

Scottish Police Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Police Authority and the Auditor General for Scotland

November 2017

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Key messages

Audit of the 2016/17 financial statements

- 1 Our audit opinions are all unqualified. These cover the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.
- 2 The accounting records for property, plant and equipment have improved and working papers provided to audit were of a good standard.
- 3 A number of adjustments were required to the remuneration and staff report as part of the audit process.

Financial management

- 4 The year end position was an overspend against resource outturn of £16.9 million.
- 5 Significant weaknesses in internal control impacted on our audit approach with additional substantive testing being required to obtain the necessary assurances. Control weaknesses can also impact on the achievement of objectives and increase the likelihood of fraud.
- 6 More robust budgetary monitoring arrangements have been introduced to support board members in effective scrutiny of its finances.

Financial sustainability

- 7 The 2017/18 budget was approved with a £47 million deficit and current forecasting indicates that this will be the outturn position.
- 8 Policing 2026 has now been approved, but the key underlying plans which will support delivery are still being developed.
- 9 Since it was established the Scottish Police Authority has incurred a cumulative deficit of £21.9 million and forecasts indicate further deficits totalling £120.6 million before financial balance is achieved in 2020/21.
- 10 A three year financial plan, and a long term financial strategy have been developed and include scenario planning, but the detailed savings plans to underpin delivery are not yet in place.

Governance and transparency

- 11 The HMICS governance report and the changes implemented have resulted in the Scottish Police Authority establishing improved processes for conducting its board and committees in a more open and transparent manner. It is too soon to determine how effective these changes will be.
- 12 Significant improvements are required to the strategic leadership and scrutiny of Forensic Services.

- 13** Relocation payments of £67,000 were paid to a deputy chief constable over a 3 year period, including £49,000 in 2016/17. The associated personal tax and national insurance costs were also incurred by the Scottish Police Authority on behalf of the officer, increasing the total cost to £120,000. The payment was in accordance with the terms of the officer's appointment, however the recent payments were outwith the timescale defined by existing policies and was approved by the chief executive without referral to the Board. In our view, a relocation cost of this magnitude does not represent a good use of public money.
- 14** The Scottish Police Authority took steps to improve its financial leadership and appointed a temporary chief finance officer, however the chief executive did not comply with the procurement processes. Separately, two temporary directors were appointed to the Police Scotland Force Executive until permanent roles were established. The total cost during the year was £305,692 which does not represent value for money.
- 15** Board members were informed and consulted on the decision to make the chief executive post redundant, but they did not formally meet to discuss the options, including the associated costs, prior to taking the final decision to approve the business case.
- 16** The successful delivery of Policing 2026 is heavily dependent on IT, but the IT strategy has not yet been developed and this is now critical to the success of the project.

Value for money

- 17** The Scottish Police Authority continue to develop performance management arrangements and improvements have been noted in the reporting of financial performance. Further improvements are required to link ongoing performance to organisational objectives.
- 18** The monitoring of performance against strategic priorities is expected to be strengthened once the new performance framework is in place.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of the Scottish Police Authority.

2. The scope of our audit was set out in our Annual Audit Plan presented to the April 2017 meeting of the Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the main financial systems and governance arrangements
- an audit of the Scottish Police Authority's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. The Scottish Police Authority is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and guided by the auditing profession's ethical guidance.
- 6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within the Scottish Police Authority to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 9.** Communication in this report of matters arising from the audit of the annual report and accounts or of identified risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Scottish Police Authority and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main findings

Our audit opinions are all unqualified. These cover the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

The accounting records for property, plant and equipment have improved and working papers provided to audit were of a good standard.

A number of adjustments were required to the remuneration and staff report as part of the audit process.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 28 November 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 29 July 2017, in line with our agreed audit timetable.

16. The working papers provided with the unaudited financial statements were of a good standard representing an improvement on previous years. Finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly. However the remuneration report, which is included in the annual report and accounts, required considerable changes as a result of incomplete disclosures in the version taken to the Audit Committee in July 2017 and given to us to audit.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Whole of Government Accounts

17. We were unable to submit the audited return and the required assurance statement to the National Audit Office (NAO) by the 30 September 2017 deadline. All required information was submitted on 17 October 2017.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and included in our Annual Audit Plan. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. On receipt of the annual report and accounts, and following consideration of the results of our interim audit testing, we reviewed our original materiality calculations and revised them based on the updated information available. Our materiality values are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values for the Scottish Police Authority

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£14.1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of overall materiality.	£3.5 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£100,000

Source: Audit Scotland

Evaluation of misstatements

21. There was an adjustment of £426,000 to the loss on impairment of assets figure in the unaudited financial statements arising from our audit. This related to the incorrect disclosure of impairment losses specifically on investment properties. A number of other misstatements were identified as part of the audit process and discussed with finance staff. As these were under the reporting threshold no adjustments were made to the annual report and accounts.

22. The unaudited financial statements included an ICT asset addition valued at £191,000 that was not completed until the start of 2017/18. In addition, as a result of the non recording of the tax and national insurance liabilities associated with a relocation expense, as detailed in Exhibit 3, an amount of £53,000 has not been

included in the financial statements although the relevant disclosures have now been included in the remuneration report. Due to the amount and nature of these misstatements they have been included in our summary of unadjusted errors at [Appendix 3](#).

23. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior staff and materiality. Management do not propose to adjust for the items detailed in [Appendix 3](#) as the amounts are not considered material in the context of the financial statements. We agree that these amounts are immaterial.

Significant findings from the audit

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 3

Significant findings from the audit of the annual report and accounts

Issue	Resolution
<p>1. Remuneration Report – Relocation Expenses</p> <p>Audit testing identified the payment of relocation expenses of £49,000 to a deputy chief constable, and a related personal tax liability of £53,000, which had not been disclosed in the remuneration report. An earlier interim relocation payment of £18,000 was made in 2014 to the same officer.</p> <p>The 2017 payment was processed as a BACS payment rather than through the payroll system. The payment had also been coded incorrectly within the ledger meaning that it wasn't identified for inclusion in the remuneration report. Also, as the payment had not been processed through the payroll system, no tax or national insurance calculations had been included in the accounts.</p> <p>In our view, there were deficiencies in the disclosures in the remuneration report for these amounts and insufficient efforts were made by the Accountable Officer and the chief financial officer to ensure that the annual report and accounts were free from error and omission.</p>	<p>The remuneration report has been amended and now discloses the total relocation cost and associated tax liabilities incurred in year of £102,000.</p> <p>The unadjusted errors at Appendix 3 include the £53,000 tax and national insurance implications.</p> <p>Action Plan (Appendix 1, point 1)</p>
<p>2. Remuneration Report – Temporary Senior Staff</p> <p>The remuneration report contained narrative disclosures relating to the employment of key senior staff on a temporary basis and their associated day rates. The disclosure did not provide sufficient detail of the total cost incurred by the Scottish Police Authority of these appointments.</p>	<p>The remuneration report has been amended to disclose the total cost incurred for these temporary senior staff.</p>

