

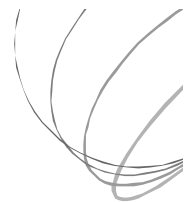
Scottish Prison Service

Report on the 2005-06 Audit

8 September 2006



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds



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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Scottish Prison Service (SPS) which included looking at aspects of performance management and governance. This report sets out our key findings. At the planning stage we identified risks associated with SPS meeting its business objectives, which informed our audit procedures. From our audit and review work we can conclude that these risks are being satisfactorily managed by the SPS.

Financial Statements

We have given an unqualified opinion on the financial statements of the SPS for 2005-06.

Governance

SPS's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

Our review confirmed that management monitor the achievement of key business targets and that assurance arrangements are in place in relation to the systems and information to support this. SPS's met its key *financial* target of keeping the cost per available prisoner place within £35,000. It also met 5 out of the remaining 6 targets for 2005-06, the exception being prisoners testing as clear of the use of drugs.

During 2005-06 we completed a baseline analysis of the SPS management arrangements for achieving Best Value, which found that many of the features of Best Value were embedded in SPS arrangements. Overall, we assessed the SPS arrangements to secure Best Value as being well developed.

We also carried out a baseline review of SPS arrangements for monitoring the Efficient Government Initiative. This noted that SPS's culture is to look for efficiency savings year on year with the efficiency targets built into future budget settlements, rather than, for example, through tracking specific projects or work streams, as is the case with some other bodies. On that basis, the review concluded that SPS had good arrangements for monitoring the Efficient Government initiative.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director, 8 September 2006



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the SPS. The scope of the audit was set out in our Audit Plan, which was submitted to the Risk Monitoring and Audit Committee on 28 February 2006. This plan described the work we planned to carry out on financial statements, governance and performance. We also identified that we would comment on the accounting treatment for the PPP project at Addiewell. Subsequent to agreement of the plan, and as discussed at the Committee meeting of 22 May 2006, we have carried out a baseline review of SPS arrangements for Best Value.
2. This report to management sets out our findings from our audit work. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to the SPS. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Risks Identified in the Audit Plan

5. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. This was documented as part of the planning process and, for completeness, the outcome against planned activity is summarised at Appendix A. Some of the risks and outcomes are considered further in the body of this report. Overall we can conclude from the results of our work on these risks that they are being satisfactorily managed by the SPS.



Financial Statements

Our Responsibilities

6. We audit the financial statements 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, on the state of affairs of the Scottish Prison Service as at 31 March 2006 and of its net cost, recognised gains and losses and cash flows for the year then ended;
- they and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

7. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are inconsistent with the information emerging from our normal audit work.

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of the SPS for 2005-06. We are able to conclude that the financial statements of the SPS give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

9. Following discussion with SPS, it was agreed to revise the planned timetable for the completion of the audit. The audit of the financial statements was completed and reported to the Risk Monitoring and Audit Committee as planned on 7 June 2006. However, the formal signing by the Accountable Officer



and appointed auditor was delayed until September to accommodate the requirements introduced in 2005-06 relating to the publication of the annual report and accounts document.

Financial Performance

10. The SPS's Operating Cost Statement for the year records a total resource cost for the financial year of £280 million (2004-05: £270 million). This total includes notional costs of £16 million (2004-05: £15 million), largely related to cost of capital charges; net depreciation / impairment charges of £37 million (2004-05: £34 million); and costs relating to provision for prisoner compensation and related costs of £10 million (2004-05: £21 million). The capital expenditure for the year was £70 million (2004-05: £73 million).
11. The total outturn (resource and capital) was £350 million against a budget of £356 million. This represented an underspend of £6 million against the capital budget.

Statement on Internal Control

12. A draft Statement on Internal Control was presented to the Audit Committee on 7 June 2006 and signed by the Chief Executive on 7 September 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
13. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

14. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 7 June 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to your attention. Relevant significant judgements and issues arising are recorded below.

