the corrected misstatement detailed at paragraph 25, our audit identified one other misstatement above our reporting threshold.

**27.** A prior year adjustment was required to correct a contract that was incorrectly included in lease commitments in 2021/22. This resulted in the opening lease liability as at 1 April 2022 being reduced by £2.9 million. This

correction was within a disclosure note and did not impact any of the main financial statements. This was an isolated error as all other leases were correctly classified.

**28.** A number of disclosures in the draft Performance Report, Directors' Report and Governance Statement were found not to be in compliance with the FReM.

**29.** Similarly, from our review of the Remuneration Report, we identified numerous changes and corrections that were required for both the current and prior year disclosures. These changes were to bring the Remuneration Report in line with the FReM.

**30.** Management have now included all relevant disclosures but should review arrangements for preparing the annual report in future years. This will ensure they are fully complying with applicable sectoral requirements.

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## Recommendation 4

SPS should implement a process to support the preparation and review of the annual report to ensure full compliance with applicable sectoral requirements prior to submitting for external audit.

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## Key parts of the unaudited annual report and accounts package were not provided in line with the agreed audit timetable

**31.** The timetable for receiving the unaudited accounts and working papers, as agreed in the Annual Audit Plan, was for the unaudited remuneration and staff report, financial statements, notes to the accounts and comprehensive working papers package to be provided by 29 May 2023. The latest submission date for receipt of the complete annual report was 23 June 2023.

**32.** We received a partial set of financial statements (not including the remuneration and staff report, the Statement of Comprehensive Taxpayers Expenditure (SoCTE) or Statement of Cash Flows (SoCF)) on 29 May 2023. We subsequently received a version that included the SoCTE and SoCF on 6 June and the remuneration and staff report was provided on 16 June.

**33.** The full annual report and accounts (excluding the Chief Executive's foreword) was not provided until 5 July 2023.

**34.** While we understand the resourcing challenges facing SPS, the delayed provision of the annual report and accounts did present a significant challenge to the audit team. We will continue to work closely with the finance team at SPS, and in future years expect the full unaudited annual report and accounts package to be provided within the agreed timetable.

## Limited progress was made on prior year recommendations

**35.** SPS has made limited progress in implementing the audit recommendations identified by Azets, SPS's previous external auditor. For actions ongoing or not yet implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).



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## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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### Conclusion

SPS reported an overspend of £0.27 million in relation to their revised budget of £498.7 million in 2022/23. This was despite additional funding of £22.2 million being applied during the course of the year.

Appropriate financial management arrangements are in place as well as adequate arrangements to prevent and detect fraud or other irregularities.

Controls within the main financial systems were operating effectively, however a number of improvements have been identified to further strengthen the control environment in relation to journal authorisation and payroll. Similarly, SPS needs to do more to demonstrate it has effective cyber security and IT service delivery arrangements in place.

The finance team continues to carry a number of vacancies and may lack the capacity to effectively support audit work going forward.

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### SPS reported an overspend of £0.27 million in relation to their revised budget in 2022/23

**36.** The main financial objective for SPS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**37.** SPS reported an outturn of £498.951 million against its overall budget of £498.682 million for 2022/23, representing an overspend of £0.27 million. This was largely due to the increased PFI contract costs. The financial performance against fiscal resources is shown in [Exhibit 4](#).

**Exhibit 4****Performance against fiscal resource in 2022/23**

| Performance | Initial budget<br>£m | Final budget<br>£m | Actual Outturn<br>£m | Over/(under)<br>spend<br>£m |
|-------------|----------------------|--------------------|----------------------|-----------------------------|
| Resource    | 403.600              | 427.026            | 428.020              | 0.994                       |
| Capital     | 72.800               | 71.656             | 70.931               | (0.725)                     |
| Total       | 476.400              | 498.682            | 498.951              | 0.269                       |

Source: Scottish Budget 2022/23; Spring revision; SPS Annual Report and Accounts 2022/23

**38.** The SPS budget was increased as part of the Autumn and Spring Budget revision. The major areas of additional expenditure included:

- £14.7 million additional funding to mitigate in-year cost pressures;
- £3.9 million additional non-cash ring-fenced for depreciation and impairment; and
- £4.2 million additional non-cash AME for impairments.

### **SPS has appropriate financial control arrangements in place but improvements should be made**

**39.** As part of our work, we reviewed the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and tested the operating effectiveness of specific controls. We did not identify any internal control weaknesses which could affect SPS's ability to record, process, summarise and report financial and other relevant data which would result in a material misstatement in the financial statements. We also did not identify any significant deficiencies when testing the operating effectiveness of specific controls.

**40.** We identified a number of improvements that should be made to strengthen the controls in relation to journal authorisation and payroll.

**41.** We found that the current policy for the authorisation of journals in the Finance Policy and Guidance Manual is too limited. We recommend that the policy be expanded to include all manual journals that relate to accruals, prepayments, any transactions that do not originate from a third-party source (i.e. any estimates) and any changes to balance sheet account codes to ensure comprehensive coverage.



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## Recommendation 5

When SPS are updating their Finance Policy and Guidance Manual, the journal authorisation policy should be updated and expanded to ensure that the requirements for authorisation cover a wider range of situations.

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**42.** A control in place for payroll is the monthly payroll exception report review. This is a review that is carried out on any variances that are plus or minus 20% from the previous month's net pay.

**43.** As part of our testing, we identified instances where there was limited audit evidence retained. We recommend that a master exception report is created, and all variance checks are documented on the master document. This master document should then be reviewed to confirm that all exceptions have a valid reason included.

**44.** When reviewing the payroll control environment, we identified that no employee verification process is currently in place. A payroll verification exercise ensures that a payroll listing is correct, complete and accurate. A typical exercise involves line managers or budget holders confirming that the employees included within their department is correct.