Issue	Resolution
<p>3. Remuneration Report – Board Members Remuneration</p> <p>The audit process identified that the remuneration disclosed for each of the Board members was incorrect due to the inclusion of payments from the previous year. This issue highlights a weakness in the process for Board members submitting claims. Audit testing identified that some claims are not submitted on a timely basis throughout the year and therefore include a number of months in the same claim.</p>	<p>The remuneration report has been amended to correctly disclose the 2016/17 remuneration for each of the Board members.</p> <p>Action Plan (Appendix 1, point 2)</p>
<p>4. Accounting for Non Current Assets</p> <p>Last year we reported on the poor quality of property, plant and equipment accounting records, inadequate working papers and the difficulties this presented for our audit.</p>	<p>We can report that this year the accounting records and access to information in this area has improved. The working papers provided were of a good standard and we were able to access the information required for our audit.</p>
<p>5. Asset write off exercise</p> <p>A significant impairment was undertaken during 2016/17 and included ICT, plant and machinery and motor vehicle assets. Audit testing revealed that a number of these assets had been written off in the year based on a lack of information received back from regional offices rather than confirmation that they were obsolete.</p>	<p>We reviewed the documentation supporting the write off exercise and agreed that given the age of the assets there is no risk of material misstatement.</p> <p>Assurances were received from officers that other planned asset monitoring activity for 2017/18 would ensure that these assets were appropriately managed if still in use.</p>
<p>6. Property, Plant and Equipment: Asset addition</p> <p>The unaudited financial statements included an ICT asset addition valued at £191,000. Our audit testing identified that this asset was not completed until the start of 2017/18.</p>	<p>Finance staff have decided not to adjust this in the accounts.</p> <p>We reviewed an extended sample of year end asset additions and no other issues were identified. Details of this asset addition have been included in the unadjusted errors detailed at Appendix 3.</p>
<p>7. Property, Plant and Equipment: Loss from impairment</p> <p>The 'Loss on Impairment of assets' figure in the unaudited accounts had been incorrectly shown net of the investment properties revaluation movement. This resulted in the figure being understated by £426,000.</p>	<p>The Statement of Comprehensive Net Expenditure, and Statement of Changes in Taxpayers' Equity have been amended to correct this error.</p>
<p>8. Staff Costs</p> <p>Due to the control weaknesses identified within the payroll system our audit approach was based on obtaining substantive assurance. Given the number of payruns and the system information available we were unable to perform robust analytical procedures on payroll and had to extend our substantive testing.</p>	<p>Detailed substantive testing was undertaken to obtain the required assurances and we have requested a review of the reports available to support a more efficient audit process in future years.</p>

Other findings

Disclosures in the annual report and accounts

25. Our audit identified a number of presentational and disclosure issues which were discussed with management and reflected in the audited annual report and accounts. These changes were primarily related to the narrative sections to improve overall transparency and ensure that the disclosures supported the reader of the accounts in understanding the performance and financial position of the Scottish Police Authority.

Finance team capacity

26. We reported in our 2015/16 Annual Audit Report issues with the capacity of the finance team. At the end of 2016 approval was given to recruit additional resources to strengthen the finance team and address issues around skills and capacity. As part of our audit work we have seen significant improvements, however as the additional resources are on a temporary basis, consideration should be given to the future structure and skills mix of the finance function to ensure that the progress made over the last year is maintained and sustainable on a longer term basis.

[Action Plan \(Appendix 1, point 3\)](#)

Exit packages

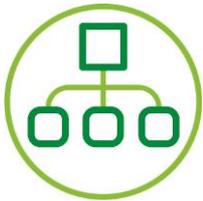
27. The annual report and accounts show that during 2016/17 156 staff left the organisation under the terms of the Scottish Police Authority's Voluntary Redundancy / Voluntary Early Retirement scheme. The total cost of these departures was £6.4 million. Audit work included reviewing a sample of exit packages to ensure that a robust process had been followed to support the decision and that this was in accordance with the policy approved by the Scottish Government. We identified one case where an offer was made prior to approval being received, however we noted that approval followed a few days later once additional information was provided. Audit testing also identified a small number of cases where the posts weren't earmarked for removal as part of organisational change but we acknowledge that business cases were prepared as part of the process and that these posts haven't been directly replaced.

28. We concluded that, although there were sound processes in place and evidence of approval by the National Voluntary Redundancy Panel, there should be greater clarity around the approval process to ensure that redundancies which are driven by organisational change are approved and that payments are consistent and represent value for money.

[Action Plan \(Appendix 1, point 4\)](#)

Part 2

Financial management



Main findings

The year end position was an overspend against resource outturn of £16.9 million.

Significant weaknesses in internal control impacted on our audit approach with additional substantive testing being required to obtain the necessary assurances. Control weaknesses can also impact on the achievement of objectives and increase the likelihood of fraud.

More robust budgetary monitoring arrangements have been introduced to support board members in effective scrutiny of its finances.

Financial performance in 2016/17

29. The main financial objective for the Scottish Police Authority is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The financial performance is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	(Overspend)/ underspend £m
Revenue DEL	1,003.380	1,024.510		
Revenue reform funding	-	34.834		
Total Revenue DEL	1,003.380	1,059.344	1,070.462	(11.118)
Capital DEL	16.200	(2.300)		
Capital reform funding	-	17.800		
Total Capital DEL	16.200	15.500	21.315	(5.815)
Total Resource	1,019.580	1,074.844	1,091.777	(16.933)
Non Cash DEL	50.000	50.000	35.721	14.279
Expenditure Outside DEL	5.404	5.404	5.036	0.368
Annual Managed Expenditure (AME)	-	44.000	14.727	29.273

Source: Scottish Police Authority Annual Report and Accounts 2016/17 & Final – Budget Allocation and Monitoring: 2016-17 Letter

30. The significant movements from initial to final budget are:

- inclusion of £52.6 million of Police Change Fund funding split between revenue (£34.8 million) and capital (£17.8 million)
- a £20.5 million transfer from capital DEL to revenue DEL to offset an anticipated overspend
- additional £2 million capital funding for the maintenance of the Police estate
- £44 million AME funding to cover the volatile and largely uncontrollable items of expenditure such as pension adjustments and asset impairments.

31. Since 2013/14 the Scottish Police Authority has received an element of non-recurring Police Change Fund funding, generally referred to as reform funding, to support the expenditure and investment required to make changes to Policing in Scotland. A total of £52.6 million was included as part of the 2016/17 Spring Budget revision and the outturn against this allocation was £40 million resulting in a £12.6 million underspend which has been used by the Scottish Police Authority to offset the overall overspend in resource DEL.

32. The Scottish Police Authority has reported a total resource outturn (revenue and capital) for 2016/17 of £1,091.7 million, against a budget of £1,074.8 million, resulting in an overspend of £16.9 million. The Scottish Government is aware of the overspend position and has provided assurance that this was accommodated by other underspends within the Scottish administration.

33. It is worth noting that the outturn position would have been significantly worse if it wasn't for the receipt of one-off income of £13.6 million from the supplier of the former i6 project. The Scottish Police Authority used £7 million of reform money to cover the revenue costs associated with the i6 project from 2013/14 to 2015/16. When they received the compensation in 2016/17 the Scottish Government confirmed that this could be retained to reduce the in year budget pressures and that there was no requirement to repay the reform money.

Internal controls

34. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that there are systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements of the Scottish Police Authority.

35. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, feeder system reconciliations, changes to supplier bank details and IT access controls. We also planned to place reliance on the work of internal audit on controls within the payroll system.

