

Scottish Police Services Authority

**Report on the 2009/10 Audit to Scottish Police Services
Authority and the Auditor General for Scotland**

November 2010



 **AUDIT SCOTLAND**



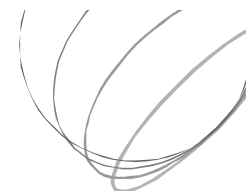
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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by Scottish Police Services Authority (SPSA). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SPSA for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

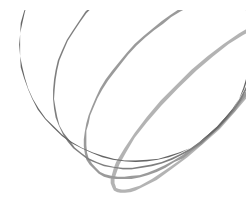
Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

SPSA's resource budget for 2009/10 was £101.136 million including resource cover of £6.023 million for non-cash costs. Under statute, SPSA also 'maintain' the SCDEA and funding of £24.913 million was ring fenced from the SPSA budget for SCDEA costs. The total resource out-turn for 2009/10 was £100.888 million leaving an under spend of £248,000.

The 2010/11 budget for SPSA, including SCDEA, is £110.6 million, funded from £5.6 million external funding; £98.4 million cash funding by Scottish Ministers and the remaining £6.6 million funding for non-cash costs. To reach a balanced budget for 2010/11 SPSA have had to identify efficiencies of £4.6 million however, SPSA recognise that the extent of financial challenges ahead cannot just be met through efficiencies and have been working on scenario planning of 9% budget reductions for 2011/12 followed by three consecutive years of 5% funding reductions.

To meet budget requirements SPSA must have a strong budgeting and monitoring regime in place. To improve financial monitoring and reporting, SPSA planned to procure a new financial ledger system during 2009/10 but this was delayed and will now be implemented in 2010/11.



Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. In the past two years we have noted the high level of personnel changes on the Board and at senior management level. There were further changes in 2009/10 and since the year end a new Chief Executive started with SPSA in June 2010 and two new independent/ lay members have just recently been appointed to the SPSA Board. With a new Chief Executive and a full Board now in place this provides the opportunity for the SPSA Board and senior management to better focus on strategic issues and deliver key services during a period of financial pressures.

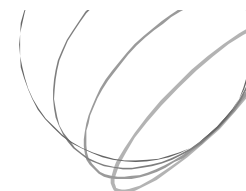
A significant development for SPSA during 2009/10 was taking on responsibility for the procurement of all ICT goods and services for Scottish police forces under an ICT agency agreement, which allows VAT on these goods to be reclaimed by forces. The process has brought in a considerable degree of complexity to the purchase, administration and accounting of the goods and services as described in SPSA's Statement on Internal Control. SPSA is working to improve collaboration with forces, its procurement strategy and the financial processes in place.

Performance

In October 2010 the Auditor General for Scotland published his review of SPSA, in line with his programme of work. The report examined SPSA's origins and how it evolved; what it has delivered to date; and the challenges ahead. The Auditor General concluded that SPSA's early development was hampered by a lack of clarity on how it was to deliver its long-term benefits. This was compounded by poor information about the services transferred, leadership problems and sometimes difficult relationships with its customers.

SPSA has improved the service quality, productivity and efficiency of many of its forensic, criminal justice and training services. Supporting and developing ICT systems has been challenging and it is difficult for SPSA, the police and other criminal justice bodies to agree national service delivery priorities. Development of these areas is included within SPSA's Strategic Plan 2010 – 2015, which was launched in May 2010. We will follow-up on SPSA's progress on the recommendations included in the Auditor General's report.

For 2009/10, SPSA agreed with the Scottish Government that the high level strategic priorities from 2008 - 2011 Corporate Plan be set aside and instead eight corporate objectives and 17 key performance indicators (KPIs) were set and during 2009/10 a long-term strategic plan would be prepared. SPSA's Annual Report and Accounts 2009/10 describe performance against the KPIs and objectives and notes that 13 of the 17 KPIs were met in full. Areas for SPSA to work on include: developing resilience of service of national ICT systems; resourcing the ICT business area to deliver current service and future developments; improve financial management systems; and complete job evaluation and harmonisation of terms and conditions.