**45.** When reviewing the staff costs included in the financial statements, we were able to obtain assurance from the monthly payroll to general ledger reconciliations that were carried out. However, there is no cumulative year end reconciliation undertaken to ensure that the final payroll information that is included in the general ledger matches that reported in the payroll system. A year end cumulative reconciliation would provide SPS assurance that the totals in both systems are the same.

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## Recommendation 6

SPS should strengthen controls in relation to payroll by:

- creating an exception report that compiles all variances and reasons. This should be reviewing on a monthly basis
  - implementing an employee verification exercise to provide assurance that the payroll listing is complete and accurate
  - undertaking a cumulative general ledger to payroll system reconciliation at the year end.
- 

## SPS needs to do more to demonstrate that it has suitable cyber security arrangements in place

**46.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered SPS's arrangements for managing and mitigating cyber security risks.

**47.** Cyber Essentials is a government-backed, industry-supported scheme that helps organisations protect themselves against common online threats. The base certification is a self-assessment that ensures protection against a variety of the most common cyber-attacks. Cyber Essentials is also a requirement under the Public Sector Cyber Resilience Framework (PSCRF). SPS were unsuccessful in their application for Cyber Essentials accreditation and are in the process of preparing a revised application.

**48.** SPS has also been rejected for Public Services Network (PSN) accreditation. PSN compliance is a way to report security arrangements. It is how a public body demonstrates that their organisation's security arrangements, policies and controls are sufficiently rigorous for the Cabinet Office to allow the public sector body to interact with the PSN and those connected to it.

**49.** With the ever growing cyber risks faced, SPS should ensure that it is meeting the minimum requirements set out in the Public Sector Cyber Resilience Framework (PSCRF).

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## Recommendation 7

SPS should ensure that they are demonstrating strong cyber security. This involves ensuring they are complying with the Public Sector Cyber Resilience Framework by obtaining Cyber Essentials.

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## SPS needs to strengthen its IT Strategic Planning and Service Delivery

**50.** To help deal quickly and successfully with any disaster or cyber attack, an organisation needs to have a tried and tested Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). While these are in place for each of the prisons, there is no corporate BCP or DRP in place that covers all IT applications and key services provided by SPS. A corporate BCP and DRP would help provide assurance that SPS will be able to recover quickly from any event that stops day-to-day operations. It is therefore important that both plans are created and tested, with arrangements approved by senior management.

**51.** As noted above, there continues to be a significant risk of cyber-attacks to public bodies. This makes it even more important that SPS ensures it has appropriate policies and procedures in place, should an attack or other disaster occur. SPS carries out a regular back-up of its files, however we identified that a periodic inventory is not taken to verify the maintenance and testing of backup files to confirm that data and systems can be recovered timeously in the event of a disaster.

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## Recommendation 8

SPS needs to strengthen its IT strategic planning. This includes:

- creating a corporate Business Continuity Plan and Disaster Recovery Plan that is approved by Senior Management and tested regularly to ensure that they remain fit for purpose
  - undertaking a periodic inventory to verify the maintenance and testing of backup files. Testing of data regeneration should also be carried out on a regular basis.
- 

## Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**52.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**53.** SPS has a Fraud Response Group (FRG) that reviews and reports on any identified frauds. The FRG prepare an Annual Report that is presented to the Risk Monitoring and Audit Committee (RMAC) each year. We reviewed the report, alongside the Whistleblowing and Fraud Prevention policies. From this review we concluded that SPS has adequate arrangements in place to prevent and detect fraud or other irregularities.

## Capacity of the Financial Policy and Services department

**54.** We reported in our Annual Audit Plan that SPS's Finance Policy and Services Department is currently operating under capacity. This continues to be the case, with the department relying on a small number of key members of staff.

**55.** As noted in [paragraph 34](#), the delayed provision of the annual report and accounts presented a significant challenge to the audit team. While we acknowledge and appreciate the hard work of the Financial Policy and Services department to facilitate the audit, the team is operating below capacity and this is putting a strain on all members of the finance team.

**56.** While we didn't identify any concerns over the skill or capability of staff in the department, current resourcing levels are below establishment and unsustainable. We do have concerns regarding the capacity of the department to effectively deliver its day-to-day functions going forward, including its responsibilities in delivering its annual report and accounts.

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## Recommendation 9

SPS should review resourcing within the Financial Policy and Services department to ensure that it can function properly and effectively.

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## National Fraud Initiative

**57.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SPS took part in the current exercise which identified 60 very high risk matches across the organisation.

**58.** SPS has made limited progress in investigating these matches, with only two matches being processed as of the end of July 2023. SPS need to ensure that all relevant matches are investigated in line with NFI requirements.

## Internal audit operates in line with PSIAS

**59.** SPS' internal audit function is carried out by the Scottish Government Directorate for Internal Audit and Assurance. Our Scottish Government external audit team have completed a central review of the Scottish Government's Internal Audit function. This review concluded that they did not find any areas of significant non-compliance with Public Sector Internal Audit Standards (PSIAS).

**60.** The annual assurance opinion provided by internal audit for SPS in 2022/23 is that 'reasonable assurance' can be provided. This represents an improvement on the previous year which was limited. Reasonable assurance is described in internal audit's 'Annual Assurance Report' as meaning that *'some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and / or control procedures in place but not of a significant nature'*.

**61.** We considered internal audit's reports and findings as part of our work to provide assurance over the wider audit dimensions covered in this report.

# 3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## Conclusion

SPS faces a challenging financial position and this is likely to continue for the foreseeable future.

Increased funding has been made available through the 2023/24 Scottish Government budget, but a resource funding shortfall is forecast and SPS has over committed in its capital budget.

Limited progress was made during 2022/23 to develop a medium-term financial strategy due to staffing pressures.