36. The findings from our testing were included in an interim audit report presented to the Audit Committee in August 2017. We concluded that there were significant control weaknesses within the key financial systems which prevented us from obtaining sufficient assurance over the control environment. Our audit approach therefore involved significant substantive procedures to enable us to obtain the required assurances. Control weaknesses can also impact on the achievement of objectives and increase the likelihood of fraud.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

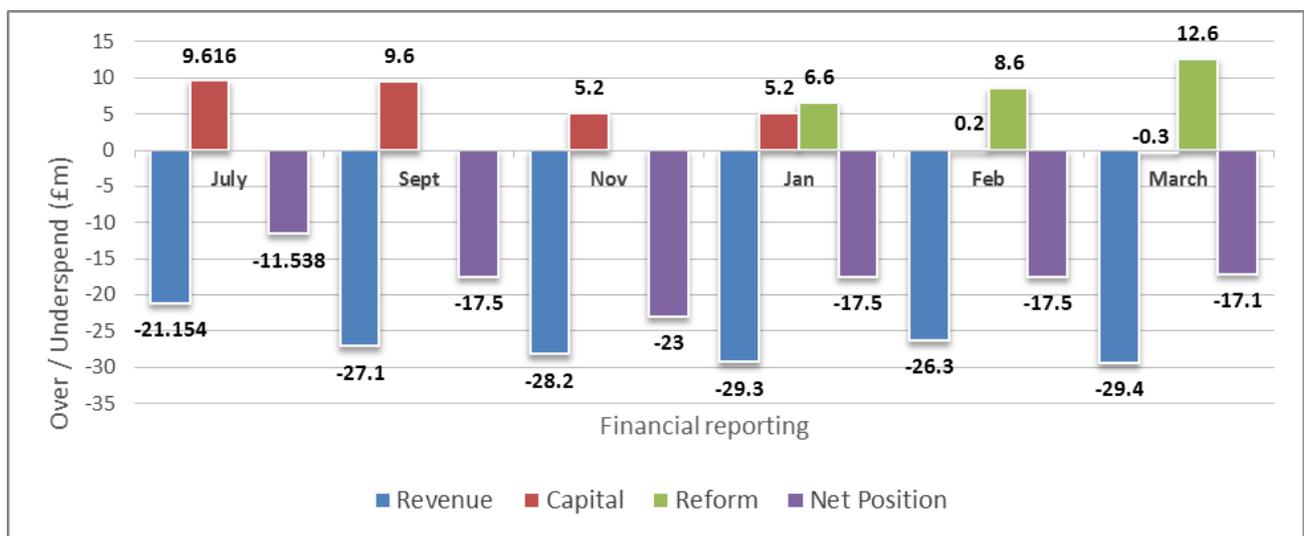
[Action Plan \(Appendix 1, point 5\)](#)

Budgetary processes

37. We reviewed the budgetary processes and budget monitoring arrangements within the Scottish Police Authority. Throughout 2016/17 the Board received financial monitoring reports with forecast outturn positions as shown in [Exhibit 5](#). During the early part of the year the financial monitoring reports did not separately identify reform funding, with this included in the revenue position. Financial reporting since January 2017 has improved with the forecast outturn now reported separately against each of the funding streams. This improves the overall transparency and enables more robust monitoring and scrutiny of performance.

Exhibit 5

Reporting of forecast outturn position



Source: Financial reporting to the Board

38. The reporting has forecast a relatively stable net outturn position in the second half of the financial year reflecting improvements in the overall monitoring and control of expenditure. However there are fluctuations between the revenue and reform outturn due to decisions later in the year about the allocation of aspects of reform funding, in particular the running costs for the Scottish Crime Campus at Gartcosh, which resulted in £4.1 million having to be met from revenue. There has also been a large change in the capital outturn in the last 3 months of the year due to an acceleration of capital spend. The final year end outturn was detailed in [Exhibit 4](#) and showed a net expenditure position of £16.9 million.

39. We concluded that the Scottish Police Authority now has more robust budgetary monitoring arrangements that allow both board members and budget holders to carry out effective scrutiny of its finances.

Prevention and detection of fraud and irregularity

40. We assessed the Scottish Police Authority's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as reviewing the key policies and strategies in place and considering the quarterly fraud and theft reporting to the Audit Committee.

41. In May 2017 the Board also approved Whistleblowing Policies for both the Scottish Police Authority and Police Scotland. The policies are aligned to ensure clarity around expectations and protection with the only difference relating to the escalation process.

42. We concluded that the Scottish Police Authority is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

43. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The matches identified and current progress in investigating them is shown in [Exhibit 6](#).

Exhibit 6

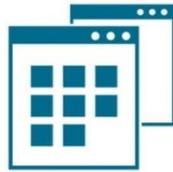
NFI

Total number of matches



7,716

Number recommended for investigation



403

Completed/closed investigations



597

Source: NFI website

44. During the 2014/15 NFI exercise we reported issues with the timeliness and completeness of the participation of the Scottish Police Authority in this national biannual exercise and the Assistant Auditor General detailed those concerns in a letter to the Scottish Police Authority in October 2015. For the 2016/17 exercise clear improvements have been made with all data sets submitted on time and the follow up of identified recommended matches completed and closed in October 2017.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

45. A Code of Conduct for Members has been in place within the Scottish Police Authority since 2014, however the Code of Conduct for staff of both the Scottish Police Authority and Police Scotland was only approved by the Board in August 2016. It provides a high level framework of the conduct expected of staff and covers key areas such as accountability, confidentiality, conflicts of interest and the reporting of concerns.

46. With the approval of the code of conduct and whistleblowing policies we concluded that the Scottish Police Authority has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main findings

The 2017/18 budget was approved with a £47 million deficit and current forecasting indicates that this will be the outturn position.

Policing 2026 has now been approved, but the key underlying plans which will support delivery are still being developed.

Since it was established the Scottish Police Authority has incurred a cumulative deficit of £21.9 million and forecasts indicate further deficits totalling £120.6 million before financial balance is achieved in 2020/21.

A three year financial plan, and a long term financial strategy have been developed and include scenario planning, but the detailed savings plans to underpin delivery are not yet in place.

2016/17 financial position

47. The annual report and accounts show that the Scottish Police Authority has a net liability of £16.2 billion, an increase of £3.7 billion from last year. The net liability position is due to the inclusion of pension liabilities for both police officers and staff, of £16.6 billion and the movement from 2015/16 is due to a decrease in the discount rate used to value pension liabilities. The Scottish Government is aware of the position and has provided assurances that they recognise the associated responsibility for funding these costs as they fall due.

48. If we exclude pension liabilities then the Scottish Police Authority had a net asset position as at 31 March 2017 of £373.6 million. This is a reduction of £13.6 million from the prior year and continues the overall trend of a reducing net asset position which is linked to the decision to constrain capital expenditure to support the challenging revenue position. It is vital that this is built into a longer term financial plan to ensure that recent reductions in capital expenditure doesn't have an impact on the overall asset position and financial sustainability of the Scottish Police Authority.

2017/18 financial planning

49. The Scottish Police Authority approved its 2017/18 budget in March 2017. The budget clearly identified the financial challenge being faced and provided detailed information on the available funding and planned expenditure for revenue, capital and reform. Last year we reported that the 2016/17 budget had very limited detail and we are pleased to note this improvement.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Revenue

50. The approved revenue budget outlined a forecast deficit position of £47.2 million after accounting for identified savings of £16 million. More than 85% of revenue expenditure relates to police officer and staff costs which highlights the importance of strong workforce and business planning to support the identification and achievement of savings to enable the 2017/18 budget to be delivered.

51. The Quarter 1 Financial Review, presented to the Board in September 2017, highlights that overall revenue outturn is in line with budget. Small overspends in police officer costs (£1 million) are mitigated by an increase in the income projections (£1.1 million).

Capital

52. The 2017/18 capital budget approved by the Board on 22 March 2017 amounted to £42.4 million. The funding to support this investment comprised £20 million of capital grant from Scottish Government, planned capital receipts of £10 million and an allocation from reform funding of £12.4 million (£6.4 million to support irrecoverable VAT and £6 million for transformational capital investment).

53. The Quarter 1 Financial Review, presented to the Board in September 2017, highlights that although funding receipts of £3.2 million have already been secured it is unlikely that the budgeted £10 million will be achieved. The forecast spend on the capital programme is now £34.9 million a £7.5 million reduction on the initial budget.

[Action Plan \(Appendix 1, point 6\)](#)

54. In line with the priorities of Policing 2026 a review of the police station estate was carried out. It identified that 53 premises out of a total of 375 are considered empty or soon to be empty and are no longer required to provide policing services. Following a report to the Board in September 2017 a 3 month period of formal engagement with local communities, partners and stakeholders seeking their views has now begun before reverting to the Board for formal approval to dispose of the properties.