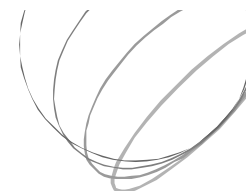
Looking forward

The final part of our report notes some key risk areas and issues for SPSA going forward. The public sector, including SPSA, faces significant financial challenges and we will continue to monitor SPSA's financial position and the achievement of efficiency savings. Due to financial pressures, there may be restructuring of the eight police forces which could also impact on SPSA's operations and progressing service improvements with the police service may be a challenge when they are focusing on their structural changes.

Forensics and ICT business areas both have consultation and reviews underway and the recommendations from these reviews may impact on service delivery models. SPSA are also working with the Scottish Government on the requirements for the new Gartcosh complex as SPSA will lead on facilities management of the new building. SPSA are participating in the 2010/11 programme of the National Fraud Initiative and we will follow-up the results and action taken during the 2010/11 audit.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
November 2010

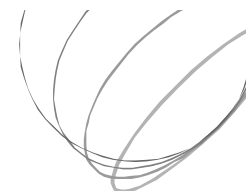


Introduction

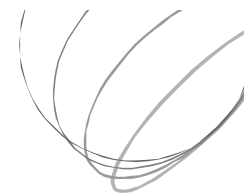
1. This report summarises the findings from our 2009/10 audit of SPSA. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 17 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and SPSA's agreed response. In addition, in October 2010 the Auditor General for Scotland published a report on SPSA, which examines SPSA's origins and how it evolved; what it has delivered to date and the challenges ahead. Where appropriate reference is made to the detail provided in that report to avoid duplication of comment in this report.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of SPSA arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of SPSA we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff and members of SPSA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of SPSA financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

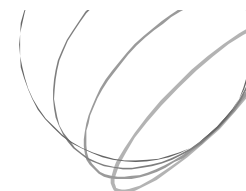
9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SPSA and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Introduction, Corporate Social Responsibility, Leadership and Governance, Management Commentary and Financial Review within the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of SPSA.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of SPSA for 2009/10.
12. As agreed the unaudited accounts were provided to us on 14 June 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 16 September as timetabled.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 16 September 2010 the main issues arising from our audit of the financial statements. The key issue, in addition to IFRS issues as described at paragraph 20 was :



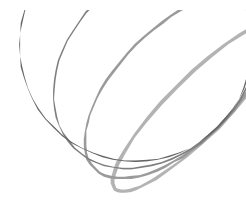
14. **Managing property and programme income and expenditure:** SPSA has a number of properties to manage which involves subletting accommodation within these properties and billing tenants for rent and services provided. Without agreements and budgeting arrangements in place SPSA are open to budget risks and lengthy disputes resolving cases. Last year we provided examples of where there were delays in agreeing Memorandum of Terms of Occupancy (MOTOs) and occupancy rates. While SPSA continue to work with tenants further work is required to finalise MOTO arrangements and collect outstanding debt, including some dated from 2007/08.

Regularity

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance.

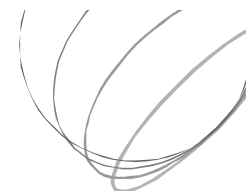
International financial reporting standards (IFRS)

16. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
17. During 2009/10 we were required to review the shadow accounts and report on them to SPSA by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
18. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by SPSA for audit for review by the deadline date of 30 November 2009. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts. There are two main points still to be addressed:
19. **Componentisation of finance leases** - SPSA carried out a review of leases and identified one property which should be accounted for as finance leases. The lease was accounted for as an asset and depreciated over the length of the lease. Componentisation refers to the separate valuation and accounting of different component parts of assets and under accounting standards; componentisation is required if each part of an asset has a cost which is significant in relation to the cost of the asset, which could lead to different useful lives being attached to these component parts



and therefore different depreciation charges. SPSA had recognised the need to review leases for componentisation and are considering the practicalities of identifying significant costs compared to the impact on the financial statements of applying different depreciation rates.