Significant Judgements

15. We draw attention to the accelerated depreciation (£6m) and impairment charge (£9m) relating to the prison estate. These adjustments are in line with the estate development plans and accounting



guidance respectively. Since the announcement of the Estates review in September 2002 depreciation has been charged at a significantly higher level than previously, reflecting the judgement that the useful life of the assets will be less than their physical life. The valuations of the Prison Estate prepared by the Valuation Office also reflect the development plans. We note this approach to providing depreciation is a significant judgement on part of the SPS, which appears appropriate in light of the development plans, but should be kept under review.

Issues Arising

16. As a result of a judicial review brought by Robert Napier, the Scottish ministers were found to have acted unlawfully in terms of section 6 of the Human Rights Act 1988 and *ultra vires* in terms of section 57 of the Scotland Act 1998 by acting in a manner incompatible with Article 3 of the European Convention on Human Rights. We have taken some care to evaluate the implications of this ruling for our audit opinion. We concluded that the Human Rights Act is part of the general legal framework within which SPS operates, rather than being specific to the running of prisons. Guidance to auditors indicates that in such circumstances the auditor's regularity opinion should not be qualified and we have adopted this approach.
17. The accounts record an increase in the provision for potential claims and related costs re prison conditions from £49 million to £58 million and an increase in the contingent liability from £24 million to £27 million. Progress has been made in improving prison conditions and in limiting the incidence of circumstances that may give rise to further claims. We concluded that the provision is correct in principle and the quantum is within a zone of reasonableness but there is uncertainty about the value of final costs at this stage. The Auditor General for Scotland has decided to issue a report with the accounts, updating Parliament on this issue.

The accounting treatment for the PPP project at Addiewell

18. On 22 May 2006 I provided Audit Scotland's comments on the "final judgement" on the accounting treatment for the proposed PPP prison at Addiewell. I concurred with the view of SPS and their advisers that the contract should be considered as "off balance sheet" under the relevant accounting guidance. My letter provides the context for this view, which represents the conclusion of an involvement in this aspect of the project since the early stages of the proposed development.



Governance

Introduction

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of the SPS's corporate governance as it relates to:
- systems of internal control; and
 - review of internal audit.

Overall Governance Arrangements

20. During our audit we updated and confirmed our understanding of the governance systems operating at the SPS. Our understanding of arrangements was based on our reviews of systems and controls in previous years, the findings of internal audit, our current year work as noted below and also elements of our baseline review of Best Value arrangements, which is reported in the section of this report covering Performance. In general, we are content that the governance arrangements are soundly based.

Systems of Internal Control

21. We carried out interim systems and controls work in relation to Low Moss, Headquarters and Stock. Detailed findings were reported to management and are summarised below. In addition we note the progress made in implementing recommendations from previous audits.

Low Moss

22. As part of our visit to HMP Low Moss we reviewed systems covering Procurement, Cash and bank, Fixed assets, the PIN Phone system and the Prisoner records (PR2) system. We raised issues locally but are pleased to note that there were no matters of "high" importance arising from the visit.

Headquarters

23. As part of our visit to SPS HQ we reviewed systems including looking at compensation claims by staff and prisoners and legal fees – with satisfactory results. In addition, we conducted a high level review of the hardware services contract implemented by the SPS in 2005/06. We were interested in this contract because, in the central government sector, the presumption is against leasing assets. Our



review concluded that a competitively priced contract was negotiated, with significant transfer of risk. As a result we were content with the proposed operating lease accounting treatment.

Stock

24. As part of our work on stock we visited SPS Central Stores where we conducted stock count checks. No errors were found during our testing of stock levels.