Reform (Police Change Fund)

55. For 2017/18 the Scottish Government has allocated the Scottish Police Authority a total reform budget of £59.5 million, including the £12.4 million for capital detailed above. This funding will meet the costs of irrecoverable VAT (£28.4 million) and support the transformation change programme for policing.

56. The Quarter 1 Financial Review, presented to the Board in September 2017, highlights that the Scottish Police Authority is now forecasting an underspend of £6.9 million in the use of reform funding. The Scottish Police Authority's ability to achieve financial balance in future years is dependent on achieving efficiencies planned from the projects in the transformational change programme. It is therefore important that reform money is fully utilised and any slippage in projects is managed.

[Action Plan \(Appendix 1, point 6\)](#)

Policing 2026

57. In June 2017 the 10 year strategy "Policing 2026" was laid before Parliament and approved by the Board. The strategy was developed following a significant consultation exercise and identifies ways to develop the range of policing services and increase the operational capacity to focus on prevention and protection. Integral to the strategy is the development of a flexible and adaptable workforce that can address the new and changing demands. The strategy also identifies the critical role that new technology and approaches can play in improving outcomes.

58. The next step in the process is the development of the 3 year implementation plan and the new strategic performance framework to enable progress to be identified and monitored.

Medium to long term financial planning

59. Our previous reports have raised concerns around the lack of a long term financial strategy. We recognise that the Scottish Police Authority is mainly funded from the Scottish Government through grant-in-aid (approximately 90%) and this is set on a year-on-year basis. However, this should not preclude the Scottish Police Authority from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.

60. The Scottish Police Authority has recorded a cumulative deficit of £21.9 million since it was established on 1 April 2013. The three year financial plan forecasts deficit positions until 2020/21 when the total cumulative deficit is forecast to be £120.6 million as shown in [Exhibit 7](#).

Exhibit 7

Actual and forecast outturns



Source: Scottish Police Authority Annual Reports and Accounts & Three Year Financial Plan

Three year financial plan

61. In September 2017 the Board approved the Three Year Financial Plan which contains a high level assessment of the financial resources for the next 3 years. A key aspect of the plan is to outline how the Scottish Police Authority will achieve a recurring balanced budget by the year 2020/21. The plan identifies that there will need to be a significant financial investment to make the necessary changes to the systems, equipment and working practices to support effectiveness and translate into financial savings.

62. The 2017/18 budget has been adopted as the baseline as this was developed using a zero based approach and identifying the actual pay costs incurred from the whole employee base. This is a sound approach ensuring that the initial cost base is reliable. The plan includes a number of assumptions and recognises, via the sensitivity analysis, that a small increase in an assumption, particularly in relation to pay awards, would have a significant impact on the ability to achieve financial balance in the medium term.

63. There are plans in place to ensure that the financial plan is a live document and it will be updated to support the setting of the 2018/19 budget in March 2018. To support the delivery of financial balance it is vital that the 3 year implementation plan, supported by detailed workforce and ICT plans, are in place to enable the identification and realisation of efficiency savings while delivering the required services.

[Action Plan \(Appendix 1, point 7\)](#)

Long term financial strategy

64. Alongside the three year financial plan has been the development of the long term financial strategy covering the period to 2027/28. This strategy sets out the financial parameters that need to be considered when making operational and strategic decisions. The strategy shows that after achieving financial balance in 2020/21 the Scottish Police Authority once again moves into an annual deficit position due to recurring cost pressures that have not yet been addressed.

65. The large transformation projects currently being developed and progressed will be key to delivering financial sustainability. As these projects are at an early stage, and are not yet supported by robust efficiency savings plans, there is insufficient detail to enable them to be incorporated into the long term strategy. The strategy includes a number of scenarios within the sensitivity analysis which shows the significant challenges being faced.

66. We concluded that the development of the medium and long term financial plans are signs of progress, but that there are many underlying strategies, including workforce, estates and ICT that need to be developed to support the delivery of financial sustainability in the medium to long term. These urgently need to be put in place.

Part 4

Governance and transparency



Main judgements

The HMICS report and the changes implemented have resulted in the Scottish Police Authority establishing improved processes for conducting its board and committees in a more open and transparent manner. It is too soon to determine how effective these changes will be.

Significant improvements are required to the strategic leadership and scrutiny of Forensic Services.

Relocation payments of £67,000 were paid to a deputy chief constable over a 3 year period, including £49,000 in 2016/17. The associated personal tax and national insurance costs were also incurred by the Scottish Police Authority on behalf of the officer, increasing the total cost to £120,000. The payment was in accordance with the terms of the officer's appointment, however the recent payments were outwith the timescale defined by existing policies and was approved by the chief executive without referral to the Board. In our view, a relocation cost of this magnitude does not represent a good use of public money.

The Scottish Police Authority took steps to improve its financial leadership and appointed a temporary chief finance officer, however the chief executive did not comply with the procurement processes. Separately, two temporary directors were appointed to the Police Scotland Force Executive until permanent roles were established. The total cost during the year was £345,000 which does not represent value for money.

Board members were informed and consulted on the decision to make the chief executive post redundant, but they did not formally meet to discuss the options, including the associated costs, prior to taking the final decision to approve the business case.

The successful delivery of Policing 2026 is dependent on IT, but the supporting IT strategy has not yet been developed and this is now critical to the success of the project.

Governance arrangements

67. In September 2015 the Cabinet Secretary for Justice requested that the Chair of the Scottish Police Authority conduct a review of the Scottish Police Authority's governance arrangements and report back in March 2016. The Chair's review included a number of recommendations including holding committee meetings in private and restricting the circulation of Board papers.

68. At the December 2016 Board meeting there was some dissent to these recommendations and significant subsequent media focus following a number of appearances at the Public Audit and Post Legislative Scrutiny Committee and the Justice Sub-committee on Policing. This resulted in the Board reconsidering the arrangements and reversing their position on committee meetings being held in private and the circulation of papers. These changes took effect from the May 2017 Board meeting.

69. Subsequently the Cabinet Secretary for Justice requested Her Majesty's Chief Inspector of Constabulary in Scotland (HMICS) to carry out a review to assess the openness and transparency of the way the Scottish Police Authority conducts its business. They specifically examined:

- the decision to hold meetings in private and the publication of papers
- compliance with relevant legislation, guidance and standing orders
- the awareness and understanding of the Chair, chief executive, all Board members and selected senior officials of these key documents. Members of the audit team supported HMICS in the interviews.

70. The HMICS report was published in June 2017 and contained 11 recommendations for improvement, including that the Scottish Police Authority should:

- revert to holding Board and committee meetings in public
- publish agendas and papers for all formal Board and committee meetings in advance, and where items are being taken in private clearly document the reason for doing so
- carry out a review of the current meeting structure and the role of working groups
- carry out a review of the internal executive structures providing support to the Board.

71. An action plan to implement the recommendations and a working group to oversee the process has been put in place. On 14 June 2017 the Chair of the Board announced his decision to stand down, following the appointment of a new Chair. The recruitment of a new Chair is currently ongoing. In addition, as a result of the findings, the Cabinet Secretary for Justice wrote to the Auditor General for Scotland to advise her of a review that had been commissioned to consider how the executive of the Scottish Police Authority can best support the Board to take informed, transparent decisions. The review will be led by the Scottish Police Authority Board Vice Chair Nicola Marchant and Comhairle nan Eilean Siar chief executive Malcolm Burr and the findings will be reported in due course.