20. **Intangible assets** - Intangible assets are defined as identifiable non-monetary assets without physical substance. SPSA identified and accounted for software licences as intangible assets however the IFRS shadow accounts did not show any internally generated assets. We suggested that various projects including forensic multimedia 3D animation and crime scene reconstruction may meet the criteria in accounting standards to capitalise associated costs. SPSA are reviewing ICT developments costs incurred, which, if they meet certain criteria in accounting standards, will be capitalised on the balance sheet.



Use of Resources

21. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of SPSA's:

- financial position
- financial management
- management and use of information and communications technology (ICT).

Financial Position

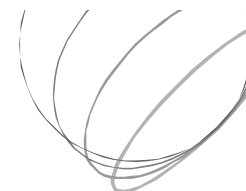
Outturn 2009/10

22. SPSA is required to work within the resource budget set by the Scottish Government. Under the Police, Public Order and Criminal Justice (Scotland) Act 2006, SPSA 'maintain' the SCDEA and funding is ring fenced from the SPSA budget for SCDEA costs. For 2009/10 resource budget for 2009/10 was £101.136 million including resource cover of £6.023 million for non-cash costs. The outturn against budget for SPSA and SCDEA is as follows:

Exhibit 2 – Performance against resource budget 2009/10 (£ million)

Resource Allocation (£million)	Budget	Actual Outturn	Difference
SPSA	71.563	71.197	
SCDEA	23.550	23.733	
<i>Total Grant in Aid (GIA) – cash</i>	<i>95.113</i>	<i>94.930</i>	<i>0.183</i>
SPSA	4.660	4.581	
SCDEA	1.363	1.377	
<i>Total Resource cover – non-cash</i>	<i>6.023</i>	<i>5.958</i>	<i>0.065</i>
Total	101.136	100.888	0.248

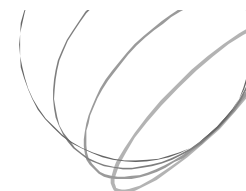
23. A significant development for SPSA during 2009/10 was the introduction of the ICT Agency agreement under which ICT goods and services are procured for Scotland's eight police forces. As an agent the income and expenditure flows for the ICT procurement are not reflected in the SPSA Income and Expenditure Account but year-end liabilities with suppliers and accounts receivable balances due from police forces are accounted for on the balance sheet. Due to the high level of procurement in the final quarter SPSA anticipated that additional cash-flow was required for month 12 as SPSA would be paying supplier invoices but would be unable to invoice forces and receive full payment from forces before the year-end. The Scottish Government provided additional £4 million to cover the cashflow shortfall and the 2010/11 Grant-in-Aid will be amended accordingly. The majority of outstanding invoices due from forces was paid in April and May 2010.



24. The costs of the goods and services lie with forces but SPSA calculated accruals and prepayments for forces to include in their accounts. To support SPSA we agreed to review these figures allowing SPSA to then share our comments with finance teams at forces. We provided the clearance letter in August, which included a small number of audit adjustments for forces and their local auditors to consider. The ICT Agency Agreement is a very complex manual process, as acknowledged in SPSA's Statement on Internal Control, and we will discuss with SPSA what improvements can be made to the year-end financial reporting for 2010/11.
25. SPSA's balance sheet at 31 March 2010 shows a net liability of £32.663 million, compared to a restated net liability of £2.177 million as at 31 March 2009. The movement is mainly caused by the pension fund moving from a liability position of £4.5 million to a liability of £37.761 million. This is an accounting estimate provided by the pension actuary. The main financial assumptions which have driven this movement is the discount rate which has fallen from 6.9% to 5.5% and an increase in the inflation/ pension increase rate from 3.1% 3.8%.

