

Scottish Prison Service

Annual report on the 2013/14 audit



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

2013/14

In 2013/14 we assessed the key strategic and financial risks being faced by the Scottish Prison Service (SPS). 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.

The SPS is a public service led delivery agency which is legally required to deliver custodial and rehabilitation services for those sent to it by the courts. As an executive agency of the Scottish Government, the SPS is funded by the Scottish Government. At 31 March 2014 there were 13 publicly managed operational prisons and 2 privately managed prisons (HMP Kilmarnock and HMP Addiewell).

Financial statements

We have given an unqualified audit report on the financial statements of SPS for 2013/14. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred and applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

A number of audit adjustments were made to the financial statements. The overall effect of these adjustments was to increase total comprehensive net expenditure by £1.4 million and to decrease net assets by the same amount. We are satisfied that the correct accounting entries have been made in each case.

Financial position

SPS reported net operating costs of £264.1 million and net capital expenditure of £33.6 million in 2013/14; an underspend of £65.6 million against budget. The majority of this underspend arises from net impairment reversals due to revaluation and indexation increases. Resource budget of £22.3 million was transferred to the Scottish Government in the Spring Budget Revision contributing to the overall Scottish Government position in relation to the Justice Portfolio. A further £12.0 million was received, from the Scottish Government, to fund capital expenditure.

Budgetary controls operated effectively during the year however there is scope for a review of the financial information reported to the Board.

During 2013/14 the overall prison population stabilised although long term pressure on the prison population remains an ongoing strategic risk for the organisation. HMP Peterhead and HMP Aberdeen were closed prior to the opening of HMP Grampian in March 2014. Work also continued on modernisation of the prison estate for female prisoners.

Governance and accountability

We examined the organisation's key financial systems underpinning the control environment and concluded that they operated sufficiently well for us to place reliance on them.

In 2013/14 corporate governance structures were subject to significant change. The report of the SPS organisational review was published in November 2013. The fundamental change programme arising from the review will be overseen by a newly created Corporate Change Unit. During 2013/14 membership of the Advisory Board was revised to align with the structural changes arising from the organisational review. There were also changes to the membership of the Risk Management and Audit Committee (RMAC).

Following this period of transition, some improvements are required to key aspects of governance arrangements. This includes clarification of the roles of the Board and RMAC, improved reporting and significant improvements to risk management. SPS will also need to ensure it maintains appropriate leadership capacity across the organisation to deliver the transformation identified in the change programme.

Best value, use of resources and performance

Key performance indicators for 2013/14 were generally comparable to 2012/13 although some areas of reported performance reduced.

Our report on the review of the capital investment programme included a number of recommendations aimed at helping SPS improve the overall management and scrutiny of the programme.

We are currently carrying out a review of governance arrangements and will report on the findings from this review later in 2014.

Outlook

SPS' revenue budget has increased in 2014/15 and will be maintained in 2015/16. There are fluctuations in the capital budget going forward which may impact on the resources available for ongoing improvements to the prison estate.

Work will continue, in 2014/15 and beyond, to implement the outcomes of the organisational review. Key priorities include:

- approval and implementation of new governance and risk management arrangements, including the appointment of a Corporate Risk Manager
- finalising branch structures and filling outstanding vacancies
- publication of the SPS People Strategy
- development of a new model for corporate performance.

Introduction

1. This report is a summary of our findings arising from the 2013/14 audit of SPS. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
2. Our responsibility, as the external auditor of SPS, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
3. The management of SPS is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
4. This report is addressed to SPS and the Auditor General for Scotland and should form the basis of discussions with the RMAC as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after it has been considered by SPS.
6. A number of reports have been issued during the course of the year. These reports (Appendix A) identify risks and areas for improvement. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of SPS.
7. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/ response".
8. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks including those which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix C sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
9. We recognise that not all risks can be eliminated or even minimised. What is important is that SPS understands its risks and has arrangements in place to manage these risks. The Accountable Officer and other members of the board should ensure that they are satisfied with

proposed management action and have a mechanism in place to assess progress and monitor outcomes.

10. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
11. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

12. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
13. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
14. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. We also review and report on the Scottish Government consolidation templates. This section summarises the results of our audit on the financial statements.

Audit opinion

15. We have given an unqualified opinion that the financial statements of SPS for 2013/14 give a true and fair view of the state of the body's affairs and its net operating cost for the year.

Other information published with the financial statements

16. Auditors review and report on other information published with the financial statements, including the management commentary (strategic report and directors' report), governance statement and the remuneration report. No issues require to be reported in respect of these statements.

Regularity

17. The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues require to be reported.

Accounts submission

18. Accounts working papers were available from the end of April 2014 and our on-site audit fieldwork commenced on 5 May 2014. Further working papers were made available over the following weeks with unaudited financial statements submitted for audit on 21 May 2014. All schedules were submitted in accordance with a pre-agreed timetable.

19. The issues arising from the audit were discussed with the Head of Financial Policy and Services during the course of our fieldwork and at a clearance meeting on 5 June 2014. The financial statements were considered by the RMAC and signed by the Chief Executive, as Accountable Officer, on 24 June 2014.

Significant accounting issues arising

20. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. The overall effect of these adjustments was to increase total comprehensive net expenditure by £1.4 million and to decrease net assets by the same amount. Further details of the most significant adjustments are provided below.

Land and building valuations

21. The 2013/14 financial statements have been restated to correct the valuation of the land at HMP Barlinnie. A material error occurred during the last full valuation of SPS' specialised properties, by the District Valuer, at 31 March 2012. The error was identified when the District Valuer carried out a valuation of HMP Barlinnie, as at 31 March 2014, as part of the rolling programme of valuations. The SPS requested the District Valuer to carry out valuations at a further eight sites, during 2013/14, including four surplus land sites. The surplus land sites included HMP Peterhead and HMP Aberdeen which were closed during the year. Following an audit enquiry, SPS subsequently queried the valuation basis for HMP Peterhead and HMP Aberdeen with the District Valuer and revised valuations, on a market value basis, were provided.
22. We are satisfied that the restated balances properly reflect the correction of the prior year error and the amended valuations for HMP Peterhead and HMP Aberdeen have been correctly reflected in the financial statements. Both adjustments related to the correction of information provided by the District Valuer and SPS should ensure that they are satisfied with the quality assurance processes in place.

Refer Action Plan No.1

Financial performance

23. The financial performance information included in the management commentary identifies a total underspend of £65.6 million (18%) against a budget of £363.3million. The majority of this underspend (£52.9 million) arises from the fact the Scottish Government provided an Annually Managed Expenditure (AME) budget of £7.0 million in the Spring Budget Revision (SBR) to cover anticipated impairment charges in respect of HMP Grampian. The final valuation of HMP Grampian resulted in no impairment charge. In addition, a rise in tender price indices provided by the District Valuer resulted in net impairment reversals of £45.9 million. These findings highlight the extent to which the financial performance of the agency is affected by asset valuations.
24. We carried out sample testing on the valuation movements and are content that the net impairment reversals are correctly stated in the Statement of Comprehensive Net Expenditure.

Report to those charged with governance

25. We presented our report to those charged with governance (ISA 260) to the RMAC on 24 June 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the previous paragraphs.