[Action Plan \(Appendix 1, point 8\)](#)

HMICS Thematic Inspection of Forensic Services

72. In October 2016 HMICS published a Professional Advice Note, at the request of the Chair of the Scottish Police Authority, which considered options for the governance and delivery of forensic services. The main recommendations were to establish a formal, member-led Forensic Committee to provide scrutiny over the delivery of forensic services and to change the reporting line of the Head of Forensic Services for Scotland to report directly to the Chair and Board. The advice provided by HMICS was not adopted by the Scottish Police Authority and was not officially communicated to all Board members.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

73. HMICS published its Thematic Inspection of the Scottish Police Authority Forensic Services in June 2017. The inspection assessed the effectiveness and efficiency of the leadership, governance, management and delivery of forensic services and made 23 recommendations. While the inspection found no issues with the quality of results from forensic testing, a number of significant weaknesses were identified in relation to governance and scrutiny and the strategic leadership of the service. The lack of a forensic services strategy in particular was highlighted as an area requiring urgent improvement.

[Action Plan \(Appendix 1, point 9\)](#)

74. As a result of the inspection findings the director of forensic services now reports directly into the Board of the Scottish Police Authority rather than through the chief executive. This change represents a reduction in the line management and direct budget responsibilities of the existing chief executive, and the Board has assessed this and determined that the current role has been made redundant. As a result of these changes the chief executive has opted to take early retirement. We comment further on this change at paragraph 102.

75. The main recommendations from the Professional Advice Note have now been adopted as a result of the most recent review.

Governance Statement

76. Under the Treasury's Financial Reporting Manual (FRM), the Scottish Police Authority must prepare a governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

77. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

78. The 2016/17 annual governance statement presented for audit required some amendments to ensure compliance with the guidance issued by the Scottish Ministers and to reflect a comprehensive and accurate picture of governance arrangements.

Internal audit

79. Internal audit provides the Scottish Police Authority and Accountable Officer with independent assurance on the Scottish Police Authority's overall risk management, internal control and corporate governance processes.

80. The internal audit function is carried out by Scott Moncrieff. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. Also, we considered internal audit report findings as part of our wider dimension work.

81. Scott Moncrieff's appointment was for a period of 3 years with an option to extend for a further year. This extension period comes to an end in May 2018. The tendering process for the new contract has commenced to avoid the delays experienced in previous years and to ensure there is continuity in the provision of internal audit.

Compliance with policies

Relocation payments

82. During 2016/17 relocation payments totalling £49,000 were made to a deputy chief constable who took up post in December 2012. An earlier interim relocation payment of £18,000 was made to the officer in 2014 to cover temporary accommodation and travel expenses. Annex 19 of The Police Service of Scotland Regulations 2013 sets out the overall arrangements for Chief Officer Removal Expenses. The terms of the officer's appointment stated that "*Should you need to move house as a result of this appointment the Scottish Police Authority will meet reasonable expenses incurred in relation to the move as agreed.*" At the time there was no Scottish Police Authority relocation policy and as such, a decision was made to use the former Strathclyde Police Authority Standard Operating Procedures which specified that: "*All claims must be made within 18 months of appointment.*" It also states that: "*... any tax liability incurred as a consequence of moving home to take up a post with Strathclyde Police should be covered by the Authority.*"

83. The relocation payments were within the scope of The Police Service of Scotland Regulations 2013 and were in accordance with the terms of appointment. The Accountable Officer approved the payments even though they were outwith the timescales contained in both the Strathclyde Police Authority Standard Operating Procedure and the Scottish Police Authority's Chief Constable's Transfer Reimbursement of Expenses policy of October 2014. The Accountable Officer has advised us that the payment was within his delegated authority and that the extended period for settling the relocation payments was due to the new Police Scotland headquarters and the normal place of work for the Force Executive not being confirmed until summer 2014. We do not consider this a robust argument for payments being made as recently as early 2017. Given the use of the Strathclyde Police Authority Standard Operating Procedure and the extended timescale involved we would have expected additional governance arrangements to support the decision, however Board members were not advised of these payments at a board or committee meeting.

84. For this case the relocation payments since the deputy chief constable's appointment in December 2012 total £67,000. The tax and national insurance costs incurred by the Scottish Police Authority on behalf of the officer increase the total cost to £120,000. In our view relocation payments of this magnitude do not represent a good use of public money.

85. As noted in [Exhibit 3](#), the payment was made by BACS rather than through the payroll system resulting in the tax and national insurance costs not being included in the financial statements. The payment was miscoded to childcare vouchers in the ledger therefore it was not identified by finance staff for inclusion in the remuneration report in the unaudited annual report and accounts. We believe that insufficient efforts were made by the Accountable Officer and the chief financial officer, who were familiar with the payments, to ensure that the annual report and accounts were free from error and omission.

[Action Plan \(Appendix 1, point 1\)](#)

Appointment of temporary senior staff

86. The remuneration report discloses information on the temporary appointments of:

- an interim chief finance officer for the Scottish Police Authority;
- an interim chief finance officer for Police Scotland; and
- an interim director of people and development for Police Scotland.

- 87.** The total cost in 2016/17 was £345,000 despite the post holders only being in post for parts of the year.
- 88.** The Accountable Officer's decision to appoint a temporary chief finance officer was made to tackle weaknesses in financial leadership. The post was offered to a director of Gleniffer Solutions Ltd and was accepted. The Accountable Officer then reversed this decision and followed the established Quick Quote procurement process. Three tenders were received, but two were assessed as non compliant due to insufficient information leaving only one compliant tender, Gleniffer Solutions Ltd. In completing the evaluation, the Accountable Officer assessed each of the criteria as "5" which is defined in the scoring methodology as "exceptional, response is completely relevant and exceptional", however no justification was documented to support the scores awarded. This is inconsistent with the procurement process which requires that all panel members must "provide full justification for scores allocated". In addition the tender was only evaluated by the Accountable Officer. While we recognise the urgency in addressing the lack of financial leadership there were aspects of the appointment of the interim chief finance officer which were inconsistent with procurement requirements. The daily rate charged by Gleniffer Solutions Ltd for the director was £350.
- 89.** Separately, an interim chief finance officer for Police Scotland was appointed in June 2016 on secondment from PwC. A number of public and private sector companies were contacted to identify an individual with the required experience and skills. The annual salary included in these discussions was in the region of £110,000, however the daily rate charged for the secondment was £950. The total cost for 2016/17 payable by Police Scotland for this individual was £199,500 covering a 9 month period. We do not believe that this represents value for money in the use of public funds.
- 90.** The interim director of people and development for the Police Scotland was appointed, through the recruitment agency Badenoch & Clark, in December 2016. Police Scotland used the recruitment agency to enable a full recruitment process to be undertaken. We are advised that the process included competency interviews and meetings with senior officers and the Scottish Police Authority non executive directors. We sought to obtain evidence to assess the robustness of the process adopted, however the assessment forms were unavailable as we were advised that they were only retained for six months following appointment and have since been destroyed. The daily rate charged by Badenoch & Clark for the temporary appointment was £1,000. In our view the total cost for 2016/17 of £106,192 for 4 months in post does not represent value for money. There is also scope to improve record keeping to support high cost temporary appointments in the Scottish Police Authority and Police Scotland.

[Action Plan \(Appendix 1, point 10\)](#)

ICT risks

91. Following our computer services review which was carried out in the summer of 2016 and reported in August 2016, the ICT service prepared a 26-point action plan. A number of actions are dependent on the recruitment of staff to fulfil quality and business analysis roles. The Technical Audit and Assurance team has now been fully staffed, but other roles are not expected to be filled until March 2018, highlighting that the timescales in the action plan were ambitious and not achieved. Work is currently ongoing to meet the annual accreditation process for the Public Services Network which is due in December 2017.

i6 project

92. In March 2017, we published our report i6: a review. The development of a single, fully integrated national ICT solution which would align national policing processes to operational priorities and provide a more effective and efficient way of recording, managing and using information was abandoned in July 2016. The benefits envisaged from the implementation of this system included estimated

financial savings of £200 million over 10 years. The ICT service has been looking to consolidate the legacy systems since and the implementation of a national custody system was successful.