Scotland's public finances

26. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

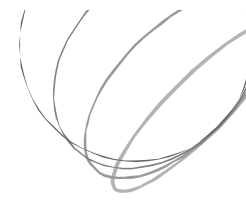


Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.
- *The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*
- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.
- *In the current economic climate difficult decisions will have to be made about priority spending programmes.*
- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

27. Efficiencies are quantified and tracked by Business Area Management Teams and a full-time efficiencies project manager has been appointed within current resources to co-ordinate and report results. While this work will be important to achieving financial targets SPSA recognise that the extent of financial challenges ahead cannot just be met through efficiencies.
28. SPSA has therefore been working on scenario planning of 9% budget reductions for 2011/12 followed by three consecutive years of 5% funding reductions. Areas for savings have been classified as to their likely impact on service and initial work reported to the Board in September



2010. Further work will be done when funding levels are clarified as part of the Comprehensive Spending Review.

- 29. Staffing costs represent approximately 80% of overall costs and therefore, working with funding assumptions, scenario planning has shown that reductions cannot be achieved without reductions in staff numbers. SPSA has been operating below establishment but for the future there may be actual headcount reductions. SPSA, in consultation with trade unions are considering proposals for a redundancy scheme and working through the financial implications.
- 30. Reductions in staff numbers brings difficult decisions on service delivery and levels service. This will be challenging when SPSA has focused over the past 18 months on improving stakeholder engagement and service delivery. It will be a challenge to deliver service improvements and efficiencies at a time of reduced resources.

Financial sustainability and the 2010/11 budget

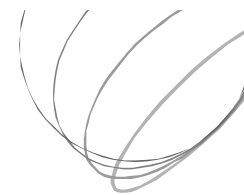
- 31. SPSA's budget for 2010/11 of £110.661 million includes a budget for SCDEA of £27.029 million. The combined budget is to be funded as follows:

Exhibit 3 – 2010/11 Resource Plan

Limits	Budget
	£million
Cash Grant in Aid for capital and revenue expenditure	98.400
Non-cash Grant-in-Aid	6.633
External income	5.628
Total	110.661

- 32. The Head of Finance reported to the Board at the end of September that SPSA were now working to a balanced budget, with SPSA having to find efficiencies totalling £4.6 million. Although SPSA has forecast a balanced budget for 2010/11 delivering the level of efficiencies year on year, while absorbing cost pressures, represents a significant challenge for the organisation. Some of the factors impacting on SPSA include:

- A significant development for SPSA in 2010 was the opening of the new forensics laboratory in Dundee but running costs are greater than originally planned. SPSA has undertaken a wide-ranging review of its forensics services and options for rationalising are currently out for consultation with the outcome due to be announced in late 2010. The decisions will impact on future costs.
- The level of probationer training required is unclear as police forces identify savings in their own budgets.



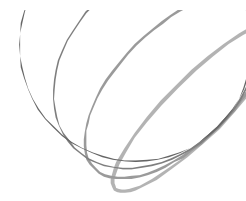
- SPSA's three-year pay deal continues through to September 2011 therefore there is no opportunity to amend pay settlement until then.
- The VAT standard rate will rise from 17.5% to 20% from 4 January 2010 and as an NDPB SPSA cannot recover VAT and therefore will have to absorb additional costs.
- SPSA absorb the on-going costs of managing the procurement process and financial reporting to forces for ICT expenditure under the ICT agency agreement.
- SPSA implement recommendations from the recently published Auditor General Report on SPSA and independent Review of Police ICT.
- SPSA are responsible for human resources cases passed across from predecessor organisations. There are certain cases which remain unresolved and work is on-going to assess the impact of different potential outcomes.

Financial Management

33. In our Annual Report on the Audit for 2008/09 we noted that to meet budget requirements together with billing and reporting arrangements under the new ICT agency agreement, SPSA must have a strong budgeting and monitoring regime in place. Management information is sourced from the ledger system but is reported in spreadsheet format for presentational issues. As noted in SPSA's Annual Report and Accounts 2009/10, procurement of a new financial ledger system which should improve financial reporting, was delayed. The system is now due to 'go-live' on 1 April 2011.
34. The financial statements for the past three years were prepared by the same business support accountant, who was an experienced public sector financial accountant and been with SPSA since January 2008. The accounts were delivered to timetable and good supporting documentation provided, however he left SPSA in August 2010 and SPSA have yet to replace him.
35. In addition, the Head of Corporate Management, who was a qualified accountant and provided support to the Head of Finance, left in October 2010. Without sufficient finance capacity SPSA risk being unable to improve financial operations of the ICT agency agreement, implement the new financial ledger system and plan effectively for future budget cuts. SPSA are currently reviewing their resources within Corporate Services. We will discuss with SPSA their plans for preparation of next year's accounts and financial management during planning of the 2010/11 audit.