Other accounting issues

Information provided to MyCSP

26. On an annual basis SPS calculate and submit the relevant salary details of their senior management to MyCSP who administer the Principal Civil Service Pension Scheme (PCSPS) and provide tailored services to a range of government bodies. MyCSP use this information to determine the pension details for inclusion in the remuneration report. For one of the salary figures submitted to MyCSP, for the purposes of the 2013/14 report, we were unable to obtain assurance that the figures submitted were calculated in line with the Cabinet Office guidance. Cabinet Office and MyCSP confirmed that this uncertainty did not affect the final disclosures included in the accounts and that guidance will be updated in 2014/15. In addition, the figures required for completion of the remuneration report were not available at the time the unaudited accounts were presented for audit.
27. MyCSP also invoice SPS for the cost of exit packages agreed with employees. An error was identified by SPS during a reasonableness check on one of the invoices received in 2013/14.
28. We will continue to monitor compliance with the guidance and the accuracy of information received from MyCSP in future years. SPS should liaise with Cabinet Office and MyCSP to ensure that the guidance is refined and updated prior to future submissions.

Refer Action Plan No.2

Tender Price Indices (TPIs)

29. Indexation is applied to land and buildings which are not formally valued by the District Valuer during the financial year. TPIs, which are published quarterly, are supplied by the District Valuer. These indices are subject to change between the forecast used for the calculation of the impairment cover required in the SBR and preparation of the accounts and the actual index confirmed after the year end. We identified that the actual index at 31 March 2013 was significantly higher than previously forecast and was the main reason for the increase in indexation during 2013/14.
30. There is scope for SPS to be more proactive in monitoring the movement in TPIs and to liaise with the District Valuer prior to preparation of the unaudited financial statements. It may be appropriate to review the use of TPIs and consider the use of a less volatile index.

Refer Action Plan No.3

Consolidation templates

31. An unaudited consolidation pack, including supporting notes workbook and WGA submissions which reflected the revised financial statements, was received on 16 June 2014. There were a small number of adjustments required to the draft submission.
32. The entity certificate was signed by the Chief Executive on 14 July 2014. Our audit report concluded that the consolidation templates were consistent with the audited financial statements. The completed templates, together with our opinion, were submitted to the Scottish Government on 17 July 2014.

Outlook

33. The financial statements of SPS are prepared in accordance with the HM Treasury Government Financial Reporting Manual (FReM). There are a number of new accounting standards that have been issued but are not yet effective. There is one such standard that is considered relevant to the SPS as follows:
 - International Financial Reporting Standard (IFRS) 13: Fair Value Management. The adoption of this standard could change the measurement techniques used when determining fair value. The application of IFRS 13 is subject to further review by HM Treasury.
34. There are no further changes to the 2014/15 FReM that are expected to have a significant impact on the SPS financial statements.

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
37. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

38. Net operating costs during 2013/14 were £264.1 million and net capital expenditure was £33.6 million. Cash funding of £316.5 million was received from the Scottish Consolidated Fund and cash balances decreased by £0.03 million.
39. Net operating costs have decreased by £88.9 million (25%) since 2012/13. The most significant element of this decrease relates to depreciation and impairment charges which reduced by £100.6 million (117%) as a result of significant net impairment reversals. The underlying movement, excluding the decrease in impairment and depreciation charges, was an increase of £11.7 million (4%) which reflects increases in staff and prisoner related costs.

Budgetary control

40. SPS reported a total underspend of £65.6 million (18%) against the final budget of £363.3 million approved by the Scottish Parliament. The majority of this underspend arises from net impairment reversals and an explanation is provided at paragraph 23.
41. In addition to the underspend reported above, £21.7 million was released, at the 2013/14 SBR, to the Scottish Government's Justice Portfolio as a result of in-year resource savings. There were further miscellaneous transfers out of the SPS budget of £0.6 million. £12.0 million was received from the Scottish Government to meet capital expenditure priorities including the completion of HMP Grampian. Other budget increases included £10.1 million to cover potential provision and impairment charges and £2.1 million in respect of private finance initiative (PFI) adjustments. These changes resulted in a net increase in the total budget during the year of £1.9 million.

42. Overall, budgetary control arrangements operated satisfactorily during the year however there is scope for improvements in reporting - see paragraph 65.

Financial position

43. The statement of financial position shows a net asset position of £842.0 million at 31 March 2014. Non current assets increased by £105.1 million (11.9%) reflecting significant revaluation and indexation movements. Total liabilities decreased by £6.1 million (3.7%) and there was a decrease in current assets of £2.0 million (14.1%).

Capital expenditure

44. The capital budget was managed effectively with net capital expenditure of £33.6 million invested during 2013/14. HMP Grampian was opened in March 2014 at a total construction cost of £77.7 million. The new establishment replaced HMP Peterhead and HMP Aberdeen which were closed in December 2013 and January 2014 respectively. Work also continued on modernisation of the prison estate for female prisoners.
45. HMP Friarton which was valued at a market value of £1.2 million was sold for £1.3 million in October 2013. HMP Peterhead and surplus land at HMP Edinburgh were held for sale at 31 March 2014. HMP Peterhead was sold for £0.6 million, generating a gain on sale of £0.2 million, in June 2014. The land at HMP Edinburgh, which was valued at £1.5 million at 31 March 2014, is expected to be sold during 2014/15.
46. We reviewed the classification of capital expenditure as part of the financial statements audit and concluded that accounting for capital expenditure was appropriate

Financial sustainability

47. Over the current spending review period, SPS has stated a commitment to investing in the creation of a prison estate that is fit for purpose and provides a humane regime, capable of contributing to maintaining public safety and addressing the specific needs of the female prison population. SPS, in common with every public service delivery body, will continue to face financial pressures over the coming years. There is also increasing expectations for the justice system to work more efficiently and effectively.

Prison estate and population

48. Investing in the prison estate is designed to support initiatives such as reducing reoffending, increasing prisoner welfare and purposeful activity and encouraging alternatives to custody. This has the dual purpose of improving the quality of service SPS provides to offenders while helping to ease demand pressures in the long term.
49. The prison population continued to be a strategic risk which required ongoing management during 2013/14. During this period the overall prison population has shown a downward trend with an average daily prison population of 7,851, a decrease from 8,014 in the previous year.

The maximum number of prisoners held within the SPS estate was 8,013 on 5 September 2013. This compares with a 2012/13 maximum of 8,384 on 10 April 2012.

50. Although the prison population has stabilised in the last two years long term projections suggest the population will rise in future years. In addition, the profile of offenders is changing and there is an increase in the number of prisoners requiring high levels of care. The Scottish Government's Infrastructure Investment Plan 2011 (updated in February 2014) sets out a commitment to further modernise and improve the prison estate. However, the Scottish Government's position remains that no further capacity will be provided and SPS needs to ensure it maximises the use of the existing estate in order to minimise the negative impact of population pressures.
51. Recent developments include:
 - the progression of work at HMP Inverclyde, HMP Cornton Vale and HMP Edinburgh to implement the recommendations from the report of the Commission on Women Offenders
 - discussions to progress the potential purchase of a site for HMP Highland, as a replacement for HMP Inverness, from Highland Council
 - the receipt of formal approval to commence a site search for HMP Glasgow which will replace HMP Barlinnie.
52. We reviewed the capital programme and noted that future expenditure plans will rely on a significant increase in capital budget allocations going forward compared with current levels. Budget provision in the medium to longer term remains uncertain which may impact on SPS' ability to deliver a number of the projects currently planned.
53. Our local study on the review of SPS' capital investment programme (see paragraph 143 to 147) recognised that there is a need for SPS to establish a new capital strategy which establishes a vision for future capital investment and provides a clear framework to enable decisions about the prison estate to be prioritised. The strategy should align to the outcomes of the organisational review (see paragraph 79) and provide clear information on the overall condition of the prison estate.
54. SPS has a number of operational systems in place to manage the prison population on an ongoing basis. Updates are provided to the board in relation to initiatives which impact on future population numbers eg reducing reoffending, young people's strategy and purposeful activity strategy. There has been no routine reporting to the board in relation to the management of population levels, highlighting the impact of any significant capacity issues such as restrictions on the planned capacity at HMP Grampian (see paragraphs 59 to 61).
55. The organisation continues to actively manage the prison population within the constraints of the prison estate. We recommend that the nature of reporting to the SPS Board is reviewed as part of consideration of the overall governance of this area.