62. [Exhibit 5](#) sets out the wider scope risks relating to financial sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 5

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

| Audit risk  | Assurance procedure  | Results and conclusions  |
|---|--|--|
| SPS faces a challenging financial position and this is likely to continue for the foreseeable future. Financial pressures arising from issues such as higher energy costs, inflationary pressures on contracts and pay awards, as well as an anticipated flat cash allocation from the Scottish Government until 2026/27, represents a significant challenge for SPS. | <ul style="list-style-type: none"> <li>Internal Audit Review of SPS response to Fiscal Challenges has been carried out which identified good practice but also areas for improvement.</li> <li>The budget paper that is prepared for the Advisory Board (AB) also highlights cost pressure areas.</li> <li>The monthly monitoring reports, both to the Scottish Government and the SPS Executive Management Group</li> </ul> | <p>We found:</p> <ul style="list-style-type: none"> <li>Our review of the SPS response to Fiscal Challenges confirms that SPS is considering their financial position and the challenges they need to address in the coming years.</li> <li>We reviewed the budget monitoring controls in place in SPS. We found that the budgetary controls are well designed and operate effectively,</li> </ul> |

| Audit risk | Assurance procedure        | Results and conclusions  |
|------------|----------------------------|--|
|            | (EMG) throughout the year. | <p>providing a strong control environment.</p> <ul style="list-style-type: none"> <li>Funding from the Scottish Government of £540.8 million has been included in the 2023/24 budget. This represents increased funding of 13.5 per cent. Despite this, a resource funding shortfall is still forecast and SPS has over committed on its capital budget for the year.</li> <li>The creation of a medium-term financial strategy is ongoing.</li> </ul> <p><b>Conclusion:</b> SPS needs to strengthen its arrangements for assessing its financial sustainability. The development of a Medium-Term Financial Strategy (MTFS) should be a priority for SPS.</p> |

### Increased funding has been made available through the 2023/24 Scottish Government budget, but this is forecast to be insufficient

**63.** SPS's Board were provided with an updated on the 2023/24 budget in March 2023. The Scottish Government's budget for SPS in 2023/24 has been set at £540.8 million, split between fiscal resource (£398.6 million), non-cash (£45.2 million) and capital (£97.0 million). The budget represents an increase of 13.5 per cent compared to the 2022/23 budget bill (£476.4 million).

**64.** Despite the increased funding, SPS are forecasting a shortfall of £19.5 million in relation to its resource budget. SPS is seeking additional funding to address the over commitment of budget allocation. If funding does not become available, then there will be a requirement to delay expenditure into 2024/25. In addition, SPS has over committed on its capital budget allocation for 2023/24 by £11 million.

**65.** SPS's capital budget includes planned infrastructure works at HMP Highland, HMP Glasgow and HMP & YOI Stirling. If additional funding does not become available there will be a requirement to delay capital expenditure into subsequent years. This will potentially delay the impact that future projects aim to have in maintaining and improving the quality of the prison estate.

## Limited progress has been made in the development of a medium-term financial strategy

**66.** The previous auditors recommended that SPS should prioritise the development of a realistic medium term financial strategy. While SPS accepted the recommendation and consider it a priority limited progress was made during 2022/23. Management has advised that this was primarily due to resourcing challenges within the finance team. It is important that SPS quicken the pace of the development of the MTFS. Such a strategy is important for effective decision making as it allows the organisation to assess and balance the financial implications of policies with constraints in available funding.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy that sets priorities for improvement. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

SPS has a clear vision and strategy and is in the process of updating its Corporate Plan.

Governance arrangements are appropriate, however improvements should be made to improve openness and transparency.

A number of key governance and policy documents are out of date and require review. This includes the Framework Agreement between SPS and Scottish Ministers.

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## SPS has a clear vision and strategy

**67.** The refreshed Corporate Plan 2019-22 was published on 5 April 2019. SPS extended the life of the Corporate Plan by one year to facilitate longer-term alignment with the Scottish Government's Vision for Justice in Scotland.

**68.** The 2023-28 Corporate Plan has been approved. It sets out SPS's strategic intent, objectives and the priorities for the organisation going forward. This will be supported by five annual delivery plans.

**69.** The 2023-24 Annual Delivery Plan has also been approved. The 2022/23 Delivery Plan was produced to bridge the year between the 2019-22 and the 2023-28 Corporate Plans. The intention being that 'Year 1' commitments in the Scottish Government's Vision for Justice could be translated into SPS delivery in the short term, while longer-term delivery targets could be reflected in the SPS Corporate Plan 2023-28.

**70.** We will consider the updated Corporate Plan and the annual delivery plans as part of our future audit work.



## **Governance arrangements are appropriate, however improvements should be made to improve openness and transparency**

**71.** SPS's governance arrangements are set out in the Governance Statement within the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

**72.** SPS is governed by the Advisory Board, the Risk Monitoring and Audit Committee (RMAC) and the Executive Management Group (EMG). Minutes for Advisory Board meetings, including financial and performance information and details of decisions made, are available on the SPS website.

**73.** RMAC minutes are not published online. Our audit work also identified one instance in year where minutes were not taken. Management should ensure that minutes are taken for all meetings of the main governance forums, and we recommend making the approved minutes of all RMAC meetings available online.

**74.** The EMG gives collective consideration and leadership to the business of SPS, taking decisions and advising the Advisory Board and/or the Chief Executive as required. The EMG meets once a month, however no minutes are taken for these meetings. For openness and transparency, minutes should be taken for every EMG meeting to allow any discussion and decisions to be documented.

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### **Recommendation 10**

The SPS should increase the openness and transparency of its governance by:

- making the approved minutes of all RMAC meetings available online
  - ensuring that minutes are taken for all meetings of the Executive Management Group.
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### **The Framework Agreement between SPS and Scottish Ministers should be reviewed**

**75.** SPS has a Framework Agreement with Scottish Ministers. The document sets out the terms of an agreement between SPS and Scottish Ministers in relation to the governance, financing and operation of the functions of SPS. The agreement is a statement of intent, agreed jointly.