Procurement Capability Assessment

36. Procurement is a significant activity for SPSA: in 2009/10 SPSA procured £13.7 million of goods and services under the ICT agency agreement (which SPSA anticipate could increase to £25 million per

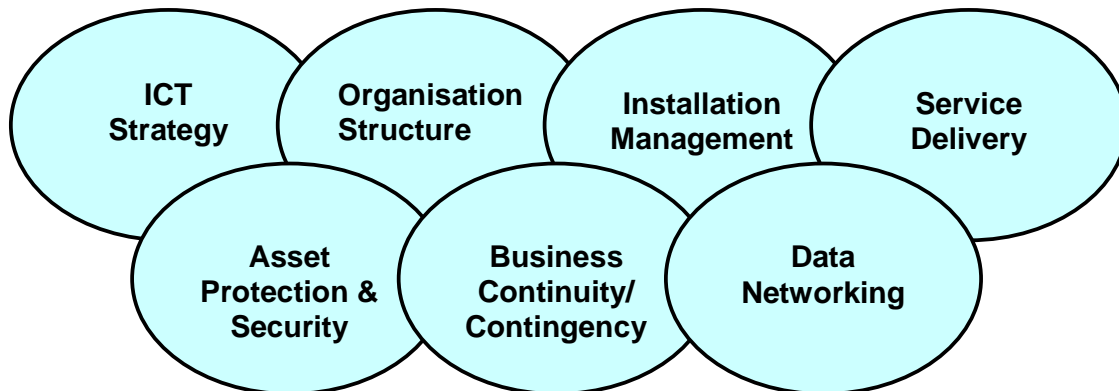


annum) in addition to procuring goods and services for its itself of approximately £25 million, therefore an effective procurement section is key in bringing efficiencies to Scottish policing.

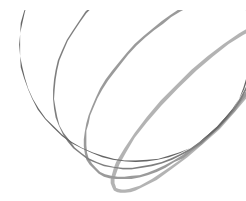
- 37. A significant initiative of the Scottish Government is the Procurement Capability Assessment (PCA) which was developed to promote the sharing of best practice and continuous improvement across the Scottish public sector. The objective of the PCA is to assist organisations to improve their structure, capability, processes and ultimately performance, by attaining the best standards that are appropriate to the scale and complexity of their business. The PCA assesses capability in key areas against common criteria and standards which will allow public bodies to identify where best practice already exists, where there are gaps and where continuous improvements and efficiencies can be implemented.
- 38. SPSA were assessed under the PCA in July 2010 and the overall results were that SPSA conformed with the PCA standards. Results were strong on complying with EU legislation and a professional team in place (but not up to full capacity) but improvements are required on information systems, contract and supplier management, strategy and performance reporting. We will follow-up the actions to address the issues in 2010/11 and how they link to the recommendations and action taken following the ICT review as described in paragraph 44.

Management and use of ICT

- 39. Our annual audit plan recorded a number of risks surrounding service provision, data sharing, security and general ICT controls. As part of our risk based assessment of SPSA, we identified Information and Communication Technology (ICT) as a priority area for review.
- 40. Our Computer Services Review control questionnaire provides a high level risk based assessment of ICT services in seven key areas:

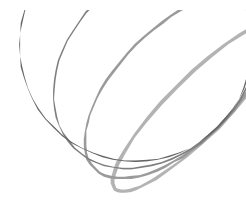


- 41. SPSA completed a self-assessment questionnaire, which helps to examine the arrangements for the management of ICT services, and provided supporting evidence to support the assessment. These



were considered in detail in autumn 2010 and meeting held with the Chief Information Officer in January 2010 to discuss the findings.