Refer Action Plan No.4

Women in custody

56. The Commission on Women Offenders, set up to find a more effective way of dealing with women in the criminal justice system, published its report in April 2012. The Commission made six recommendations that have a direct impact on SPS, three of which relate to the way in which women are accommodated and managed whilst in custody. SPS is making progress with the implementation of these recommendations. Following the outcome of a consultation exercise SPS is planning the construction of a new national prison for women at HMP Inverclyde, with a design capacity for 300 women, as a replacement for HMP Cornton Vale and developing a new specialist unit at HMP Edinburgh.
57. Design and demolition and enabling works in respect of HMP Inverclyde commenced during 2013/14. A major refurbishment of parts of HMP and YOI Cornton Vale also took place during the year with the aim of significantly improving the quality of existing facilities in advance of the replacement prison opening. The new HMP Grampian includes a 50 place regional unit for women and work continued on the women's unit at HMP Edinburgh. These units contribute to the SPS' aim of locating women offenders as close to their communities as possible where appropriate.
58. In the course of 2013/14 the Chief Executive continued to chair a National Steering Group for the Improvement of Services to Women Offenders. In addition to progressing improvements to the estate a range of good practice has been put in place to support the national strategy for the management of women in custody including a women in custody induction package for staff recruited to work with women offenders.

HMP Grampian

59. HMP Grampian was completed in late 2013 and opened in March 2014. The new establishment was designed to be SPS' first fully community facing prison with a capacity for 500 prisoners including adult males, young male offenders and females from the North and North East of Scotland.
60. The opening of a new prison is a challenging undertaking and a number of issues culminated in a disturbance in May 2014. Following the conclusion of the incident a number of adult short term and young male offenders were removed from the prison and a decision was taken to limit capacity to approximately 250 prisoners in the medium term. This will assist with stabilising the prison and addressing resourcing issues and allow for a review of optimum capacity and prisoner categorisation. However, the reduction in planned capacity will result in unplanned pressures on other establishments.
61. We understand that the process for carrying out the post project evaluation at HMP Grampian has commenced. This will include consideration of its geographical location and the community facing model. The lessons learned from this review will help to inform future capital investment decisions including the current development of the women's prison at HMP Inverclyde.

Financial planning and management

62. SPS transferred £21.7 million out to other justice priorities in the 2013/14 SBR. This follows gross transfers of £7.8 million and £20.6 million in 2011/12 and 2012/13 respectively. The 2014/15 budget allocation has identified a net capital budget shortfall of £18.5 million which will need to be funded by switching current revenue to capital budgets via an in-year budget revision.
63. An update on the implications of the 2014/15 Draft Budget was provided to the SPS Board in September 2013. The Board were informed that further work had been commissioned and the results would be shared with the non executive directors in due course. The 2014/15 budget allocation was agreed following meetings between Finance and the Executive Group however there was no summary provided to the Board.
64. A financial report is submitted to each meeting of the SPS Board which includes a summary of financial performance for the year to date however these are very abridged in nature. Finance report monthly to Executive Group members in respect of their own areas of budgetary responsibility but the reporting process for the Executive Group as a whole is the same as the Board. The lack of updates provided to the SPS Board in relation to major capital projects was reported in our capital review.
65. The continuing nature of in-year budget transfers in respect of identified resource underspends, capital funding shortfalls and potential delays in the completion of major capital projects increases the importance of comprehensive and transparent budget monitoring and reporting at board level. We recommend that the nature of reporting to the SPS Board is reviewed as part of consideration of the overall governance of this area.

Refer Action Plan No.4

Outlook

66. Draft budgets for the 4 year period from 2011/12 to 2014/15 were set by the Scottish Government Spending Review 2011. SPS has been allocated a revenue budget of £368.9 million and a capital budget of £13.4 million for 2014/15. This represents an increase of £26.9 million in the operating budget and a decrease of £9.1 million in the capital budget compared to the underlying allocation for 2013/14.
67. An update on financial performance for 2014/15 is reported to the SPS Board on a regular basis. No significant variances have been identified.
68. The 2014/15 Draft Budget identifies indicative spending plans for 2015/16. These plans comprise a revenue budget of £368.2 million, which is consistent with the budget for 2014/15, and a capital budget of £30.0 million. The capital budget represents an increase in the level of funding available in 2013/14 and 2014/15.

Governance and accountability

69. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
70. Through its Chief Executive or Accountable Officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
71. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
72. In this part of the report we comment on key areas of governance.

Corporate governance

73. The Chief Executive chairs an Advisory Board which, at 31 March 2014, comprised three executive directors and five independent non executive directors. The Board is supported by the Executive Group and RMAC. During 2013/14 there were a number of changes to executive members of the Board which reflect the structural changes arising from the organisational review.
74. At the beginning of 2013/14 the RMAC consisted of two non executive members, including the Chairman, and two independent members. In November 2013, a further two non executive directors were appointed to the committee. The Chairman resigned from the RMAC (and Board) shortly after the year end and was succeeded, in his role of RMAC Chairman, by one of the independent members. The other independent member resigned from the committee in May 2014.
75. The RMAC met four times during 2013/14. The Board met eight times and the frequency of meetings of the Executive Group returned to a weekly basis.
76. Following the organisational review we are currently carrying out a local study to review overall SPS' governance arrangements (see paragraph 148) and we will report on the findings from this review later in 2014.

Effectiveness of RMAC

77. We identified risks in relation to the effectiveness of the RMAC in our 2012/13 annual audit report. We are pleased to report that, during 2013/14, members of the committee have demonstrated a good level of challenge. A corporate risk is considered in detail at each meeting and members have met with the Governor and other members of the local management team where meetings have been held at prison locations. In addition, we welcomed the opportunity to meet privately with the non executive and independent members after the RMAC meeting in May 2014.
78. Deficiencies in some of the reporting to the committee limits its overall effectiveness. Members have raised concerns relating to the inadequacy of the corporate risk register and the incomplete development of the register was highlighted as a significant continuing matter in the Chairman's annual report 2013/14. Plans to review committee effectiveness and the performance of individual members did not progress as planned. We understand that the Chief Executive has instigated a review and refresh of the RMAC arrangements.

Refer Action Plan No.5

Organisational review

79. The report of the SPS organisational review was published in November 2013. The report recognises that expectations have changed and new demands have been placed on the service. The review focuses on rehabilitation and reintegration services as well as acknowledging the need for changes in organisational behaviour. The review is also designed to deliver improved policy integration with the Learning and Justice family.