Review of Internal Audit

25. The SPS recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
26. Internal audit is provided by Audit and Assurance Services (AAS). From our review of AAS arrangements, files and reports we are pleased to confirm that we are placing reliance on their work over the period, as was anticipated in our audit plans. We also confirm that the results of audits are accurately reported to the Risk Monitoring & Audit Committee (RMAC) in the "Summary of Audit Activity" reports submitted to RMAC.
27. We note that the Head of AAS reports an overall opinion of a **reasonable** level of assurance, based on the review of the corporate governance and control environment, management of risk and reliance placed on the work of the others providing assurance. It is noted that within the overall opinion of the Head of AAS there were areas in which other providers had limited their assurance. RMAC confirmed that the overall opinion of reasonable assurance was appropriate; and agreed that the current structure of summarising and reporting assurance should be re-assessed.
28. We planned to place formal reliance on the work of internal audit, in terms of International Standard on Auditing 610, on the reviews of payroll, performance management and financial and budgetary controls. We reviewed the reports identified below and were able to take the planned assurance for our financial statements audit. (The following reports were presented to RMAC meetings up to the 6 June 2006):
- Review of performance management framework (2005/19);
 - Review of Payroll, Human Resources Directorate (2005/24);
 - Reviews of Financial Controls and Business Planning, Greenock (2006/02);
 - Reviews of Financial Controls and Business Planning, Perth (2006/02);



- Reviews of Financial Controls and Business Planning, Open Estate (2006/02);
- Reviews of Financial Controls and Business Planning, Directorate of Prisons (2006/02);
- Reviews of Financial Controls and Business Planning, Directorate of Rehabilitation and Care (2006/02); and
- Review of Payroll, Human Resources Directorate (2006/07).

Other issues

29. We also noted the developments on assurance mapping, in particular, that more objectives or processes were to be covered by primary and/ or secondary assurances. We welcome and support these developments. SPS will continue to monitor progress on the development of the assurance framework, including the need for independent assurance that arrangements are working as intended; and that appropriate information is available to senior management and RMAC.
30. Late in the audit year Audit Scotland received correspondence from a “whistleblower”. We raised this matter with SPS in line with our established procedures. SPS investigated the issues raised under their Code of Conduct processes and concluded the concerns raised were unfounded. The investigation was overseen by the SPS Fraud Response Group who reviewed the outcomes and approved the recommendations.



Performance Management

Introduction

31. This section covers our assessment of the way in which the SPS secures value for money in the use of its resources. We have reviewed SPS achievement of targets, including their key financial target, and examined:

- Efficient Government; and
- Best Value.

Achievement of Targets

32. We note that SPS met 6 out of 7 targets for 2005-06. Prisoners testing as clear of drugs were lower than target so that Key Performance Indicator was not met. As identified in Appendix A, the Management Board monitor the achievement of their key business targets via periodic reports and internal audit provide assurance on many aspects of these, together with assurance on the information provided to management to allow monitoring of progress.

33. The Agency's key *financial* target was to keep the cost per available prisoner place within £35,000. The Agency met this target, with an actual annual average cost of £30,338 (2004-05: £29,372). For information purposes Note 24 to the accounts also provides average costs that include prisoner compensation claims and capital charges.

Efficient Government

34. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

35. The SPS has committed to cash releasing savings of £7 million in 2006-07 and £10 million in 2007-08 against a baseline of 2004-05. These savings will be generated from the SPS efficiency programme, involving staffing and structural changes, together with investment in the prison estate.



36. During 2005-06 Audit Scotland completed a diagnostic questionnaire on the management arrangements for Efficient Government activities at a number of Central Government organisations including the SPS. The questionnaire aimed to provide baseline information on arrangements across a range of Efficient Government related topics.
37. The review noted that SPS's culture is to look for efficiency savings year on year, with efficiency targets built into future budget settlements. As a result outturn will be assessed on the overall position rather than through tracking projects or establishing separate arrangements to monitor against the work streams identified in the Efficient Government Initiative. While noting that no analysis by work stream is maintained, overall, we evaluated the SPS's arrangements in this area as good.
38. A position statement reflecting the findings across the sample of public sector organisations examined is being produced by Audit Scotland and we will keep SPS informed of developments.