42. The purpose of the report was to present the key challenges which will be used as the basis for further discussions with SPSA and internal audit to identify the focus for future work. During our review, we identified a range of challenges ahead for SPSA which require to be managed, especially:
- refreshing the ICT strategy and developing an Information Management/business intelligence strategy to ensure it keeps abreast with current issues and helps develop, monitor implementation of the strategic road map themes, and review of the annual ICT operating plan. This should include the effective management of financial, people, process and technology resources
 - highlighting the importance of engagement and governance arrangements with stakeholders to ensure an integrated approach is in place that covers national and regional work. This should include monitoring progress of all projects on a regular basis to SPSA management and other stakeholders
 - developing an effective skills management and training strategy. This should ensure that sufficient (local or corporate) budget is available to deliver the anticipated training required to meet the intended skills mix of the ICT department
 - amalgamating and standardising the service catalogue as part of SPSA's long term objective and ensuring stakeholders are provided with regular, standard and performance reports
 - engaging with key internal and external stakeholders to ensure that the ICT agency agreement and related procurement is working effectively.
43. In November 2009 SPSA and ACPOS identified the need for a full review of ICT services, which was supported by the Scottish Government. Following many discussions on the scope, work began in May 2010. In August 2009 the Scottish Government awarded the review of ICT provision to a firm of management and engineering consultants and their report was issued in October 2010. They confirmed that there has been no apparent degradation in ICT support to Scottish police over the past two years and there have been no serious operational impacts suffered as a result of failings in ICT support.
44. The report recommends that, to begin with, SPSA should identify the cost of delivering its outputs and the resource effort it has available. There are a number of further recommendations on areas of strategy, governance and working with forces, performance and asset management, which include the following:

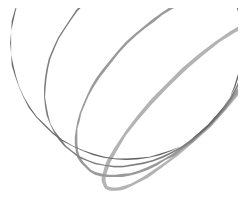


- ACPOS and SPSA should establish a joint ICT strategic planning group and forces should consider SPSA ICT staff to be included in force business planning.
- SPSA should reorganise the ICT service management function and review the remit of force partner managers and SPSA account managers to enable better support.
- SPSA procurement should examine use of Scottish Government national framework contracts and put in place a national 'call-off' contract for at least the top 10 ICT consumables.
- The national projects approval process should include stronger standards of financial scrutiny, options analysis and benefits realisation. For local projects, ACPOS are to provide operational priorities to SPSA while guidance on requesting non-standard service requests, and delivery against the requests, are developed.

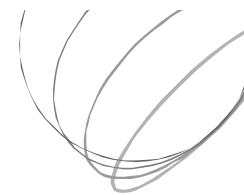
45. We will follow-up progress by SPSA on implementing actions as part of our 2010/11 audit.

National Studies

46. In January 2010, Audit Scotland published "Protecting and improving Scotland's environment". The report provides an overview of the Scottish public sector's performance against targets for improving air quality; protecting and improving the water environment; protecting and improving biodiversity; and improving waste management.
47. The report concluded that the overall quality of Scotland's environment is good but there is a risk that some targets will not be met. The key messages in the report particularly relevant to SPSA and include:
- Road transport is the main cause of local air quality problems and the amount of pollution that comes from road transport needs to be reduced. To improve air quality there needs to be better coordination between air quality and transport objectives at both a national and a local level.
 - In addition to reducing levels of waste going to landfill the Scottish Government now place greater emphasis on stopping waste being produced and on increasing re-use.
 - Targets on recycling and waste management extend to 2025 requiring leadership and commitment to ensure these long-term targets are met particularly during periods of financial constraint.
48. SPSA's 2009/10 Annual plan included objectives to baseline their carbon footprint and develop a plan for improving the footprint. In 2009/10 carbon management baselining was completed for utilities and all travel (air/ rail and car travel, either in employee owned vehicles or through fleet cars).



Planning has begun to meet the requirements under the Climate Change (Scotland) Act and a sustainability plan will be completed once further guidance is provided by the Scottish Government. Facilities management contracts are structured to support recycling and monitoring against the new baseline information.