Policing 2026

93. Under the Policing 2026 strategy, the Digital Transformation Team is developing a business case for COPS – Core Operational Policing Systems – a business intelligence solution which will use existing data sources and systems, as appropriate, but provide a dashboard which pulls this information together in a single representation. Success in implementing a solution like this should take into account a translation from strategic business objectives into tactical tools, the importance of data preparation (the quality of the output is dependent on the quality of the underlying data) and a full evaluation of all data sources to ensure important sources are not omitted.

94. The successful delivery of the Policing 2026 strategy is dependent on information technology which is expected to improve the data available to police and staff and enable a more efficient and effective workforce. Although the change on front-line services is expected to have the greatest impact, through public portals, facial recognition solutions, and integrated offender and location management, efficiencies from technology are also expected in back-office functions through consolidating infrastructure and platforms. An ICT health check of Police Scotland's ICT service, was commissioned by the deputy chief officer from the internal auditors Scott-Moncrieff in July 2017. The report found that there were deficiencies in the draft ICT strategy and that the ICT department may not have the capacity and capabilities to deliver the required services to support the implementation of Policing 2026. Police Scotland is now planning to utilise consultancy support to develop an integrated Digital, Data and ICT Vision, Strategy and Plans that will underpin the development of the 2026 Strategy and will better inform medium and long term financial planning. Police Scotland plans to bring this to the Scottish Police Authority Board meeting in March 2018. The development of an integrated Digital, Data and ICT strategy to support these changes remains critical.

[Action Plan \(Appendix 1, point 11\)](#)

Risk management

95. Risk management arrangements within the Scottish Police Authority and Police Scotland are still being developed. A period of benchmarking has taken place to assess the process adopted within other bodies alongside a recruitment exercise to ensure sufficient resources are available to appropriately deal with risk management. The current reporting arrangements are also being reviewed to provide additional clarity on the risks being managed and ensure consistency between the bodies.

96. As the risk management arrangements are not yet fully embedded we are unable to conclude on the overall appropriateness. During the year we have seen the implementation of some improvements and acknowledge that plans are in place to implement a strong risk management process.

Transparency

97. Transparency means that the public have access to understandable, relevant and timely information about how the Scottish Police Authority is taking decisions and how it is using its resources.

98. As detailed at paragraph 70, HMICS published its Thematic Inspection of the Scottish Police Authority – Phase 1 Review of Openness and Transparency on 21 June 2017. As a result the Board and committee meetings now have public sessions where all stakeholders can attend and the associated papers are available 3 days in advance of the meeting. Given the nature of some of the

issues being considered it is still necessary for private sessions to take place, however the agenda and justification for the item being held in private are now publicly available along with the minutes of the meetings.

99. Since the HMICS report and the changes implemented, we are able to conclude that the Scottish Police Authority now conducts its Board and committee business in a more open and transparent manner.

Complaint against the Chief Constable

100. In July 2017 the Scottish Police Authority received a complaint about the conduct of the Chief Constable. This has been passed to the Police Investigations and Reviews Commissioner (PIRC) who will carry out an investigation into the allegations in line with The Police Service of Scotland (Conduct) (Senior Officers) Regulations 2013. In September 2017, following further complaints, the Chief Constable made a request to take a temporary leave of absence while the allegations are being investigated. The Scottish Police Authority Board considered and approved this request.

Leadership changes

101. The Scottish Police Authority Chair resigned during 2017. Susan Deacon CBE was announced as the new Chair on 16 November 2017 and will take up the role in December 2017.

102. As outlined in paragraph 74 the existing chief executive role was made redundant during 2017. At a closed Board meeting on 7 June 2017 board members received a presentation on the “proposed business case for change” outlining the rationale for making the chief executive role redundant. The Board requested that Mr Foley, as chief executive and Accountable Officer, remain in post until the audit of the 2016/17 annual report and accounts had been completed. As there is uncertainty as to the date Mr Foley will leave, the Board has agreed that he will receive a payment in lieu of his contractual notice, in addition to his eligibility for an early retirement payment. From a review of evidence, it is clear that the Board placed considerable importance on ensuring the continuity of the Accountable Officer role until the conclusion of the audit process and the signing of the annual report and accounts. However, given he had a six months notice period and the Board took this decision in August 2017, it could reasonably have decided to ask Mr Foley to work his notice period as the annual report and accounts must be laid before the Scottish Parliament by the statutory deadline of the end of December. The Scottish Police Authority has met this deadline in every previous year, it has therefore incurred an additional 3 months salary costs unnecessarily. We were provided with evidence to support the process including e-mails demonstrating that all Board members were informed and consulted. Given the implications of the decision to make the post redundant we would have expected a further Board meeting to be convened to support a robust discussion on the options, including the associated costs, prior to taking the final decision to approve the business case.

103. A new chief officer of the Scottish Police Authority has been appointed and took up post on 13 November 2017.

104. There are a number of members of the Police Scotland Force Executive who have indicated their intentions to retire during 2017/18. There is therefore an immediate need for succession plans to be put in place in both Police Scotland and the Scottish Police Authority to maintain continuity of leadership and ensure that the strategic direction required for delivery of Policing 2026 is not subject to delay or disruption.

British Transport Police Integration

105. In April 2017 the Scottish Parliament's Justice Committee published its Stage 1 Report supporting the proposals to integrate British Transport Police Scotland with Police Scotland. BTP in Scotland currently operates with an annual budget of £21m and employs approximately 213 police officers, 38 police staff and 26 special officers based in Scotland.

106. The parliamentary process to receive Royal Assent for the Bill is underway and the Scottish Police Authority is working with Police Scotland, the British Transport Police (BTP) and the British Transport Police Authority to prepare for the planned integration in 2019. This is a key project for the Scottish Police Authority and Police Scotland and requires careful project management to ensure that the process is carried out effectively and with no disruption to the policing of the railways.

Part 5

Value for money



Main judgements

The Scottish Police Authority continue to develop performance management arrangements and improvements have been noted in the reporting of financial performance. Further improvements are required to link ongoing performance to organisational objectives.

The monitoring of performance against strategic priorities is expected to be strengthened once the new performance framework is in place.

Performance management

107. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether the Accountable Officer has put in place appropriate arrangements to satisfy their corresponding duty of Best Value. In consultation with the Scottish Police Authority, we may undertake local work in this area in future years of our audit.

108. Quarterly Performance Reports are prepared to outline progress towards delivery of the Annual Police Plan (APP) priorities. Performance is monitored against six operational priority area which includes: Violence, Disorder and Antisocial Behaviour; Serious Organised Crime; Counter Terrorism and Domestic Extremism; Protecting People at Risk of Harm; Road Safety and Road Crime; and Acquisitive Crime.

109. Financial monitoring reports are presented to the Finance and Investment Committee on a regular basis. The information within these reports has improved to provide sufficient detail to link financial performance to operational performance. Financial information has now been split out between revenue, capital and reform funding.

110. Other reports presented to the Board include the Chief Constable's Report and the Chief Executive's Report. These provide an update on significant policing events and progress against agreed commitments and plans respectively. The Board are kept informed of the activities of other committees through the presentation of update reports and minutes.

111. The board is kept informed of performance across the areas of police activity, including forensics and corporate services. We regularly attend committees and review papers received by members to gain an insight into how well performance is scrutinised.

Value for money is concerned with using resources effectively and continually improving services.