**76.** The Framework document is required to be updated in consultation with Scottish Ministers at least every five years. The current version of the document is dated 2016 and is therefore overdue for review and update. We understand that the scheduled review was delayed due to the impact of the Covid-19 pandemic.

**77.** Our audit work also highlighted a number of other important policy documents that are out of date and should be updated. These include the Code of Conduct, the Fraud Prevention Policy, Gifts and Hospitality, Protecting Personal Data Policies, Record Management Plan and the Whistleblowing policy.

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## Recommendation 11

SPS should review and update all key policy documents, including its Framework Document with Scottish ministers, to confirm that they remain relevant.

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### Climate change arrangements

**78.** The Scottish Parliament has set a legally binding target for Scotland to become net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**79.** SPS has a corporate emissions net zero target by 2045. SPS does not currently have a climate change strategy or action plan which sets out how they intend to achieve this target. However, there is a 'Key Element' of the SPS Corporate Action '*Corporate strategic development; become a data analysis and evidence-driven organisation*' to develop and implement a refreshed Climate Change strategy for SPS'.

**80.** SPS monitors and reports progress to meeting its emissions targets internally through their Annual Performance Report and their Corporate Plan and externally through their Public Bodies Climate Change Duties (PBCCD) Annual Report.

**81.** Climate change is also reported in the Governance Statement of the Annual Report and Accounts. The narrative includes addressing the challenge ahead with a commitment and funding to develop a framework for delivery and reporting net zero goals.

**82.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

SPS has arrangements in place to ensure Best Value but has not yet developed an appropriate framework document to demonstrate this.

SPS increased performance levels during 2022/23 but should consider developing performance targets to support and measure improvement.

There are significant concerns about the performance of the Scottish Courts Custody and Prisoner Escort Services (SCCPES) contract

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## SPS has arrangements in place to ensure Best Value but has not yet developed an appropriate framework document

**83.** Ministerial guidance to Accountable Officers for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**84.** The Scottish Government has deemed it appropriate to focus on five generic themes that define the expectations placed on accountable officers by the duty of Best Value. These are:

- vision and leadership;
- effective partnerships;
- governance and accountability;
- use of resources; and
- performance management.

**85.** Equality and sustainability were also identified as two cross-cutting schemes that a Best Value organisation should embrace across all activities by which they deliver their outcomes.

**86.** It is up to the Accountable Officer to determine how SPS demonstrates that it is delivering Best Value. The strategic focus should be on achieving continuous improvement in performance and outcomes. SPS should also be able to demonstrate through assurance and self-assessment processes how the Best Value attributes and practices are embedded in its normal business processes.

**87.** From the work we have carried out, we are satisfied that SPS has arrangements in place to secure Best Value in public services.

**88.** From our review of the Scottish Government's 'Best Value in Public Services, Guidance for Accountable Officers' we identified no issues in relation to the Best Value themes for SPS. However, SPS should create a document that consolidates the evidence that sets out how the arrangements put in place by the Accountable Officer meets Best Value obligations.

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## Recommendation 12

SPS should create a Best Value framework document that sets out how the arrangements put in place by the Accountable Officer meets Best Value obligations.

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### SPS increased performance levels during 2022/23 but should consider developing performance targets to support and measure improvement.

**89.** SPS continued to monitor key performance indicators throughout the year with performance reported to the Advisory Board on a regular basis.

**90.** Overall performance is improving as demonstrated through information included in the Performance Report within the Annual Report and Accounts. Notable points highlighted include:

- one escape from custody of a prisoner at any supervision level in 2022/23. This was the first such incident since 2017;
- the number of serious prisoner on staff assaults has reduced as has the number of serious prisoner on prisoner assaults;
- the number of vocational and employment related qualifications improved year-on-year but remained below pre-covid levels; and
- the average cost per prisoner place increased to £44,620 per year. This excludes capital charges, exceptional payments and the cost of the Court Custody and Prisoner Escort contract.

**91.** We do note that performance information on some KPIs has not been obtained or published in the annual report and accounts. For example, no data is available for the KPIs on 'Employability Prospects Increased' and 'Reduced Substance Abuse'. This was in part due to testing not being undertaken while covid restrictions were in place. SPS should review these indicators to ensure they remain relevant.

**92.** We note that the previous auditors raised a recommendation to refresh the KPIs reported and understand that a revised suite of KPIs is currently under development.

### **There are significant concerns about the performance of the Scottish Courts Custody and Prisoner Escort Services (SCCPES) contract**

**93.** SPS manages the Scottish Courts Custody Prisoner Escort Services contract on behalf of the Justice Multi Agency Liaison Group (MALG) which includes SPS, Scottish Courts and Tribunals Service, Crown Office and Procurator Fiscal Service and Police Scotland. Over the last year, three separate contract improvement notices were issued to the operator, GEOAmev, due to poor performance. GEOAmev has reported that changes in service requirement post-Covid has made the contract financially unsustainable, largely due to the increase in court activity. SPS and GEOAmev are currently working to recalibrate the contract to ensure it is viable and sustainable over its remaining term.

**94.** There are several risks associated with the poor performance of this contract including the impact on prisoner welfare, reputational risk to SPS and the ability to deliver an effective service and achieve value for money. It is important that SPS, along with their partners in the MALG and the Scottish Government, work to ensure that the performance of the prisoner escort contract improves and value for money is achieved.