Management arrangements

80. The outcome of the organisational review is a programme of transformational change which will be taken forward by the Corporate Change Unit (CCU) and overseen by the SPS Executive Group and SPS Advisory Board. The CCU, led by the Head of Corporate Change, was created as a new support function which operates across all areas of the organisation.
81. The Corporate Change Manager acts as deputy to the Head of Corporate Change and directly manages a team of Programme Support Specialists with a lead role taken by the Change Portfolio Manager. The CCU has not yet reached its full complement of staff and there has also been a change in leadership of the unit.
82. Management arrangements to support implementation of the organisational review include the improvement and rationalisation of controls over programme and project management and the CCU will co-ordinate these developments.
83. The change portfolio will be monitored through a hierarchy of boards with project and programme boards reporting to a regular Change Portfolio Board which will provide progress reports to the Executive Group and Advisory Board. These measures are still under development and will take time to be fully effective.

84. A paper was presented to the SPS Board in March 2014 which provided an overview of how the Audit and Assurance Unit (AAU), as provider of the internal audit function and therefore a key role in the governance framework, can respond to the new challenges arising from delivery of the organisational review. AAU will review the workings of the CCU as part of its independent appraisal function whilst at the same time recognising that there are a number of areas where the organisation will benefit from co-operation between the two teams. This paper was not specific in terms of when these new arrangements would be in place.
85. We acknowledge that detailed governance arrangements remain under development. Milestones and timeframes should be defined and regular management reporting on progress should be introduced.

Refer Action Plan No.6

Leadership capacity

86. There were significant changes to the membership of the SPS Board during 2013/14. These changes are summarised at paragraphs 73 and 74.
87. The organisational review recommended a new high level structure for SPS headquarters and, in November 2013, SPS moved from a five Directorate model to a three Directorate model supported by a Corporate Change Unit. All three Executive Director posts were filled in a permanent capacity by early March 2014. The new Directorate model comprises:
- Corporate Services
 - Operations
 - Strategy and Innovation
88. The new model has resulted in numerous changes at a senior level within the organisation. It has taken a number of months to fill key vacancies and some roles continue to be filled on a temporary basis. We understand that this is to allow flexibility in dealing with the outcome of the future SPS structure. It is critical that sufficient leadership capacity is maintained to ensure successful implementation of the change programme.
89. The SPS has recognised the extent of the challenge in relation to this area. An SPS People Strategy is under development to provide a framework for taking forward the investment in its people. The Strategy aims to incorporate staff recruitment, development and succession as well as the cultural change needed to deliver improved outcomes. The four people priorities have been identified as:
- creating a new culture of continuous improvement and staff and prisoner engagement
 - building SPS professionalisation
 - growing leadership capability
 - improving human resource effectiveness.
90. A number of staff within the Finance team are currently acting up to fill vacancies and temporary agency staff have been recruited to cover four positions. The remit of the AAU has been extended and this is being supported by plans to recruit additional staff. There is a lead

time to recruit and develop staff. Continuing vacancies throughout the organisation may impact on the overall capacity of the organisation to deliver the recommendations identified in the organisational review.

Refer Action Plan No.6

Risk management

91. Broad plans have been set out for enhancing the organisation's approach to risk management. With effect from April 2014, the AAU assumed responsibility for the risk management function across the business. The appointment of a Corporate Risk Manager, who will report to the Head of AAU, aims to deliver a consistent approach to risk management throughout the organisation.
92. The 2014/15 AAU Assurance Plan has been prepared on the assumption that there will be a Corporate Risk Manager working in the section. We have been informed that it is unlikely that this position will be filled until late 2014. This could have an impact on completion of the proposed work included within the plan.
93. We first highlighted the incomplete nature of the corporate risk register in February 2013. The register remains under development since this time and significant improvement is required if it is to be useful as a management and oversight tool. The development of corporate governance arrangements, arising from the organisational review, provides an opportunity for the respective roles of the Board and RMAC in relation to risk management to be clarified. This should identify overall responsibility for the review and maintenance of the corporate risk register and the nature and frequency of reports to the SPS Board.

Refer Action Plan No.7

Internal control

94. As part of our 2013/14 audit we reviewed the high level controls in respect of a number of SPS systems that impact on the financial statements. Our audit judgements were based on current year testing of controls and, where appropriate, prior year results. This audit work covered the following systems:
 - general ledger
 - trade payables
 - procurement
 - payroll
 - banking
 - prisoner funds
 - capital accounting
95. Our overall conclusion was that SPS had appropriate systems of internal control in place during 2013/14.

Governance statement

96. SPS included a governance statement in its 2013/14 annual accounts in accordance with Scottish Government guidance. The statement included a description and assessment of the essential components of corporate governance and details of any significant risk related matters arising during the period. We are satisfied that SPS prepared a statement that complied with the guidance.
97. The organisational review and the risk associated with the proposed re-organisation is identified as a significant control issue in the 2013/14 statement. The statement also recognises that the corporate risk register is still under development and there is a need for improvement in the reporting of risk.

Internal audit

98. Internal audit provides SPS and its Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In an effort to avoid duplication we place reliance on internal audit where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.
99. Our assessment of internal audit was carried out in January 2014 and concluded that the internal audit service provided by the SPS AAU operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
100. Based on his review of the corporate governance and control environment, management of risk and reliance placed on the work of other external assurance providers the Head of AAU provided an overall reasonable level of assurance for financial year 2013/14. The Chief Executive has identified a number of key operational areas where, following internal audit review, substantial rather than reasonable assurance will be a requirement going forward. This focussed approach highlights progress in the consideration of organisational risk management. SPS should ensure that actual performance, in these areas, is adequately monitored against the agreed requirement.

Information and Communications Technology (ICT) audit

101. As part of our 2013/14 audit we met with Information Systems and Strategy (ISS) management to consider the continuing and emerging challenges facing the ISS management team. An SPS Digital Strategy was approved by the Executive Group in July 2014 and the ICT Business Plan 2014/15 has been agreed. The new Digital Strategy replaces the previous IT Strategy and takes into account the findings from the organisational review. ICT governance issues are currently being addressed by the Corporate Change Unit.
102. During 2013 SPS relocated its data centre services, supported by the creation of a new IT business continuity (BC) and disaster recovery (DR) facility. An annual test of the IT BC/ DR facilities was due to take place in July 2014 however this has been delayed to allow

completion of the WAN/ LAN upgrade project by September 2014. We will confirm testing of the IT BC/ DR facilities as part of our 2014/15 audit.

103. We have been informed that the SPS is currently on target to achieve Public Services Network (PSN) accreditation by September 2014. The PSN aims to create a single, logical public sector network across the UK to enable better sharing of information and collaboration between different organisations. Our understanding is that achieving PSN accreditation will not represent a significant challenge or additional cost to SPS.

Arrangements for the prevention and detection of fraud and irregularities

104. SPS' arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.
105. The SPS Fraud Response Plan sets out the responsibilities, actions and arrangements for dealing with all circumstances relating to actual or suspected fraud. The Fraud Response Plan supports the SPS Fraud Prevention Policy.
106. In accordance with the Fraud Response Plan, SPS has established a Fraud Response Group (FRG). Following the organisational review, the FRG is now chaired by the Director of Operations. The purpose of the FRG is to have an awareness of matters relating to alleged fraudulent activity at an early stage, review lessons learned and promote awareness of fraudulent activity and to influence policy development. The third annual report on the work of the FRG was presented to the RMAC in June 2014. This report summarised the investigations which had taken place during the year including the types of cases reported and the distribution across establishments.
107. SPS participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals and by different public sector bodies and different financial systems, to identify matches that might indicate the existence of fraud or error. Overall, we concluded that SPS has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. An update on NFI was included in the annual report of the FRG.
108. Audit Scotland's report on the NFI in Scotland 2012/13 was published in June 2014. The findings from this report are summarised at paragraphs 140 and 141.