Best Value

39. There is a statutory duty of Best Value for local authorities but not in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance on Best Value in May 2003, followed by more detailed draft secondary guidance in August 2003. The duty of Best Value can be described as:
 - to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
 - to contribute to the achievement of sustainable development.
40. In May 2005, Ministers decided that they would not bring forward legislation to extend Best Value to the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.
41. For 2005-06 Audit Scotland reviewed the arrangements in place to demonstrate Best Value across a sample of Central Government organisations, to identify how well-advanced they were and any areas of good practice that could be disseminated. As part of this review we completed a diagnostic questionnaire to establish baseline information on the management arrangements in place within SPS. The analysis was split into 10 sections. The introductory section covered the overall arrangements in place. This was followed by individual sections on each of the nine characteristics that are considered to underpin the achievement of best value. These are:



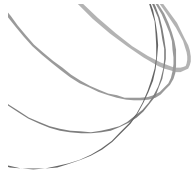
- Commitment and Leadership
 - Sound Governance at a Strategic and Operational Level
 - Accountability
 - Sound Management of Resources and Contractual Relationships
 - Responsiveness and Consultation
 - Use of Review and Options Appraisal
 - A Contribution to Sustainable Development
 - Equal Opportunities Arrangements
 - Joint Working.
42. Overall, we assessed the SPS arrangements to secure Best Value as being well developed, with the SPS business plan for 2005-06 outlining its Vision, Mission and Actions, together with a range of specific commitments which demonstrate improved performance. We noted that the SPS had not carried out a Best Value self assessment in terms of the Best Value characteristics. However, many of the features of Best Value were embedded in SPS's existing arrangements and as a result we assessed SPS as having well developed arrangements for the majority of characteristics. It is the nature of the Best Value that there is an expectation of continuous improvement across *all* characteristics. For SPS, the following characteristics were assessed as under development, indicating particular areas for attention: Responsiveness and Consultation, A Contribution to Sustainable Development, Equal Opportunities Arrangements and Joint Working.
43. A position statement reflecting the findings across the sample of public sector organisations examined is being produced by Audit Scotland and we will keep SPS informed of developments

Appendix A: Outcome on Risks Identified in Audit Plan

Operational Risks

Securing offender services

Risk	Management assurances	Planned audit action	Outcome
<p>Custody Risk that SPS fail to meet objectives in Holding securely prisoners sent by the courts both in establishments and while in transit, in particular the Key Performance Target for Prisoner escapes.</p>	<p>Quality assurance arrangements in relation to security management, prisoner supervision, warrant processing and contract monitoring for services provided externally. Monitoring of progress against targets.</p>	<p>Internal audit will assess arrangements. External audit will review outcome and supplement by direct testing as appropriate, including Key Performance Targets.</p>	<p>Escapes were lower than target so KPI met. Internal audit have provided reasonable assurance overall on operational risks; and specifically reasonable assurance on the data and monitoring of the Escorting Services contract and on Business Performance Measurement recording and reporting.</p>
<p>Order Risk that SPS fail to meet objectives in maintaining a safe environment for prisoners and staff through maintaining order in each prison, in particular the Key Performance Target for assaults on staff or prisoners.</p>	<p>Quality assurance arrangements in relation to reception & induction and sentence management and contract monitoring for services provided externally. Monitoring of progress against targets.</p>	<p>Internal audit will assess arrangements. External audit will review outcome and supplement by direct testing as appropriate, including Key Performance Targets.</p>	<p>Assaults were at or lower than target so KPI met. Internal audit have provided reasonable assurance overall on operational risks, although they drew attention to the need for improvement in the self audit arrangements (either the checks carried out or the documentation of these checks.)</p>



Risk	Management assurances	Planned audit action	Outcome
<p>Care Risk that the SPS does not provide the required standard of regime, resulting in a failure to meet Key Performance Targets for % clear of in-prison drug use under random anonymous prevalence testing.</p>	<p>Quality assurance arrangements in relation to prisoner opportunities and contract monitoring for services provided externally. Monitoring of progress against targets.</p>	<p>Internal audit will assess arrangements. External audit will review outcome and supplement by direct testing as appropriate, including Key Performance Targets.</p>	<p>Prisoners testing as clear of drugs were lower than target so KPI was not met. Internal audit provided reasonable assurance overall on operational risks and aspects of care, although independent assurance on clinical governance was assessed as between limited and reasonable (but improving on 2004-05).</p>
<p>Service Risk that cascading of responsibility for quality and standard of delivery through the Performance Contracts with establishments does not operate as intended.</p>	<p>Quality assurance arrangements. Monitoring of Performance Contracts.</p>	<p>Internal audit will assess arrangements. External audit will review outcome.</p>	<p>This risk will continue to be monitored by management and RMAC. On the reliability of information to allow this to take place, internal audit have provided limited assurance on the Performance Management Framework, but, overall, reasonable assurance on the Business Performance Measurement system.</p>