### **Delivering and maintaining a prisons estate that is fit-for-purpose remains challenging**

**95.** In November 2022, His Majesty's Inspectorate of Prisons for Scotland (HMIPS) published an inspection report on HMP Addiewell. The report identified that the prison 'struggles to provide the basics of a safe controlled environment' and highlighted concerns around staffing. The report made 126 recommendations for the private operator to address. In addition, the prison was subject to an enforcement notice by the Scottish Fire & Rescue Service because of safety concerns following an in-cell fire in December 2022. More recently, in July 2023, HMIPS published an inspection report on HMP Greenock. The report highlighted a number of positive findings but did raise concerns about the fabric and condition of buildings, concluding that it is 'ill-suited' to the demands of a modern prison system.

**96.** Looking ahead, SPS capital investment programme included plans for new prison facilities in Glasgow (to replace HMP Barlinnie) and Inverness (HMP Highland). The HMP Glasgow project has not yet been formally approved, but estimated costs have risen from £100m in 2014 to £400m in November 2022 with further significant increases possible. Scottish Ministers are due to consider the project's business case, including estimated costs, in November 2023. In its 2019 inspection report HMIPS considered HMP Barlinnie to be 'physically no longer fit-for-purpose to manage the size and complexity of the population it routinely holds'. A replacement to HMP Barlinnie is therefore viewed as essential to ensure the effective operation of the prison system in Scotland.

**97.** HMP Highland is expected to be operational in June 2025 with an estimated cost of £139.5 million. Latest forecasts are at least £29.5 million more than the original cost estimate with a completion date around one year later. This has been attributed to redesign works to meet revised operational requirements and new carbon emission targets.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

| Issue/risk   | Recommendation  | Agreed management action/timing  |
|--|---|--|
| <p><b>1. PFI model corrections</b></p> <p>The PFI models for HMP Addiewell and HMP Kilmarnock were not updated in line with RPI, as set out in their contracts. This was corrected, which required a £67.056 million increase to the commitment for the service element due in future periods for 2022/23 and £70.437 million in 2021/22.</p> <p><b>Risk</b> – There is a risk that the PFI commitment recognised in the notes to the financial statement is materially misstated.</p> | <p>SPS should update the PFI model for HMP Addiewell annually. This will ensure that any future commitment is accurately reflected in the financial statements.</p> <p><a href="#">Paragraph 18</a></p>   | <p>The PFI Model has been changed and simplified for the 2022-23 audit. The models going forward shall be reviewed on a regular basis to account for material changes in circumstances so that the commitments are appropriately accounted for.</p> <p><b>Director of Finance</b><br/><b>September 2023</b></p>  |
| <p><b>2. Ex-gratia payments</b></p> <p>Our testing of ex-gratia claims identified errors in five out of 15 claims. There was very limited evidence of authorisation or approval in any of the items sampled.</p> <p><b>Risk</b> – There is a risk that erroneous ex-gratia payments are being paid to employees working over their contracted hours.</p>   | <p>SPS should undertake a full review of the authorisation, approval and submission process for ex-gratia claims by employees working over their contracted hours to ensure that appropriate controls are operating and can be evidenced.</p> <p>All under and over payments should also be paid or recovered as appropriate.</p> <p><a href="#">Paragraph 22</a></p> | <p>Policy Owners have confirmed that SPS will continue to use the current Ex Gratia payment process until such time as the new integrated HR transformation system is in place. This is scheduled to be 1st August 2024.</p> <p>In conjunction with Policy Owners, the Operations Directorate will reinforce mandatory assurance processes surrounding ex gratia claim process, improving upon guidance to Managers and seeking to</p> |



| Issue/risk   | Recommendation  | Agreed management action/timing  |
|--|---|--|
|  |   | <p>standardise the approach to increase effectiveness.</p> <p>A Notice to Staff will be issued by Policy Owners in October 2023 re-affirming this position. The Operations Directorate will confirm further Internal Audit procedures to sample check claims over coming months to provide assurance to the Director and EMG that improvements are evidenced.</p> <p><b>Director of Operations</b><br/><b>3<sup>rd</sup> Quarter 2023-24</b></p> |
| <p><b>3. Indexed Assets</b></p> <p>The SPS does not review the changes in value as a result of indexation. Material changes should be reviewed and an official valuation should be carried out on any assets that have material changes to their value.</p> <p><b>Risk</b> – There is a risk that the carrying amount of indexed assets differ materially from the current value.</p>  | <p>SPS should update their accounting policy for Property Plant and Equipment to establish a working definition of what constitutes a material difference between the carrying amount and current value of an asset. Any asset value changes from indexation that breach the material difference should then be subject to an official revaluation carried out by their valuer.</p> <p><a href="#">Paragraph 24</a></p> | <p>The accounting policy has been updated for a change in approach in the valuation of assets. This will include a detailed desktop review each year of specialised assets that are not being valued as part of the quinquennial cycle of asset valuations.</p> <p><b>Director of Finance</b><br/><b>September 2023</b></p>  |
| <p><b>4. Annual Report compilation process</b></p> <p>A number of disclosures in the Performance Report, Directors' Report, Governance Statement and Remuneration Report were found not to be in compliance with the FReM. Management have now included all relevant disclosures but should review arrangements for preparing the annual report in future years.</p> <p><b>Risk</b> – There is a risk that the audited sections of the</p> | <p>SPS should implement a process to support the preparation and review of the annual report to ensure full compliance with applicable sectoral requirements prior to submitting for external audit.</p> <p><a href="#">Paragraph 30</a></p>  | <p>Additional key senior finance resources have been recruited to address the issue. Various components of the annual reports going forward shall be reviewed to comply in full with the FReM.</p> <p><b>Director of Finance</b><br/><b>December 2023</b></p>  |