Performance trends

112. In the absence of the new performance framework we reviewed the significant performance indicators used by the Scottish Police Authority and have summarised these in [Exhibit 8](#).

Exhibit 8

Key performance indicators – trend analysis

	2014/15	2015/16	2016/17
Recorded Crime (comparison with 2015/16)	254,195	244,482	238,651
		Non-sexual crimes of violence increased by 5.2%	
		Sexual crimes increased by 5.2%	
		Crimes of Dishonesty decreased by 1.3%	
		Fire-raising, vandalism etc. decreased by 2.9%	
		Other Crime decreased by 6.2%	
Detection rate (comparison with 2015/16)		Overall crime detection rate has reduced by 1.8% to 50%	
		Serious assault detection rate has reduced by 4.4% to 78.1%.	
		Robbery detection rate has reduced by 2.0% to 76.2%.	
		Domestic abuse detection rate has reduced by 7.1% to 74.1%.	
Freedom of Information requests	Responses exceeded the 20 day statutory period in 14 incidences.		
Referrals to Police Investigations & Review Commissioner (PIRC)	132 referrals made to PIRC of which 39 (29.5%) were investigated and 13 (9.8%) are being considered by the Crown Office and Procurator Fiscal.		

Source: Performance Summary Report Quarter 4 – Board papers (25/05/17)

113. In the absence of the new performance framework it was not possible to fully assess the performance of the Scottish Police Authority against their Annual Policing Plan. Considering the performance information available, we noted that there has been an overall improvement in the recorded crime figures in a number of areas, but that performance relating to detecting crime had declined compared to 2015/16.

National performance audit reports

114. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the board, in particular i6: a review. All reports are outlined in [Appendix 4](#) accompanying this report.

115. The Scottish Police Authority Audit Committee receives a quarterly update on any reports by Audit Scotland which may be of interest or relevance.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



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10	<p>1. Relocation Expenses</p> <p>Relocation expenses to a deputy chief constable were not identified for inclusion in the remuneration report. Amounts were paid via a cashbook journal rather than through the payroll system. Tax and national insurance calculations were also omitted from the unaudited accounts.</p> <p>Risk</p> <p>The annual report and accounts are misstated due to the payments being processed outwith the established system and not subject to sufficient management review.</p>	<p>All payments to staff should be paid through the relevant system to avoid any override of control and ensure appropriate accounting treatment and disclosure.</p>	<p>Accepted.</p> <p>The Relocation Expenses policies will be reviewed and updated to reflect best practice, which will include the mechanism for making and recording these payments.</p> <p>This will be subject to Board approval.</p> <p>Director of Performance & Development and Chief Financial Officer</p> <p>31 March 2018</p>
11	<p>2. Board Members' Remuneration</p> <p>The remuneration disclosed in the unaudited accounts for all Board members was incorrect. Claims are not always submitted on a timely basis resulting in issues with the accrual of appropriate costs into the correct year.</p> <p>Risk</p> <p>Board members' remuneration is incorrectly disclosed and the process is not consistent with the guidance issued.</p>	<p>Board members should be reminded that claims should be submitted on a monthly basis and a formal follow up process introduced to ensure this is implemented.</p>	<p>Accepted.</p> <p>The new Chief Officer will remind Members of the importance of timely submission of expense claims, including the setting of a year-end cut off.</p> <p>Chief Officer</p> <p>31 December 2017</p>



Page no.	Issue / risk	Recommendation	Agreed management action / timing
12	<p>3. Staffing Capacity</p> <p>We recognise that there have been a number of appointments which have increased the financial skills and capacity of the finance team. However these are temporary appointments.</p> <p>Risk</p> <p>There is a risk that the benefits achieved as a result of this additional resource are short term and do not secure the future sustainability of the finance department.</p>	<p>Management should prepare resource plans for the finance function which focus on the medium to long term.</p>	<p>Agreed.</p> <p>This is recognised as a significant risk to the service. Management is currently consulting with finance staff on a proposed new senior team structure and is developing wider resourcing plans for the service.</p> <p>Chief Financial Officer</p> <p>30 June 2018</p>
12	<p>4. Exit Packages</p> <p>The organisation has in place a Voluntary Redundancy and Early Retirement Scheme. There should be a clear process in place to ensure that only redundancies which generate recurring savings and can be shown to be driven by organisational change are approved.</p> <p>Risk</p> <p>There is a risk that exit packages are not sufficiently justified and do not represent value for money.</p>	<p>Management should ensure that redundancies are only approved where they contribute to the objectives of organisational change and represent value for money.</p>	<p>Agreed.</p> <p>All future VR/VERs will either arise as a result of operating efficiency opportunities or as a result of organisational change relating to the Policing 2026 Strategy. This will ensure that Value for Money can be demonstrated.</p> <p>Deputy Chief Officer</p> <p>31 March 2018</p>



Page no.	Issue / risk	Recommendation	Agreed management action / timing
14	<p>5. Internal controls</p> <p>Controls testing, by both internal and external audit, identified a number of control weaknesses and inconsistencies in arrangements. These are disclosed in the governance statement in the annual report and accounts.</p> <p>Risk</p> <p>Weaknesses in the control environment, or inconsistencies across locations, can impact on the achievement of objectives and increase the likelihood of fraud.</p>	<p>Management should continue to focus on improving the internal controls to support a strong, and consistent, control environment.</p>	<p>Agreed.</p> <p>This is recognised as a significant risk for the organisation.</p> <p>Interim improvement work has been taking place over the past 9 months. However, fundamental change is required to address the underlying legacy issues. As a result, a Payroll Project is currently underway which will see a single payroll system, and standardised processes. In addition an end to end Procurement to Payment project is commencing which will address the control weaknesses around accounts payable.</p> <p>Chief Financial Officer 30 November 2018</p>
18	<p>6. Capital & reform budget</p> <p>Recent financial monitoring forecasts an underspend against both capital and reform funding.</p> <p>Risk</p> <p>Capital and reform funding is not fully utilised impacting on the delivery of the change programme and the identification and realisation of planned savings.</p>	<p>Capital and reform funding should be utilised to support the transformational change programme required to deliver the efficiency savings and achieve financial balance.</p>	<p>Agreed.</p> <p>Capital and Reform budgets are being closely monitored and will be used effectively. A new Investment Governance Framework has been established to ensure that the correct investments are made with these funds. Over the coming months a Capital Investment Group will be established to effectively manage these funds.</p> <p>Deputy Chief Officer 31 March 2018</p>



Page no.	Issue / risk	Recommendation	Agreed management action / timing
20	<p>7. Medium and long term financial planning</p> <p>A three year financial plan and long term financial strategy have been developed, however the robustness of these documents is dependent on a number of key plans that are still being developed.</p> <p>Risk</p> <p>Financial balance may not be achieved in the medium term due to a lack of key strategies to support the achievement of efficiency savings.</p>	<p>The 3 year implementation plan, and supporting workforce and ICT plans, should be completed as soon as possible.</p>	<p>Agreed.</p> <p>Management is aware of the importance of developing organisational plans which will support the delivery of the Policing 2026 Strategy. These are currently under development. The financial plans will continually be developed as more information becomes available from the organisation, with the next iteration being presented alongside the budget in March 2018.</p> <p>Deputy Chief Officer and SPA Accountable Officer</p> <p>31 March 2018</p>
22	<p>8. Governance and Accountability</p> <p>During 2016/7 there has been considerable attention given to the governance and transparency of the Board and its committees. The HMICS review resulted in the reversal of decisions contained in the Chair's Review of Governance in Policing.</p> <p>Risk</p> <p>There is a risk that the public perceive that decision making by the Board is secretive and lacking in transparency and that decisions are being made in the absence of public scrutiny.</p>	<p>Management should ensure that the recommendations in the HMICS review are implemented and that decisions are subject to public scrutiny.</p>	<p>This recommendation is accepted.</p> <p>The SPA has accepted all recommendations contained within the HMICS review. The recommendations are included in an action plan which will be subject to regular reporting to the SPA Audit Committee. Progress will be reported to the full Board via the Chair of the Audit Committee's regular updates. Progress will be assured through regular monitoring by the Senior Management Group of the SPA. Assurance will also be provided through progress reporting by the internal auditors, Scott Moncrieff.</p> <p>Chief Officer SPA</p> <p>31 March 2018</p>



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23

9. Forensics Services

The HMICS review of forensic services identified some fundamental weaknesses in relation to strategy and leadership. These issues were highlighted in a previous review but not implemented.