Governance and Accountability

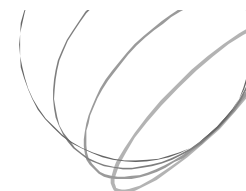
49. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SPSA arrangements.
50. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

51. This year we reviewed:
 - Governance arrangements
 - key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
52. Governance arrangements within SPSA continued to develop during 2009/10 and significant progress has been made recently through the appointment of a Chief Executive and non-executive directors of the Board.

Governance arrangements

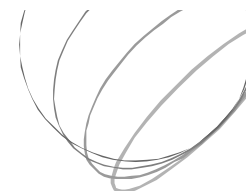
53. Our audit plan noted the complex accountability arrangements across police services in Scotland and membership of the Board reflects this environment; the Board consists of chief constables, police authority/ joint board conveners and non-executive lay members. In addition there have been many changes at Board and senior manager level at SPSA since it was established in May 2007 with much time being devoted to addressing these issues. A full history of the changes can be found in the recent Audit Scotland study on SPSA.
54. There have been further changes since the year-end. The new Chief Executive started in June 2010 replacing the Director of Strategy and Performance who had been acting as an interim Chief Executive, and accountable officer for SPSA and SCDEA, since January 2009.



55. The Head of Corporate Management recently left in October and SPSA are recruiting for a replacement.
56. Two new independent/ lay members have just recently been appointed to the SPSA Board, which increases the number of independent members on the board from two to three. The new appointments now allow the composition of the sub committees to be reviewed to ensure they are not dependent on one lay member. The Chair of the Audit Committee left in November 2009 and since then the Chair of the HR Committee has also been chairing the Audit Committee.
57. With a new Chief Executive and a full Board now in place this provides the opportunity for the SPSA Board and senior management to better focus on strategic issues and deliver key services and efficiencies.

Systems of internal control

58. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 PricewaterhouseCoopers, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, and with the exception of critical and high priority issues of control importance, testing confirmed that controls were generally operating satisfactorily during the period under review.
59. Internal audit had issued reports during the year which included critical and high priority recommendations relating to business continuity, HR administration and the ICT agency agreement. In their 2009/10 Annual Report internal audit provided management updates, as at June 2010, on the actions completed and work on-going by SPSA to address the original recommendations; good progress was being made.
60. As part of our audit we reviewed the controls in a number of SPSA systems that impact on the financial statements including trade payables, overtime payments, travel and subsistence claims and the general ledger. Our overall conclusion was that good progress continues to be made in embedding the systems of internal control under review during the year and it will take time to embed the fixed asset system as it was only implemented later in the financial year. We identified a number of areas where controls could be strengthened; management agreed to an action plan of improvements and this will be followed up in 2010 to confirm progress has been made. Our substantive testing provided us with assurance of the regularity of transactions and results confirmed that the underlying transactions had been accounted for properly.



Statement on Internal Control

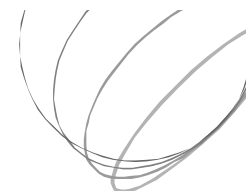
61. The Statement on Internal Control provided by SPSA's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SPSA's approach to this. The Statement on Internal Control comments on the internal control problems relating to the operation of the ICT agency agreement and the complexities on the purchase, administration and accounting for ICT goods and services. SPSA continues to work with forces on improving financial processes for the agency agreement.

Internal Audit

62. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on SPSA internal audit function. We concluded that PricewaterhouseCoopers operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

63. SPSA has appropriate corporate arrangements in place for all business areas and SCDEA, to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members, with policies e.g. Fraud Policy/Fraud Response Plan and whistle blowing procedure being regularly reviewed by the Audit Committee (e.g. in August 2010) and HR Committee, respectively. The Compliance Manager led on this area through to him leaving in November 2009 with the Head of Corporate Management assuming the role after that however, roles and responsibilities require to be re-assigned as soon as possible as the Head of Corporate Management left SPSA in October 2010.

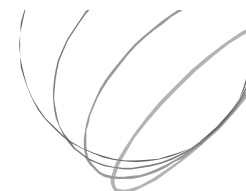


Performance

64. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.