| Issue/risk  | Recommendation   | Agreed management action/timing   |
|---|--|---|
| <p>Annual Report are not FReM or SPFM compliant.</p>  |  |   |
| <p><b>5. Journal Authorisation</b></p> <p>The current policy for authorisation of journals in the Finance Policy and Guidance Manual is too limited.</p> <p><b>Risk</b> – Without journal authorisation, there is a risk that inappropriate or incorrect journals are entered into the general ledger.</p>  | <p>When SPS are updating their Finance Policy and Guidance Manual, the journal authorisation policy should be updated and expanded to ensure that the requirements for authorisation cover a wider range of situations.</p> <p><a href="#">Paragraph 41</a></p>  | <p>SPS is planning to move to a cloud version of the finance system in 2024. Chapter 19 of the finance policy and guidance manual “Journal Entries”, will be reviewed with feasible changes to the authorisation process to be consistent with the cloud system processes.</p> <p>In the meantime, the Finance team will review the material journals processed throughout the Service on a quarterly basis from Quarter 3 2023-24.</p> <p><b>Director of Finance</b><br/><b>3<sup>rd</sup> Quarter 2023-24</b></p>   |
| <p><b>6. Strengthening of Payroll Controls</b></p> <p>As part of our testing, we identified a number of improvements that should be made to the payroll control environment. These covered exception report, employee verification and a cumulative ledger to payroll reconciliation.</p> <p><b>Improvement</b> – In making these improvements, SPS will strengthen their payroll controls to better prevent and detect material misstatements.</p> | <p>SPS should strengthen controls in relation to payroll by:</p> <ul style="list-style-type: none"> <li>• Creating an exception report that compiles all variances and reasons. This should be reviewing on a monthly basis</li> <li>• Implementing an employee verification exercise to provide assurance that the payroll listing is complete and accurate</li> <li>• Undertaking a cumulative general ledger to payroll system reconciliation at the year end.</li> </ul> <p><a href="#">Paragraph 43</a></p> | <p>1) With effect June 2023 (2023/24, period 03), a master exception report is in use for each pay period and reasons are recorded against variances that are +/- 20% from previous month's net pay.</p> <p>From period 07 (October 2023) we will introduce a further step to enhance the controls in place. The master exception report will be reviewed by Pay Team Leaders or the Payroll Manager, who will record their satisfaction that all exceptions have an acceptable reason recorded against them.</p> <p>New digital tools have improved the ability of the Pay Team to work collaboratively, negating the need to use anything other</p> |

| Issue/risk   | Recommendation   | Agreed management action/timing   |
|--|--|---|
|  |  | <p>than a master document, which should only ever be held in a shared workspace.</p> <p><b>Head of Human Resource</b><br/><b>October 2023</b></p> <p>2) Pay Team will run a 'leavers' report from our HR system prior to the processing of each monthly pay run. The detail of any 'leavers' from the last date of the previous month will be reconciled against pay data to ensure no payments are being made to 'leavers' that are unnecessary.</p> <p><b>Head of Human Resource</b><br/><b>October 2023</b></p> <p>3) Pay Team will be working in collaboration with Finance colleagues to develop appropriate mechanisms in which to assure the data on an ongoing basis, resulting in a year end cumulative reconciliation.</p> <p>This may require the assistance of our Payroll provider to determine what reports from the Pay System would best support this aim.</p> <p><b>Head of Human Resource</b><br/><b>Target date to be confirmed following collaboration with Finance Team.</b></p> |
| <p><b>7. Cyber Essentials</b></p> <p>SPS does not have cyber essentials and is currently not meeting the requirements set out by the Public Sector Cyber Resilience Framework.</p> <p><b>Risk</b> – SPS is not sufficiently protected against common online threats.</p> | <p>SPS should ensure that they are demonstrating strong cyber security. This involves ensuring they are complying with the Public Sector Cyber Resilience Framework by obtaining Cyber Essentials.</p> <p><a href="#">Paragraph 49</a></p> | <p>SPS reports quarterly on the Cyber Resilience Framework and updated the SPS EMG in July 2023 on status.</p> <p>Cyber Essentials accreditation is part of the SPS Digital Services 2023-24 Annual Delivery Plan which is reviewed quarterly.</p>  |

| Issue/risk   | Recommendation  | Agreed management action/timing   |
|--|---|---|
|  |   | <p>SPS is working through the remediation plan from the 2022 Penetration Test to meet Cyber Essentials accreditation. This requires key changes to infrastructure and user policy applications across SPS' IT infrastructure. Progress is monitored through the Technical Assurance Group and the Cyber Security Forum.</p> <p><b>Head of Digital Services</b><br/><b>4<sup>th</sup> Quarter 2023-24</b></p>  |
| <p><b>8. IT Strategic Planning</b></p> <p>SPS does not have a central Disaster Recovery Plan and Business Continuity Plan. In addition to this, they do not regularly verify and test the back ups of files.</p> <p><b>Risk</b> – In the face of an event that stops day to day operations, SPS risks data loss, additional expenses and reputational damage due to not having these plans in place.</p> | <p>The SPS needs to strengthen its IT strategic planning. This includes:</p> <ul style="list-style-type: none"> <li>• Creating a corporate Business Continuity Plan and Disaster Recovery Plan that is approved by Senior Management and tested regularly to ensure that they remain fit for purpose.</li> <li>• Undertaking a periodic inventory to verify the maintenance and testing of backup files. Testing of data regeneration should also be carried out on a regular basis.</li> </ul> <p><a href="#">Paragraph 50</a></p> | <p>A Disaster Recovery (DR) Planning workshop is scheduled for October 2023. Digital Services has commissioned a formal DR plan and policy review to follow.</p> <p>A Critical Incident Response (CIR) business case is pending approval to support SPS Digital Services response to a cyber incident. A board workshop on disaster recovery/cyber incident will follow the DR workshop.</p> <p><b>Head of Digital Services</b><br/><b>4<sup>th</sup> Quarter 2023-24</b></p> |
| <p><b>9. Finance Capacity</b></p> <p>The Finance Policy and Services Department is currently operating under capacity, with an over-reliance on key members of staff. The additional work carried out by the Department</p>  | <p>SPS should review resourcing within the Financial Policy and Services (FP&amp;S) department to ensure that it can function properly and effectively.</p> <p><a href="#">Paragraph 56</a></p>   | <p>Additional key senior finance resources have been recruited to better equip the department to deal with the operating requirements of the service. A new FP&amp;S structure is being prepared and will be presented to the EMG in November 2023 for approval.</p>  |