Improving the quality of the prison estate

Risk	Management assurances	Planned audit action	Outcome
<p>Risks that:</p> <ul style="list-style-type: none"> the investment in the existing estate does not eliminate slopping out as quickly as anticipated resulting in a failure to meet Key Performance Targets for % of prison places with night sanitation; the anticipated provision of further new prison places does not keep pace with demand; and issues relating to prison service provision in the North East of Scotland, currently under discussion, are not satisfactorily resolved to meet requirements. 	<p>The Estate Development Programme will provide improved living conditions for prisoners and working conditions for staff. Management monitor progress on the investment programme and implications for the Estate Development Programme.</p>	<p>External audit will review and test capital expenditure as part of audit of financial statements. Otherwise no further audit work planned for 2005/06. We will keep the Estate Development Programme, and the position in the North East, under review.</p>	<p>Capital expenditure was tested as part of our financial statements audit. No issues were identified. Prisoners with access to night sanitation were higher than target so KPI met.</p> <p>Internal audit provided reasonable assurance on Estate Development.</p> <p>SPS continue to make progress in improving the condition of the existing estate, and are also advancing their plans for 2 new prisons and consulting on the future of prisons in the North East.</p>

Working in conjunction with Criminal Justice Authorities and others to reduce re-offending

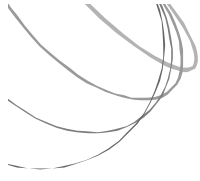
Risk	Management assurances	Planned audit action	Outcome
<p>Risk that SPS does not provide the required opportunities and guidance, resulting in a failure to meet Key Performance Targets for:</p> <ul style="list-style-type: none"> • hours of completed programmes and approved activities; and • offender development hours. 	<p>Quality assurance arrangements in relation to prisoner opportunities and contract monitoring for services provided externally. Monitoring of progress against targets.</p>	<p>Audit Scotland Performance Audit Group reviewed this area, publishing a report in January 2005; they will consider the scope for following this up as part of their forward study programme.</p> <p>Internal audit will assess assurance arrangements. External audit will review outcome and supplement by direct testing as appropriate.</p>	<p>Hours of completed programmes and offender development hours were both above target so KPI's were met.</p> <p>Internal audit have provided reasonable assurance overall on operational risks; and specifically reasonable assurance on Business Performance Measurement recording and reporting.</p>
<p>Reduced re-offending is not a Key Performance Indicator for 2005/06, but is under discussion to feature in 2006/07. There is a risk that:</p> <ul style="list-style-type: none"> • insufficient progress is made in relation to reducing re-offending; and • relationships and arrangements with others in the Criminal Justice system do not operate as intended. 	<p>Assurance arrangements in these areas are under development at present and are largely qualitative.</p>	<p>We will monitor developments in this area.</p>	<p>New areas are being "shadowed" to allow the introduction of KPI's in 2007-08, which will allow assessment of a contribution to reducing re-offending and Community Justice work.</p>