Arrangements for maintaining standards of conduct and the prevention and detection of bribery and corruption

109. The arrangements for the prevention and detection of corruption in SPS are satisfactory and we are not aware of any specific issues we need to record in this report.
110. The SPS employee code of conduct has been collectively agreed by management and the Trade Union Side (TUS). The primary purpose of the code is to ensure that the high standards of conduct demanded of employees of the SPS are achieved and maintained. The

SPS sets certain standards of conduct for its employees which in some instances are significantly higher than those expected in other employment relationships. We have continued to monitor SPS progress in updating the code and understand that this is due for completion by April 2015.

111. A Conduct Investigation Unit (CIU) was launched in June 2010 and has a complement of four staff. The CIU is an independent unit set up within the SPS which is responsible for investigating allegations of gross misconduct involving employees. During 2013/14 the CIU reviewed its process and practices resulting in revised report styles, the utilisation of electronic reporting and increased management information gathering.
112. The first joint annual report of the Employee Absence, Conduct and Health (EACH) and CIU was presented to the RMAC meeting in June 2014. Previously, these teams have prepared separate reports.
113. The annual report of the FRG includes a proposal to raise with the Executive Group that the remit of the group be expanded to include consideration of corruption.

Outlook

114. Finalisation and implementation of the new governance arrangements for management of the change portfolio and business as usual activity is a priority for 2014/15.
115. Organisation of branch structures beneath Directorate level will continue into 2014/15 and work is ongoing to fill vacancies on a permanent basis.
116. Work will continue on the development of the People Strategy and supporting activities with completion due by the third quarter of 2014/15.
117. SPS intend to finalise the appointment of a Corporate Risk Manager by late 2014. This individual will be tasked with developing risk management procedures and implementing a consistent approach across the organisation.
118. The Cabinet Office will take over responsibility for the NFI team and web application from April 2015. Audit Scotland expects no impact of this change for the NFI 2014/15 exercise which is due to start in summer 2014.

Best Value, use of resources and performance

119. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
120. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
121. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
122. This section includes a commentary on the best value and performance management arrangements within SPS. We also summarise headline performance measures used by SPS, highlight any relevant national reports and comment on the body's response to these.

Arrangements for securing Best Value

123. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
124. The SPS reported its assessment of compliance with best value requirements in the governance statement. The overall assessment was that it has well developed arrangements for six of the seven themes. The remaining theme, effective partnership arrangements, was assessed as currently under development. A number of improvements relating to this theme have taken place during 2013/14. These improvements include:
- consulting with stakeholders on the organisational review programme
 - working with partners to develop new and innovative services for women offenders

- working in partnership with third sector and other agencies to help prepare offenders to make a successful transition back to their communities.

Performance management

125. The SPS Corporate Plan 2012 - 2015 sets out the aims and high level priorities for the SPS over the current spending review period and supports the Scottish Government's Strategy for Justice in Scotland. The planned activities for delivering priorities are detailed in the annual delivery plan. SPS agrees a service framework with each public sector prison and manages private sector providers of prisons and prisoner escorting services under contract arrangements.
126. Key performance indicators (KPIs) are agreed by the Cabinet Secretary for Justice and set out in the annual delivery plan. There are no targets set but performance management is focussed on trend analysis and continuous improvement. The Executive Group reviewed an update on performance and progress against the SPS Interim Delivery Plan 2013/14 in January 2014. Figures for the full year were presented to the board meeting in May 2014. Quality of service is measured through the achievement of KPIs, service indicator measures and the monitoring of private contracts. Annual performance is reported in the SPS annual report and accounts.
127. The Corporate Plan 2014 - 17 and Delivery Plan 2014/15 reflect the updated strategic priorities identified in the organisational review. These documents were submitted to the Cabinet Secretary for Justice in July 2014.

Overview of reported performance in 2013/14

128. Seventeen KPIs across ten performance areas are reported in the SPS annual report and accounts 2013/14. Overall, KPIs show a general maintenance of performance reported in the previous year however there are a number of KPIs where performance has reduced. This includes figures for the volume of vocational and work skills qualifications which have been impacted by a change in the nature of qualifications, the closure of HMP Aberdeen and HMP Peterhead in advance of opening HMP Grampian and capital works to improve HMP Barlinnie's training facilities. The average annual cost per prisoner place has increased from £31,926 in 2012/13 to £33,153 in 2013/14.
129. The indicators confirm that SPS has maintained its performance in relation to secure custody. Family engagement in integrated case management (ICM) has increased and there has been a slight improvement in purposeful activity hours since the previous year.

Her Majesty's Inspectorate of Prisons for Scotland (HMIPS)

130. HMIPS is required to inspect all of the prison establishments throughout Scotland in order to report on conditions and the treatment of prisoners.
131. The first annual report of the new Chief Inspector, David Strang, since his appointment in June 2013 was published in June 2014 and covers reporting year 2013/14. During this period,

HMIPS published three full and two follow up inspection reports on establishments. The findings from these inspections are included within the annual report. He also commented on the SPS organisational review, areas of good practice and recurring recommendations.

132. SPS actively reviews all reports and recommendations made by HMIPS with agreed actions set out in a published plan. With effect from April 2014 the AAU assumed responsibility for ensuring the implementation of HMIPS recommendations. The Deputy Director of Operations attended the RMAC in December 2013 to update members on the findings of four recent HMIPS reviews. A further update is scheduled for November 2014.
133. The previous HMIPS attended the June 2013 meeting of the Board to reflect on his time in post and offer his outgoing thoughts prior to his retirement.

National performance reports

134. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 1.

Exhibit 1: A selection of national performance reports 2013/14 and 2014/15

- | | |
|--|---|
| <ul style="list-style-type: none"> Scotland's Public Sector Workforce (November 2013) Scotland's Public Finances - a follow up audit: progress in meeting the challenges (June 2014) | <ul style="list-style-type: none"> The National Fraud Initiative in Scotland 2012/13 (June 2014) |
|--|---|

Source: www.audit-scotland.gov.uk

Scotland's public finances - a follow up audit

135. We reported, in March 2014, on the targeted follow up work we carried out in relation to SPS. This report identified a number of key risk areas, including:
- SPS participates in the annual Scottish Government benchmarking exercise and carries out internal benchmarking by making comparisons between establishments. However we were informed that the agency doesn't benchmark itself against other UK public sector bodies or prison agencies
 - The SPS Corporate Plan 2012 - 2015 contains limited financial information. It does not consider the consequences of budget constraints on the ability to deliver improved services and outcomes.
136. We are continuing to monitor implementation of the agreed management action to address the risks identified.
137. The national report is aimed at supporting those leading and managing public services in making increasingly difficult choices about how to make best use of the money that is

available. Alongside the report, Audit Scotland has published checklists designed to help non executive directors with their crucial role in budget setting and financial planning.