| Issue/risk  | Recommendation  | Agreed management action/timing   |
|---|---|---|
| <p>to keep the Department operating is not maintainable.</p> <p><b>Risk</b> – The Finance Policy and Services Department is under-resourced and cannot operate properly or effectively.</p>   |   | <p><b>Director of Finance</b></p> <p><b>November 2023</b></p>   |
| <p><b>10. Improving openness and transparency</b></p> <p>RMAC minutes are not published online. In addition to this, no minutes are taken for the EMG meetings.</p> <p><b>Risk</b> – The SPS is not being fully open and transparent.</p>                             | <p>The SPS should increase the openness and transparency of its governance by:</p> <ul style="list-style-type: none"> <li>• Making the approved minutes of all RMAC meetings available online</li> <li>• Ensuring that minutes are taken for all meetings of the Executive Management Group.</li> </ul> <p><a href="#">Paragraph 73</a></p> | <p>An action log is taken at EMG meetings and we will take forward discussions regarding possible dissemination of a fuller minute.</p> <p>SPS Advisory Board minutes are routinely published on the SPS website and contain a summary update of RMAC activity from the Chair.</p> <p>We will actively consider the publication of RMAC minutes in conjunction with the RMAC Chair.</p> <p><b>CEO Office</b></p> <p><b>4<sup>th</sup> Quarter 2023-24</b></p> |
| <p><b>11. Policy review, including Framework Document</b></p> <p>A number of key policy documents are overdue for review</p> <p><b>Risk</b> – Key policy documents may be out of date and no longer relevant.</p>   | <p>SPS should review and update all key policy documents, including its Framework Document with Scottish Ministers, to confirm that they remain relevant.</p> <p><a href="#">Paragraph 77</a></p>   | <p>An update to the SG/SPS Framework Document is in development consistent with the template provided by the Scottish Government public bodies unit. It will be sent to SPS Directorates for internal consultation imminently.</p> <p><b>CEO Office</b></p> <p><b>4<sup>th</sup> Quarter 2023-24</b></p>  |
| <p><b>12. Best Value Document</b></p> <p>SPS do not currently have a document that consolidates the evidence that the Accountable Officer is fulfilling its obligations in relation to Best Value</p> <p><b>Risk</b> – The Accountable Officer cannot demonstrate</p> | <p>SPS should create a Best Value document that sets out how the arrangements put in place by the Accountable Officer meets the Best Value obligations.</p> <p><a href="#">Paragraph 88</a></p>   | <p>Recommendation accepted. SPS will develop a Best Value document, describing arrangements for meeting the relevant obligations.</p> <p><b>Deputy Chief Executive</b></p> <p><b>4<sup>th</sup> Quarter 2023-24</b></p>   |

| Issue/risk  | Recommendation | Agreed management action/timing |
|---|----------------|---------------------------------|
| they are fulfilling their Best Value obligations. |                |                                 |

## Follow-up of prior year recommendations

| Issue/risk  | Recommendation  | Agreed management action/timing  |
|---|---|--|
| <p><b>1. Financial Sustainability</b></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><b>Risk</b> –There is a risk that will not be able to deliver and finance its services.</p> | <p>SPS should prioritise the development of realistic medium term financial strategy.</p> | <p><b>In Progress</b></p> <p>The development of a financial strategy is a key objective for SPS. Progress in developing a medium-term financial strategy (MTFS) during 2022-23 was severely impacted with the resignation of a number of senior financial resources. This significantly reduced the capacity of the finance function.</p> <p>The development of a MTFS will be a priority during 2023-24 to ensure that SPS is able to identify an operational and strategic financial approach to best respond to the challenges outlined in the Resource Spending Review.</p> <p><b>Director of Finance</b><br/><b>4th Quarter 2023-24</b></p> |
| <p><b>2. Kilmarnock PFI contract</b></p>  | <p>In the context of an overall flat cash settlement for the</p>                          | <p><b>In Progress</b></p>  |

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| <p>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.</p> <p><b>Risk</b> – There is a risk that upon the transfer of PFI ownership the prison operations and services at Kilmarnock will become disrupted.</p>  | <p>Prison Service, more needs to be done to establish and plan for the financial, operational and strategic risks associated by this transfer.</p> | <p>The project to return the operation of HMP Kilmarnock to SPS is on target to meet the planned delivery dates.</p> <p>Funding for the project in 2023-24 is secured and the required funding for 2024-25 will be included in the SPS financial planning discussions with the Scottish Government in the autumn of 2023.</p> <p><b>Director of Finance</b><br/><b>December 2023</b></p>   |
| <p><b>3. Capital programme</b></p> <p>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, 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><b>Risk</b> – There is a risk that the capital investment and maintenance programmes are not delivered impacting negatively on SPS operations.</p> | <p>SPS should develop a capital and maintenance plan to address the needs of the estate and assess capability to deliver their capital plan.</p>   | <p><b>In Progress</b></p> <p>The underspends in recent years have largely been a result of the construction industry being affected by the pandemic and the transition of the UK's withdrawal from the European Union.</p> <p>The effects of these issues are 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 the Scottish Government 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 establishments.</p> <p>The proposed recruitment of a capital accountant will provide a resource to improve budget scrutiny and planning. This resource will also work with the departments and establishments in SPS to develop an asset</p> |



