

The 2014/15 audit of the Scottish Police Authority



Prepared for the Public Audit Committee by the Auditor General for Scotland
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Contents

Contents	3
Introduction.....	4
Auditor’s opinion on 2014/15 accounts.....	4
Additional issues arising from the 2014/15 audit	5
Progress on developing long-term financial strategy	5
Conclusion	8

Introduction

1. 2014/15 was the second full year of operation for the Scottish Police Authority (SPA) and the Police Service of Scotland (Police Scotland). This is the third report I have made to the Scottish Parliament on the progress made by the two bodies since their establishment on 1 April 2013.¹
2. This report:
 - draws the Parliament's attention to the auditor's modified opinion on the SPA's accounts for 2014/15 and additional issues arising from the 2014/15 audit;
 - provides an update on progress in developing a long-term financial strategy; and
 - highlights the scale of the long-term financial challenges that the Scottish Police Authority and Police Scotland face.

Auditor's opinion on 2014/15 accounts

3. The annual audit of the Scottish Police Authority's 2014/15 accounts was challenging. Audit Scotland received the unaudited 2014/15 accounts, on time, on 31 July 2015, but these were incomplete, of poor quality and were subject to substantial changes. By the end of the audit, the majority of numbers in the primary financial statements had changed. This is exceptional in our wider experience of auditing public sector accounts. These changes required additional audit work. As a result, the audit did not finish as planned by 31 October 2015 and continued until 3 December 2015.
4. The auditor gave an unqualified opinion on the SPA's accounts for 2014/15, but she expressed a modified conclusion on those matters on which she is required to report by exception, noting that:

“Aspects of the accounting records and access to information and explanations in the area of property, plant and equipment were of poor quality. In my opinion, therefore, adequate accounting records have not been kept in respect of these areas for the 2014/15 financial year.”
5. In my report on *Police Reform*, published in November 2013, I:
 - reported that, prior to 1 April 2013, the Scottish Government police reform team had not had enough information on assets such as land and buildings; and
 - recommended that, by the end of March 2014, the SPA and Police Scotland develop a long-term financial strategy that included details of assets and liabilities and how these will change over time.
6. In the report on the 2013/14 audit of the Scottish Police Authority, the appointed auditor reported that one of the factors that had contributed to her issuing a modified opinion on the Scottish Police Authority's accounts for that year was:

¹ *Police Reform*, Audit Scotland, November 2013 and *The 2013/14 audit of the Scottish Police Authority*, Audit Scotland, December 2014.

“[...] aspects of the accounting records and access to information and explanations in the areas of property, plant and equipment...were of poor quality”.

7. Together, the SPA and Police Scotland are responsible for fixed assets with a total value of £552 million. Accurate records of fixed assets are essential to:
 - ensure that assets are effectively managed and protected;
 - provide management information to decision-makers; and
 - ensure that Best Value is derived from these assets in delivering policing services.
8. Following the establishment of SPA and Police Scotland, fixed asset registers were not maintained. During 2014/15, staff from SPA and Police Scotland worked to implement and populate a single fixed asset register known as Asset 4000. This was not completed prior to the start of the audit. This prevented testing until very late in the audit. Once this work began a number of errors were discovered. This resulted in the auditor temporarily withdrawing from the audit to allow SPA and Police Scotland the opportunity to address the problems.
9. The auditor has recommended that SPA and Police Scotland management review whether sufficient resources are available to maintain the fixed asset registers accurately and ensure that there are adequate systems to review them.

Additional issues arising from the 2014/15 audit

10. At the end of 2014/15, and after posting adjustments, the SPA reported an £8.8 million overspend (2013/14: £2.3 million underspend) relative to its overall Departmental Expenditure Limit (ie the level of funding awarded to it by the Scottish Government). This contrasted with its year-end management accounts, which reported breakeven.
11. The Scottish Police Authority's budget is divided into revenue, capital and reform. During 2014/15, there was a budget of £67.5 million for reform. The Scottish Government provided the reform budget to cover costs such as VAT liability, voluntary severance/early retirement costs and ICT developments. The accounts state that expenditure on these areas accounted for £46.5 million. It is not clear what the remaining £21 million was spent on. For the second year running, the auditor has reported that there is a lack of full explanation regarding expenditure against the reform budget. I previously noted in my *Police Reform* report in November 2013 that not all costs relating to reform had been recorded and recommended that arrangements for monitoring and reporting progress on reform should be implemented by the end of March 2014.