138. The report recommends that public bodies should:

- implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve
- develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long term affordability
- support effective scrutiny by ensuring that good quality information is available and that non executive directors have the right skills to carry out their scrutiny roles.

The National Fraud Initiative in Scotland 2012/13

139. Audit Scotland, working closely with public bodies, external auditors and the Audit Commission, has completed another major data sharing and matching exercise. The NFI exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.

140. Since Audit Scotland last reported on the NFI, in May 2012, outcomes valued at £16 million have been recorded and the cumulative outcomes from the NFI in Scotland are now at £94 million. The NFI 2012/13 involved 127 Scottish bodies across four sectors making this the largest and most diverse data sharing exercise since the NFI began. Scottish bodies submitted 599 data sets and these generated 382,137 data matches for further investigation.

141. The report includes recommendations for all participants as follows:

- Audit Committees, or equivalent, should review the self-appraisal checklist at Appendix 2 of the report to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise
- audited bodies should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
 - whether it is possible to work smarter on the NFI matches (suggestions are provided at Appendix 3 of the report)
 - using the NFI matches in conjunction with alternative matching services from other providers.

142. The findings of relevant Audit Scotland national performance reports are not routinely considered by the SPS Board or RMAC. SPS have advised that the appropriate governance body reviews relevant reports together with any associated response and guidance issued by the Scottish Government. This may involve the Board or RMAC but is more likely to be considered by a specific group such as the FRG. The process for reviewing relevant reports should be revisited as part of the governance and monitoring arrangements being considered as part of the implementation of the organisational review.

Refer Action Plan No.8

Local performance reports

Review of capital investment programme

143. At the request of the Chief Executive we carried out a review of arrangements during 2013/14 to establish and keep under review the prison estate capital investment programme, considering how this is aligned to the overall strategic direction of the organisation and wider developments in justice policy.
144. The report on the outcome of our review was presented to the RMAC in March 2014 and we understand that the report will also be distributed to members of the Board.
145. The report outlines a number of recommendations to support improvement in the direction and delivery of SPS capital investment. It suggests that SPS should:
- develop and publish a strategy to set out the long-term needs and constraints for capital investment in the prison estate in Scotland
 - clearly outline governance arrangements for the capital programme
 - improve the quality of information provided to the board on the capital programme
 - continue to seek opportunities for joint working with justice partners, other public bodies, and councils to explore ways to improve the efficiency of the capital programme
 - implement standard procedures for measuring, monitoring and reporting of the benefits for each major capital project
 - carry out post-project evaluations following project completion in line with guidance issued by the Scottish Government.
146. The report also includes a number of questions aimed at non executive board members to support effective scrutiny and challenge of the capital investment programme.
147. A number of the management responses to the recommendations raised in our action plan had a target implementation date of June 2014. The majority of these relate to action which falls within the remit of the CCU. We received an update on progress in implementing the recommendations, in July 2014, and noted that good progress has been made in all areas however none of the recommendations have been fully implemented. We will continue to follow up the recommendations during 2014/15.

Review of governance arrangements

148. We have agreed that we will conduct a local study to review overall SPS governance arrangements. We will consider the role and effectiveness of the SPS advisory board and RMAC and SPS risk management procedures. A scoping document has been agreed with the Chief Executive. This review is currently in progress and we will report on our findings later in 2014

Outlook

149. The organisational review makes several recommendations on improving corporate performance management in the SPS in the context of the Scottish Government's performance framework Scotland Performs and the Strategy for Justice in Scotland. A paper describing the next steps in the development of a new model for corporate performance management was presented to the board in May 2014. This includes a review of the current format of service agreements and improving the quality and validity of KPIs. The Strategy and Innovation Directorate will take this work forward as a key priority in 2014/15.
150. HMIPS carry out inspections against a set of published inspection standards. The existing standards were published in 2006 and the process of reviewing and updating the standards began during 2013/14. The revised standards are expected to be finalised in 2014/15 and will form the basis of inspections later in the year. Implementation of the new standards means that establishments will be assessed against more current requirements including the engagement of prisoners in decision making, clarity of purpose and priorities and consideration of both internal and external relationships.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2013/14

Title of report or opinion	Date of issue	Date presented to RMAC
Annual audit plan	14 March 2014	21 March 2014
Review of capital investment programme	14 March 2014	21 March 2014
Scotland's public finances: addressing the challenges (a targeted follow up report)	14 March 2014	21 March 2014
Report on interim testing	19 May 2014	23 May 2014
Report on financial statements to those charged with governance (ISA 260)	17 June 2014	24 June 2014
Audit opinion on the 2013/14 financial statements	17 June 2014	24 June 2014
Audit opinion on the 2013/14 consolidation templates	17 July 2014	NA
Review of governance arrangements	December 2014	6 March 2015 (provisional)

Appendix B: Action plan

Key risk areas and planned management action

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
1	21-22	<p>Land and building valuations</p> <p>A material error occurred at the 31 March 2012 valuation of SPS land and buildings resulting in a prior year adjustment in the 2013/14 accounts.</p> <p>In addition, the 31 March 2014 valuations of HMP Aberdeen and HMP Peterhead were revised as a result of audit work.</p> <p>Risk</p> <p>There is a risk valuations provided by the District Valuer are inaccurate.</p> <p>Recommendation</p> <p>SPS should seek assurances from the District Valuer that quality control procedures are implemented to address the issues identified.</p>	<p>SPS will seek assurances from the District Valuer about quality control procedures. SPS will ensure that rigorous checks are carried out and any significant shifts in the land valuations are fully investigated. In regard to the incorrect method of valuation of Peterhead and Aberdeen, SPS has implemented an additional process to the valuation exercise whereby SPS will provide the valuer with the classification of land and agree the method of valuation prior to the actual valuation exercise being carried out.</p>	Head of Finance	March 2015
2	26-28	<p>Remuneration report</p> <p>There have been difficulties ensuring the correct information is supplied to MyCSP.</p> <p>Risk</p> <p>There is a risk incorrect salary details are submitted to MyCSP</p>	<p>SPS will continue to liaise with MyCSP on this issue. Close working with MyCSP is in place to ensure guidance is kept up to date, and that SPS and MyCSP comply with that guidance.</p>	Head of Human Resources	October 2014 and ongoing.

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
		<p>leading to errors in the remuneration report.</p> <p>Recommendation</p> <p>SPS should liaise with Cabinet Office and MyCSP to ensure guidance is updated.</p>			
3	29-30	<p>Movement in indices</p> <p>Tender price indices (TPIs), are published quarterly and used by the District Valuer. These indices are subject to change between the forecast used for the preparation of the accounts and the actual index after the year end.</p> <p>Risk</p> <p>There is a risk that movements between forecast and actual TPIs are not appropriately disclosed in the financial statements.</p> <p>Recommendation</p> <p>SPS should obtain and review TPIs on a regular basis to assess the impact of any variation in the figures reported. It may be appropriate to review the use of TPIs and consider the use of a more stable index.</p>	<p>The District Valuer deems that these are the most appropriate indices to use for forecasting the rebuilding costs of a prison; reflecting the current market conditions in regard to tenders. The tender price indices are widely used in the public sector; however, SPS will consult with the valuers to establish if this is the most appropriate index and whether it has been subject to fluctuation. SPS will request that the valuer produces a summary on market movements since valuation from the date of valuation until 31st March. This may have an impact on AME budgets set, SPS will seek clarification from the SG of the impact of any late</p>	Head of Finance	March 2015