Making effective use of resources

Risk	Management assurances	Planned audit action	Outcome
Risk that quality assurance arrangements are not in place or do not operate as intended to meet business priorities.	Risk Monitoring and Audit Committee will monitor outcome of processes and testing thereof.	External audit to review outcome of monitoring and testing.	RMAC provide positive assurance to the Accountable Officer on the Statement on Internal Control.
Risk that the cost per prisoner place increases and SPS fail to meet this Key Performance target	Rigorous budgetary control arrangements. Monitoring of progress against targets.	Confirm budgetary control and outturn against Key Performance target.	The cost per prisoner place is below target so KPI was met. Budgetary control has been tested by internal audit across the SPS with an opinion of "reasonable assurance" being provided.
Planned efficiencies under the Efficient Government Initiative have been published and they include targets attributable to SPS's operations. There is a risk that the targets will not be met or that SPS will not be able to demonstrate the efficiencies.	Efficiencies are built into the future budgets in relevant years (2006/07 and 2007/08).	Assess preparedness for monitoring and reporting efficiencies through use of a standard diagnostic questionnaire drawn up by Audit Scotland.	Audit Scotland completed a diagnostic questionnaire on the management arrangements for Efficient Government activities, which, overall, evaluated the SPS's arrangements as good.

Financial Risks

Risk	Management assurances	Planned audit action	Outcome
<p>A new Financial Reporting Manual (FReM) replaces the Resource Accounting Manual (RAM) as the source of guidance for preparing the accounts. If new requirements are not identified in good time there is a risk that the financial statements could be presented incorrectly, resulting in a delay in the completion of the accounts and audit process.</p>	<p>The timetable provides for SPS to present draft financial statements with comparative year balances prior to the main audit. This should allow Audit Scotland to identify any significant changes to the accounts due to the introduction of new guidance or legislation.</p>	<p>Review of the FReM has already identified some significant alterations to the format of the financial statements. These have been raised with SPS who are also reviewing the new guidance. Timely preparation and review of draft accounts should help minimise the risks of delay.</p>	<p>Most of the new requirements were identified in good time to allow the audit work to be completed in line with the agreed timetable and the ISA 260 letter to be issued on 6 June 2006. The presentation of the Management Commentary was not finalised until early September, but the sign off and publication of the annual report and accounts followed promptly thereafter.</p>
<p>Prisoner compensation (ECHR). There is uncertainty surrounding the quantification of the prisoner compensation provision and the related contingent liability.</p>	<p>Management have taken best advice on how to proceed with the legal process and the value of the provision and contingent liability. The strategy is to run test cases to help resolve the legal position, while establishing an Alternative Dispute Resolution scheme for other cases.</p>	<p>Audit Scotland will examine the provision and contingent liability balances and disclosures in the 2005/06 financial statements. We will also review progress of the Alternative Dispute Resolution scheme.</p>	<p>The provision is correct in principle and the quantum is within a zone of reasonableness but there is uncertainty about the value of final costs at this stage. The Auditor General for Scotland has issued a report with the accounts, updating Parliament on this issue.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>PPP. Negotiations are at an advanced stage for a new prison at Addiewell to be provided under PPP arrangements. The balance sheet accounting treatment is an important feature of the project. There is a general risk in such circumstances that the contract does not achieve Value for Money or the correct accounting treatment.</p>	<p>Management have followed appropriate project management procedures and taken appropriate advice.</p>	<p>Audit Scotland has been involved in preliminary work on the accounting treatment for the PPP project at Addiewell and will follow this through as the deal is finalised. We will also monitor relevant disclosures in the accounts.</p>	<p>We have provided comment on the “final judgement” on the accounting treatment for the proposed PPP prison at Addiewell, concurring with the view of SPS and their advisers that the contract should be considered as “off balance sheet” under the relevant accounting guidance.</p>
<p>SPS have contracted hardware services instead of purchasing hardware. This is an unusual arrangement for central government bodies and as such suggests a risk that this may not be the most efficient way to acquire and operate these assets. (Within central government the presumption is against leasing assets.)</p>	<p>Contract evaluation procedures.</p>	<p>Audit Scotland will review the contract tendering process to assess the best value and any other relevant aspects of the arrangement.</p>	<p>Our view was that a competitively priced contract was negotiated, with significant transfer of risk. As a result we were content with the proposed operating lease accounting treatment. However, we highlighted that decisions in this area can be finely balanced and that in any similar future cases SPS must also be careful in evaluating accounting and VFM.</p>



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