Progress on developing long-term financial strategy

12. The SPA still does not have a long-term financial strategy. There has been some progress towards this goal but it has been slow. There are five underpinning strategies that will support a long-term financial strategy: procurement, estates, fleet, workforce and ICT.
13. Of the five underpinning strategies, three have now been approved:
 - Procurement: approved October 2014

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- Estates: approved June 2015
 - Fleet: approved August 2015.
14. Two of the three approved strategies do not contain information on their financial implications. The estates strategy suggests that better use of the estate could deliver revenue savings of £5 million a year and that one-off capital receipts of £22 - 34 million could be achieved through sale of parts of the estate that are no longer required. Neither the fleet strategy nor the procurement strategy contain information on their financial implications. The SPA intends to approve its workforce and ICT strategies by March 2016.
 15. In September 2015, the SPA's Finance and Investment Committee noted a Statement of Financial Intent. This statement sets out the constraints facing the SPA. In particular, it stresses that staff costs account for 86 per cent of all expenditure, with police officer costs accounting for 71 per cent of expenditure. In addition, the SPA and Police Scotland assessed the implications of different financial scenarios (flat cash, 25% and 40% reductions) in advance of the UK Government's spending review (25 November 2015) and the publication of Scottish Government's draft budget for 2016/17 (16 December 2015). This work will be valuable input to developing the long-term financial strategy.
 16. SPA intends to approve a long-term financial strategy covering the period to 2025/26 by the end of March 2016. This will underpin the Scottish Police Authority's new corporate strategy for the period 2016/17 - 2019/20. This should provide the ten-year forward look to 2025/26 that I consider necessary to ensure the longer term financial sustainability of policing.
 17. In the absence of a long-term financial strategy to demonstrate the financial sustainability of policing for the next decade, I have estimated the potential future funding gaps based on the available information.
 18. In the first three years of the SPA and Police Scotland there have been year-on-year reductions in the budget amounting to 13 per cent in real terms ([Exhibit 1, overleaf](#)). These reductions will contribute to achieving the £1.1 billion of savings expected from police reform by 2026.

Exhibit 1

Scottish Police Authority budgets, 2013/14 – 2015/16 (£ billion)

Year	Total budget (cash)	Total budget (real terms)
2013/14	1.146	1.162
2014/15	1.062	1.062 (-8.6%)
2015/16	1.025	1.015 (-4.5%)

Note: Figures in brackets are percentage change on previous year. Real terms figures based on HM Treasury GDP deflators.

Sources: *Scottish Police Authority audited accounts (2013/14, 2014/15)*; revised budget figures presented to *Scottish Police Authority in October 2015 (2015/16)*.

19. The SPA faces significant constraints and cost pressures on its future budgets. These include:
- a commitment to maintaining police officer numbers above 17,234;
 - a commitment to no compulsory staff redundancies;
 - a legislative bar to compulsory redundancies for police officers;
 - adherence to wider public sector pay policy;
 - ongoing harmonisation of pay and conditions, following the formation of Police Scotland;
 - increased national insurance contributions; and
 - VAT liability, for which reform funding was available until 31 March 2016.
20. It is not yet known what the SPA's future budgets will be. In October 2015, the SPA forecasted an overspend of £25.3 million against its 2015/16 revenue budget. On 1 December 2015, the First Minister indicated that there would be a real-terms increase in the police revenue budget for 2016/17 and beyond that, subject to the results of the May 2016 Scottish parliamentary election. If a one per cent real terms budget increase is assumed for every year from 2016/17 to 2020/21, we estimate that there could still be a cumulative funding gap of over £80 million by 2018/19 unless additional savings are made ([Exhibit 2, overleaf](#)). The SPA has stated that it will present a budget for 2016/17 that will identify all necessary savings by the end of March 2016.

Exhibit 2

Projected Scottish Police Authority budgets, 2016/17 - 2020/21 (£ billion)

	2016/17	2017/18	2018/19	2019/20	2020/21
Budget	1.013	1.041	1.072	1.106	1.141
Net expenditure	1.058	1.070	1.082	1.094	1.106
Budget surplus / (Funding gap)	(0.045)	(0.029)	(0.010)	0.012	0.035

Note: The estimated net expenditure reflects a one per cent year on year increase in costs and income. The funding gap in 2016/17 reflects that there is a forecast budget overspend for 2015/16 of £22.3 million and the removal of reform funding, which is reported as being £39.1 million in 2015/16. It also incorporates forecast inflationary increases in expenditure of £11.2 million.

Source: Audit Scotland

21. Although recorded crime is at a 41 year low, policing is facing new pressures, including:
 - increased reporting of sexual offences;
 - emerging crime types (novel psychoactive substances, cybercrime, heightened terrorist threat);
 - legislative change (for example, infrastructure changes required by the Criminal Justice (Scotland) Bill); and
 - contribution to the UK-wide inquiry into historical sexual abuse.
22. In combination, all of these financial constraints and new pressures on policing make having a long-term financial strategy critical.

Conclusion

23. In 2014/15, the Scottish Police Authority oversaw total expenditure of £1.76 billion and fixed assets with a value of £552 million. Police Scotland is one of the largest public bodies in Scotland, providing vital services to the public. This is the second consecutive year when:
 - the auditor has expressed a modified opinion on the Scottish Police Authority's accounts following a challenging audit.
 - I have had to report that the Scottish Police Authority has not prepared a long-term financial strategy following a recommendation that I initially made in November 2013.
24. The Scottish Police Authority and Police Scotland must collectively provide stronger leadership both in terms of strategic and operational financial management. This is essential if

they are to deliver effective modern policing for the public and ensure their long-term financial sustainability.

25. I will report on the SPA's progress to the Scottish Parliament in 2016 after the conclusion of the 2015/16 annual audit.