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
			adjustments. SPS will also look at other potential indices for the assets which are not valued during the year i.e. those that have indexation applied to them.		
4	54-55, 63-65	<p>Board reporting</p> <p>A number of key areas, including updates on the prison population, are not subject to regular reporting to the board. Reporting of the Agency's financial position/ performance is very summarised in nature.</p> <p>Risk</p> <p>The SPS Board may not receive the appropriate information to perform its advisory role effectively.</p> <p>Recommendation</p> <p>The nature and frequency of reporting to the SPS Board should be reviewed, with consideration given to an updated suite of regular reporting templates covering critical business issues.</p>	SPS is reviewing the format of Advisory Board Meetings which will include scheduled discussion on population management and a revised Financial Report.	Chief Executive	March 2015
5	77-78	<p>Effectiveness of RMAC</p> <p>We identified a number of ongoing issues which restrict the overall effectiveness of the</p>	A number of initiatives are currently underway in connection with improving the	Chief Executive / Head of Audit & Assurance	February 2015

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
		<p>RMAC. These include the quality of reporting on risk and arrangements to assess the performance of the committee and its members.</p> <p>Risk</p> <p>There is a risk that the RMAC is not fully effective in its scrutiny role.</p> <p>Recommendation</p> <p>A clear plan for review of the RMAC arrangements should be developed.</p>	<p>effectiveness of RMAC. This includes a recent recruitment campaign for new Independent Members, the provision of Audit Committee training for members and a review of RMAC overall effectiveness which will be the subject of a report to the November 2014 RMAC meeting. In addition, there has been a review of what financial information should be supplied to RMAC at future meetings. The quality of reporting of risk will be reviewed following the appointment of a Corporate Risk Manager.</p>		
6	80-90	<p>Organisational review - management arrangements and leadership capacity</p> <p>Proposals to reinforce the governance arrangements for implementing the organisational review have been approved. There are a number of key posts filled on a temporary basis although activities to support staff</p>	<p>The CCU reached its full complement of staff in late September 2014. Recommendations and action points arising from the organisational review will be classified into programme and project groups. Programme and project activity will be filtered, with business</p>	Head of CCU	November 2014

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
		<p>recruitment, development and succession are under development. However, there is no management reporting against timeframes to implement the new arrangements and fill vacant posts.</p> <p>Risk</p> <p>There is a risk that management arrangements to deliver the organisational review are not fully embedded on a timely basis. Ongoing vacancies could impact on the leadership and organisational capacity to deliver the recommendations identified.</p> <p>Recommendation</p> <p>Reporting of progress against detailed milestones and timeframes should be introduced.</p>	<p>as usual being reported through the 3 Directorates within SPS Headquarters and change activities forming the change portfolio which will be overseen by the CCU. The Change Portfolio Board will meet and regular reporting will commence in Q3 2014.</p> <p>With regard to paragraphs 86 to 90: The majority of senior management vacancies which were in SPS at the time of the audit are now filled. There are two remaining vacancies within Audit/ Finance that are outstanding and the Resourcing Team is currently working on advertising and interviewing for these vacancies.</p>	Head of Human Resources	November 2014
7	91-93	<p>Risk management</p> <p>Although a number of improvements to risk management have been planned, including the appointment of a Corporate Risk Manager, these improvements are not yet in place. In addition, the corporate</p>	Work on refreshing the Corporate Risk Register is currently underway and this will be further developed following the appointment of a Corporate Risk Manager. The recruitment process to	Head of Audit & Assurance	January 2015

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
		<p>risk register requires significant improvement.</p> <p>Risk</p> <p>Risk management procedures may not be sufficiently robust to effectively support implementation of the organisational review.</p> <p>Recommendation</p> <p>The respective roles of the Board and RMAC in relation to risk management should be clarified, together with reporting arrangements and a timetable for the implementation of the improvements identified.</p> <p>The corporate risk register should be updated to appropriately reflect the new risks arising from implementation of the organisational review and other recent developments.</p>	<p>appoint a professionally qualified Corporate Risk Manager is at an advanced stage and following his / her appointment, the successful candidate will lead a root and branch review of Risk Management within the organisation.</p>		
8	142	<p>National performance reports</p> <p>The Board and RMAC now receive updates on HMIPS reports. However, relevant Audit Scotland national performance reports continue to be considered at an operational level rather</p>	<p>Audit Scotland national performance reports will be considered at future meetings of the SPS Advisory Board and RMAC in tandem with the current arrangement at operational level.</p>	Head of Audit & Assurance	November 2014

Action point	Para	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
		<p>than by the Board and/ or RMAC.</p> <p>Risk</p> <p>There is a risk non executive directors are not made aware of key findings and recommendations in national performance reports.</p> <p>Recommendation</p> <p>The process for reviewing relevant national performance reports should be revisited as part of the improved governance and monitoring arrangements being implemented following the organisational review.</p>			

Appendix C: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure
<p>Organisational Review - Management Arrangements</p> <p>There is a risk that the management arrangements in place during the current period of organisational change are not effective in maintaining performance and the delivery of existing services.</p> <p>There is a risk the recommendations identified in the review are not implemented and / or do not deliver the intended outcomes.</p>	<p>We are currently carrying out a review of governance arrangements and will report on the findings from this review later in 2014.</p> <p>We reviewed Board minutes and attended RMAC meetings throughout the year. We also attended the SPS Board meeting, in May 2014, in an observer capacity.</p> <p>We met with the Chief Executive during 2013/14.</p> <p>We held discussions with the Head of Corporate Change and the Head of AAU and requested Board papers for review as appropriate.</p> <p>An update on management arrangements relating to the organisational review is provided at paragraphs 80 to 85.</p>
<p>Senior Capacity</p> <p>Lack of capacity at a senior level may impact on the timely implementation of key priorities.</p>	<p>We reviewed Board minutes and attended RMAC meetings throughout the year. We also attended the SPS Board meeting, in May 2014, in an observer capacity.</p> <p>We met with the Chief Executive during 2013/14.</p> <p>Our findings in relation to leadership capacity are detailed at paragraphs 86 to 90.</p>
<p>Staff Recruitment, Development and Succession Planning</p> <p>There is a risk that the Agency will not have the necessary staff with the appropriate skills in place to deliver the vision identified in the organisational review</p>	<p>We reviewed Board minutes and attended RMAC meetings throughout the year. We also attended the SPS Board meeting, in May 2014, in an observer capacity.</p> <p>We met with the Chief Executive during 2013/14.</p> <p>An update on progress with the People Strategy was obtained.</p> <p>Further observations in relation to staff recruitment, development and succession planning are included at paragraphs 86 to 90.</p>