Auditor General for Scotland Report on SPSA

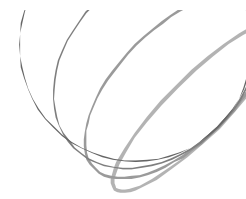
65. In October 2010 the Auditor General for Scotland published a review on SPSA, as part of Audit Scotland's Performance Audit programme of work. The report provides an assessment of SPSA's development to date and what needs to happen to enable it to meet the challenges ahead. The report sets out SPSA's origins and how it evolved; what it has delivered to date; and the challenges ahead.
66. We contributed to the Auditor General's study and the study is the main source of our comment on this aspect of audit for this year.
67. The key messages are that:
- SPSA's early development was hampered by a lack of clarity on how it was to deliver its long-term benefits. This was compounded by poor information about the services transferred, leadership problems and sometimes difficult relationships with its customers.
 - SPSA has improved the service quality, productivity and efficiency of many of its forensic, criminal justice and training services. Supporting and developing ICT systems has been challenging and SPSA is not yet able to meet all of its customers' ICT needs.
 - SPSA has achieved its efficiency targets and made £5.3 million of savings in the three years since it was set up. However, there is potential for even more savings if SPSA and its customers work together to realise these.
 - The current economic climate is focusing attention on the need for all public bodies to deliver their services with less money. Police forces are increasingly looking to SPSA to help them deliver these efficiencies.
 - It is difficult for SPSA, the police and other criminal justice bodies to agree national service delivery priorities.



68. The report makes a number of recommendations for SPSA, Scottish Government, police and other criminal justice bodies which include developing effective mechanisms for prioritising key national projects and working together to deliver savings across the justice sector.
69. As discussed in the report SPSA has a new Strategic Plan for 2010-2015 and in 2010/11 we will follow-up progress made by SPSA on its performance against the Strategic plan and the recommendations made in the national study.

Performance 2009/10

70. For 2009/10, SPSA agreed with the Scottish Government that the high level strategic priorities from 2008 -2011 Corporate Plan be set aside and instead eight corporate objectives and 17 key performance indicators were set, which linked to the Scottish Government's strategic objectives under 'Scotland Performs' and Scottish Policing Performance Framework themes. During 2009/10 a long-term strategic plan would be prepared.
71. SPSA's Annual Report and Accounts 2009/10 describes performance against the KPIs and objectives and notes that 13 of the 17 KPIs were met in full. Areas for SPSA to work on include: developing resilience of service of national ICT systems; resourcing the ICT business area to deliver current service and future developments; improve financial management systems; and complete job evaluation and harmonisation of terms and conditions. These challenges are further developed in the recent Audit Scotland study on SPSA.



Looking Forward

72. SPSA faces a number of challenges in 2009/10, which include:

- **Restructuring across policing** – improving and managing the engagement with customers and stakeholders is an underpinning principle of the Strategic Plan 2010 – 2015 and fundamental to its delivery and long term development of SPSA. Following changes in the UK Government there have been structural changes for police bodies in England and Wales and in Scotland there may be restructuring of the eight police forces in response to financial pressures and which could also impact on SPSA’s operations. Progressing service improvements with the police service may be a challenge when they are focusing on their structural changes.
- **Budgets and financial management** - Scottish public bodies reported more efficiency savings than the Government’s two per cent target in 2008/09 but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for SPSA is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives while improving service delivery.
- **SPSA service reviews** – Forensics and ICT business areas both have significant consultation and reviews underway and the recommendations from these reviews may impact on service delivery models. Effective management of the change process will be required to ensure recommendations are implemented successfully.
- **Scottish Crime Campus** – under the Scottish Government’s Infrastructure Investment Plan 2008, the Government is building a ‘crime campus’ at Gartcosh. In 2012, SPSA’s Glasgow forensic services will relocate to Gartcosh; SPSA are working with the Scottish Government on their requirements as SPSA will lead on facilities management of the new building.
- **National Fraud Initiative (NFI)** - The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, currently assisted by the Audit Commission in England. It uses computer techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. SPSA are participating in the 2010/11 NFI programme and we will follow-up the results and action taken by SPSA.