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|  |  | <p>maintenance and replacement strategy.</p> <p>The attempt to recruit a capital accountant, however, was unsuccessful. The role is now being reevaluated to enhance the grade of the role being advertised.</p> <p>Challenges around the recruitment of Professional &amp; Technical staff remain an impediment to meeting the demands of the capital programme. The demands of the replacement prison programme are also impacting on the availability of resources (both estates personnel &amp; funding) to deliver the existing estates capital programme.</p> <p>To improve the efficiency and effectiveness of capital expenditure, budgets were issued prior to the commencement of the financial year. The development of an estates strategy is a key goal in the corporate plan.</p> <p><b>Director of Finance</b><br/><b>March 2024</b></p> |
| <p><b>4. Workforce planning</b></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</p> | <p>To produce an effective workforce strategy.</p> <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> | <p><b>In Progress</b></p> <p>During 2024 SPS will develop a workforce strategy which considers the current and future needs of the organisation and the steps we need to take to ensure our staffing profile and skill set meet those needs.</p> <p><b>Head of Human Resource</b><br/><b>September 2024</b></p> <p>SPS has carried out a review of the use of the civil service compensation scheme. As a</p>   |

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| <p>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><b>Risk</b> – 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 to compensation payments and that the governance arrangements are not appropriate.</p> |  | <p>result of this review a new panel will be established to consider cases.</p> <p><b>Head of Human Resource</b><br/><b>January 2024</b></p>   |
| <p><b>5. IT Controls</b></p> <p>The following control weaknesses were identified and not addressed at the previous reporting date:</p> <ul style="list-style-type: none"> <li>• SPS is not fully aware of the personal information held.</li> </ul> <p>Risk – Risk of non-compliance with GDPR;</p> <ul style="list-style-type: none"> <li>• Unsupported systems are more vulnerable to cyber-attacks; and</li> <li>• Risk to loss of information if systems were to become corrupt and a viable back up is not available.</li> </ul>  | <p>A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold.</p>                               | <p><b>In Progress</b></p> <p>SPS Digital Services has backup of on-premise systems with offsite storage through its data centres. Cloud backup of its O365 operating platform has a 30 day-limit.</p> <p>Digital Services has drafted a business case for cloud backup pending approval.</p> <p>Digital Services will implement a quarterly backup review programme for implementation and an annual data restore.</p> <p><b>Head of Digital Services</b><br/><b>4th Quarter 2023-24</b></p> |
| <p><b>6. Ex-gratia claims</b></p> <p>Our testing of ex gratia claims identified five out of ten claims could not be</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</p> | <p><b>Superseded.</b></p> <p>Please see 2022/23 recommendations point 2.</p>   |



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| <p>reconciled back to source documentation.</p> <p>There is a risk of error and duplicate payments being made despite the checks being undertaken by line managers and senior line managers.</p> <p><b>Risk</b> – There is risk that erroneous ex gratia payments are paid.</p>   | <p>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><b>7. Internal Audit</b></p> <p>AAU progress reporting to the RMAC in year did not provide a sufficiently clear link back to the annual plan, in part as a result of the significantly high number of audits taking place.</p> <p>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><b>Risk</b> – 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>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><b>Complete</b></p>          |

| Issue/risk  | Recommendation   | Agreed management action/timing   |
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| <p>There is a further risk that the work undertaken by AAU is not sufficiently targeted to address the risks and meet the needs of the business.</p>  |  |   |
| <p><b>8. Financial Management</b></p> <p>SPS' 13 Finance Managers are directly accountable to the Operations Directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office. Limited assurance financial control reviews were identified by internal audit in 2016/17.</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><b>In Progress</b></p> <p>HQ Finance has provided resource to mentor a number of Finance Managers. Tri-Directorate work is on-going regarding the management and performance assessment of Finance Managers in prisons.</p> <p>SPS has implemented a number of actions:</p> <ol style="list-style-type: none"> <li>1. A series of pre-audit support visits were instigated and undertaken by a member of the Audit and Assurance Unit.</li> <li>2. A quarterly finance managers' meeting has been formalised.</li> <li>3. To further support the management of finances throughout establishments, two mentoring programmes have been established. One for newly appointed Finance Managers and one for Accounts.</li> </ol> <p>A corporate job description has also been introduced. This outlines the need for a minimum of an HND Accountancy or equivalent qualification.</p> <ol style="list-style-type: none"> <li>4. The CEO has instructed a Finance Structure Review (FSR) be undertaken, led by a member of the CEO's Office. This action is underway with a project plan</li> </ol> |

| Issue/risk   | Recommendation   | Agreed management action/timing  |
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|  |  | <p>being devised and critical dates identified.</p> <p>As part of a planned review of support service functions, an integrated unified finance structure is being considered.</p> <p><b>Director of Finance</b><br/><b>March 2025</b></p>  |
| <p><b>9. Value for Money</b></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 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>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><b>In Progress</b></p> <p>SPS has recently published its Corporate Plan for 2023-28. An exercise is underway to review the current KPIs in light of the strategic direction described in that plan.</p> <p>SPS will develop and agree an initial set of KPIs with the Scottish Government as part of the update of the Framework Agreement and will then continue to review and refine these over the life of the Corporate Plan.</p> <p><b>Deputy Chief Executive</b><br/><b>December 2023</b></p> |
| <p><b>10. SPS Finance Policy and Manual</b></p> <p>There is risk that the SPS Finance Manual does not reflect up to date practices, which could result in inconsistent and/or inappropriate procedures and controls being operated.</p>  | <p>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><b>In Progress</b></p> <p>Financial Policy and Services will continue the work undertaken to date in updating and reviewing the SPS Finance Manual. This will include the establishment of an annual review meeting to identify areas of the finance manual to be reviewed in the next financial period.</p> <p><b>Director of Finance</b><br/><b>February 2024</b></p>   |

# The Scottish Prison Service

## Annual Audit Report 2022/23

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