Audit risk	Assurance procedure
<p>Directorate Structure</p> <p>There is a risk that the permanent Head of Financial Policy and Services is not sufficiently sighted on wider organisational issues which may impact on financial planning and scrutiny processes.</p> <p>There is a risk that the overall reduction in qualified finance staff may impact on the delivery and quality of the annual accounts presented for audit.</p>	<p>We are currently carrying out a review of governance arrangements and will report on the findings from this review later in 2014.</p> <p>We confirmed that the Head of Financial Policy and Services attends meetings of the SPS Board on a regular basis. We attended the SPS Board meeting, in May 2014, in an observer capacity and noted the nature of discussions and involvement of attendees.</p> <p>The Head of Financial Policy and Services attended meetings of the Executive Group as requested during 2013/14 for specific finance related items. We have been informed that this will be widened to attendance at all meetings in 2014/15.</p> <p>The SPS annual accounts and associated working papers were presented for audit in accordance with the agreed timetable. The quality of the information provided was of a similar standard to previous years. However, there are a number of vacancies within the Finance team at the present time - see paragraph 90.</p>
<p>Effectiveness of RMAC</p> <p>There are a number of areas which merit review to support the committee's future scrutiny role.</p>	<p>We are currently carrying out a review of governance arrangements and will report on the findings from this review later in 2014.</p> <p>We attended the four RMAC meetings which were held during 2013/14 and a private meeting with members of the RMAC was held after the May 2014 committee.</p> <p>There has been limited progress in addressing the issues previously identified and more detailed observations are included at paragraphs 77 and 78.</p>
<p>Risk Management</p> <p>The incomplete nature of the corporate risk register means members of the RMAC and SPS Board may be unable to satisfy themselves as to the reliability and integrity of risk management within the Agency.</p>	<p>We are currently carrying out a review of governance arrangements and will report on the findings from this review later in 2014.</p> <p>We have monitored progress with the implementation of improved risk management arrangements during 2013/14, including the appointment of a Corporate Risk Manager and progress with updating risk registers, by reviewing Board minutes, attending RMAC meetings and discussions with the Head of AAU. We have noted that developments are still at an early stage and further commentary is provided at paragraphs 91 to 93.</p>

Audit risk	Assurance procedure
<p>Financial Planning and Management</p> <p>There are financial performance risks associated with anticipating in-year budget transfers for both the SPS and other justice bodies. Further savings, in relation to HMP Inverclyde may be required which could have operational and financial implications.</p>	<p>Our report on the review of the capital investment programme was presented to the RMAC in March 2014 - see paragraphs 143 to 147.</p> <p>We reviewed SPS Board minutes and financial reports to the Board throughout the year and considered the information provided in respect of the 2014/15 budget allocation. Refer to comments at paragraphs 63 to 65 in respect of information provided to the Board.</p> <p>We reviewed the nature of financial reporting to the Executive Group and our findings are detailed at paragraph 64.</p> <p>We reviewed the capital programme and noted future expenditure plans will rely on a significant increase in capital budget allocations compared with current levels.</p> <p>No Gateway Review of the HMP Inverclyde project has been commissioned to date.</p>
<p>Exit Packages</p> <p>Changes to the 2013/14 FReM include a change to the point at which the liability for termination benefits is recognised. A liability should be recognised when the body can no longer withdraw the offer of those benefits. The exit packages disclosure has a more restricted scope than the termination benefits liability as only those packages that have been agreed i.e. accepted and preferably "signed off" or are reasonably certain to be at the end of the reporting period should be disclosed.</p> <p>There is a risk that the recognition criteria for retirement benefits and exit package disclosures are incorrect. The accounting and disclosure in respect of capability dismissals which may meet the requirements for an ill health retiral (the costs of which are met by the pension scheme) at a later date may require further consideration.</p>	<p>We carried out sample testing of retirement benefit liabilities and exit packages disclosed in the 2013/14 accounts and confirmed that the recognition criteria complies with the FReM and other guidance.</p>

Audit risk	Assurance procedure
<p>Provision for Demolition Costs</p> <p>Following discussions with management during the course of our 2012/13 audit a number of adjustments were required in respect of the provision for demolition costs. These adjustments related to the correction of errors concerning the existence, classification and completeness of certain elements of the provision.</p> <p>As SPS continues its programme of modernisation of the prison estate the provision for demolition costs will be subject to change. There is an ongoing risk that these changes, including those arising from wider strategic decisions, are not correctly reflected in the provision.</p>	<p>We reviewed board minutes and attended RMAC meetings throughout the year.</p> <p>We had regular discussions with the Head of Financial Policy and Services and met with the Chief Executive during 2013/14. These discussions included consideration of developments in the capital estate.</p> <p>We carried out sample testing of movements in the provision for demolition costs as part of our final accounts audit.</p> <p>The provision for HMP Peterhead was released during the year as the land was sold shortly after the year end without the need for any demolition work. The balance on the provision at 31 March 2014 is significantly lower than the balance at the end of the previous financial year.</p> <p>We are satisfied that the provision for demolition costs at 31 March 2014 is correctly stated.</p>
<p>Asset Impairments</p> <p>An audit adjustment was required in the 2012/13 financial statements to correct an error in respect of a significant asset impairment.</p> <p>A number of impairment reversals are expected in 2013/14.</p> <p>Due to the nature of annual asset revaluations, including indexation, there is an ongoing risk that accounting entries for asset impairment charges and/ or reversals are incorrectly allocated between the revaluation reserve and expenditure.</p>	<p>We reviewed the District Valuer's report on the asset valuation exercise 2014 and obtained independent confirmation of the indices applied to the remaining land and buildings.</p> <p>Issues were identified in relation to asset valuations and reported in our ISA 260. Refer to paragraphs 21 and 22.</p> <p>We carried out sample testing of impairment charges and reversals arising from revaluation and indexation of the SPS estate and confirmed that calculations, accounting entries and disclosure in the financial statements was satisfactory, subject to the adjustments arising from the issues identified above.</p>
<p>Amendments to 2013/14 FReM</p> <p>Amendments to the 2013/14 FReM include additional disclosure requirements as follows:</p> <ul style="list-style-type: none"> • additional PCSPS disclosures in respect of retirement benefits • further disclosure requirements in 	<p>Our audit of the financial statements included completion of two disclosure guides which have been prepared by the National Audit Office (NAO) for entities who prepare financial statements in accordance with the FReM - one which covered the primary financial statements and notes to the accounts and the other which considered other information included in the annual report, including the management commentary (strategic report and</p>

Audit risk	Assurance procedure
<p>the remuneration report</p> <ul style="list-style-type: none"> inclusion of a strategic report in addition to a director's report. <p>Refer to Audit Scotland's Note for Guidance here - paragraphs 214, 309 and 321.</p> <p>There is a risk that additional disclosure requirements for 2013/14 are not included in the financial statements</p>	<p>directors' report), remuneration report and governance statement.</p> <p>We are satisfied that the SPS annual report and accounts 2013/14 complies with the 2013/14 FReM in respect of material disclosures.</p> <p>A number of suggestions for minor disclosure amendments have been carried forward to discuss as part of our 2014/15 audit planning discussions with the Head of Financial Policy and Services.</p>
<p>Prison Estate and Population</p> <p>Long term projections suggest the prison population will rise in future years.</p> <p>Rising population levels place a strain on the capacity of the estate and supporting services. A major programme is underway to improve the prison estate. Improvements are needed to respond to changing demands and to support the overall strategic direction of the service and specific initiatives including reducing reoffending and women in custody.</p> <p>There are financial and service provision risks associated with increases in the prison population.</p> <p>Capital funds have not yet been identified to fully meet the needs of the estate redevelopment plan.</p>	<p>Our report on the review of the capital investment programme was presented to the RMAC in March 2014 - see paragraphs 143 to 147.</p> <p>We reviewed Board minutes and attended RMAC meetings throughout the year. Further commentary is provided at paragraphs 48 to 55.</p> <p>We met with the Chief Executive during 2013/14. We also met with HMIPS and our discussions included consideration of current and expected future population levels.</p>