Risk

There is a risk that without significant improvements forensic services will not be able to meet the challenges of future increase in demand.

An action plan should be put in place and monitored to ensure that all HMICS recommendations are implemented.

This recommendation is accepted.

An action plan will be implemented and regularly reported upon to the new SPA Forensics Committee as appropriate. The action plan will be subject to regular review by the senior management group. Further assurances will be sought by using our internal auditors for review. Forensics Services is producing a ten year forensic services strategy which will align closely through the Policing 2026 Strategy which was published in June 2017. Forensics Services will ensure that this strategy also aligns to the requirements of the Crown Office and Procurator Fiscal Service. Future demand and capacity will be a key element of the strategic analysis undertaken. The SPA has recently re-structured Forensic Services and introduced a formal Forensics Committee to oversee strategy and leadership moving forward.

Director of Forensics Services

31 March 2018



Page no.	Issue / risk	Recommendation	Agreed management action / timing
25	<p>10. Recruitment Document Retention</p> <p>We were unable to obtain evidence to support the recruitment process for the interim director of people and development as the documents are only held for 6 months.</p> <p>Risk</p> <p>There is a risk that evidence is not retained to support the decisions made.</p>	<p>An agreed policy should be in place for the retention of evidence to support key decisions such as the appointment of temporary senior staff.</p>	<p>Agreed.</p> <p>The policy for Document Retention has been in place since 2014, which states records should be kept for 6 months.</p> <p>Two new policies for recruitment of staff and recruitment of officers are currently out for consultation. All recommendations will be considered before the policies are implemented, but adherence to the new General Data Protection Regulations must also be considered before the policies are implemented.</p> <p>Director of People & Development</p> <p>31 March 2018</p>
26	<p>11. ICT Risks</p> <p>Following the failure of i6 there has been limited progress in developing an IT strategy to support the significant changes required to the IT infrastructure.</p> <p>Risk</p> <p>Lack of IT planning and developments result in Policing 2026 not being delivered.</p>	<p>An IT strategy should be developed that supports the delivery of Policing 2026.</p>	<p>Agreed.</p> <p>A proposal is under development to provide an integrated Vision, Strategy and Delivery plans for the delivery of the essential Digital, Data and ICT improvements necessary to support delivery of the 2026 Strategy. Updates will be provided to the SPA Board on a regular basis.</p> <p>Deputy Chief Officer</p> <p>31 March 2018</p>



Page
no.

Issue / risk

Recommendation

Agreed management
action / timing

27

12. Succession Planning

With the announced resignation of the Chair, the chief executive role being made redundant and a number of impending departures from the Police Scotland Force Executive, there is an urgent need to ensure that succession plans are in place.

Risk

There is a risk that significant changes at senior level will have a detrimental impact on the continuity of strategic leadership in the Scottish Police Authority and Police Scotland.

Management should ensure that through robust planning there is clarity over the future leadership of the Scottish Police Authority and Police Scotland.

This recommendation is accepted.

An interim Chief Officer for the SPA has been appointed and joined on 13 November 2017. The current CEO will remain in post until after this date to ensure that a handover takes place.

Interviews for a new Chair took place in the week commencing 23 October 2017. The Cabinet Secretary for Justice announced the appointment of Susan Deacon CBE as the new Chair of the SPA on 16 November 2017. The current Chair will remain in post until Susan Deacon takes up her new role on 4 December 2017.

The DCC designate position within Police Scotland exists in part to provide covering during periods of absence of the Chief Constable. The current designate has postponed his retirement to assume the lead role for the time being.

The SPA has a legislative responsibility to appoint the senior officers within Police Scotland. The Authority Members are actively considering all succession planning matters at this time, and a succession plan will be produced in early course.

SPA Chief Officer

31 March 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibilities under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. 	<p>Results – Audit testing of journals identified a relocation payment which was made outwith the policy and omitted from the unaudited accounts. No significant issues were identified from our testing of accounting estimates, accruals and prepayments.</p> <p>Conclusion – Although we have identified an issue with management override of control the disclosures have been corrected and therefore this does not represent a risk of material misstatement for the financial statements.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 also requires audit work to consider the risk in any audit of fraud over income and expenditure.</p> <p>Scottish Police Authority receives a significant amount of income from fees, charges and grant income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The risk of fraud over expenditure also exists due to the extent of expenditure incurred by the Scottish Police Authority in carrying out its functions.</p>	<ul style="list-style-type: none"> • Analytical review across different categories of income and expenditure streams. • Detailed testing of income and expenditure transactions focusing on the areas of greatest risk. 	<p>Results – We did not identify any significant issues from our analytical review and testing of income and expenditure.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Preparation of the Annual Report and Accounts</p> <p>During the 2015/16 audit, significant changes were required to the draft annual report and accounts to ensure compliance with changes in the UK government's Financial Reporting Manual (FReM). Additional changes will apply in 2016/17.</p> <p>There is a risk that the annual report and accounts in 2016/17 will not comply with FReM requirements, increasing the risk of material misstatement.</p> <p>The need to draw financial information for the purpose of preparing the annual report and accounts from a wide range of legacy systems further increases the risk of error.</p>	<ul style="list-style-type: none"> Review planned Internal Audit work on the accounts preparation action plan 2016/17. Review draft Annual Report and Accounts in line with FReM requirements. Discussions with management over roles and responsibilities in preparation of annual report and accounts. Review the Scottish Police Authority's delivery against its action plan in response to the Auditor General's Section 22 report on the 2015/16 audit. 	<p>Results – Internal audit identified some concerns which were addressed prior to the annual report and accounts being presented to audit. We requested some further changes from our review which were processed by staff.</p> <p>Conclusion – The annual report and accounts were delivered in accordance with the agreed timetable and were FReM compliant.</p>
<p>4 Accounting for Property, Plant and Equipment</p> <p>During 2015/16, the previous independent auditor reported that "Aspects of the accounting records and access to information and explanations in the area of property, plant and equipment were of poor quality". Insufficient consideration was given to the identification of surplus assets, and numerous errors were identified in the valuation of assets held for sale and investment properties as a result of assets being revalued under the incorrect asset category.</p> <p>Poor accounting records increases the risk of error in the financial statements.</p> <p>There is a risk that PPE accounting arrangements during 2016/17 were not sufficient.</p>	<ul style="list-style-type: none"> Review management action against our 2015/16 audit recommendations relating to accounting for property, plant and equipment. Examination of the accuracy, completeness and valuation of property, plant and equipment disclosures in the 2016/17 financial statements. 	<p>Results – Audit testing did not identify any significant issues with the accuracy, completeness and valuation of the non current assets disclosed in the financial statements.</p> <p>Conclusion – No issues with the non current assets accounting arrangements for 2016/17.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>5 Financial sustainability</p> <p><u>Long-term planning</u></p> <p>The Scottish Police Authority is currently developing its long-term financial strategy as part of the development of Policing 2026. Developing and maintaining a long-term financial strategy will help set the context for annual budgets approved by the board. It will also help clarify the overall financial sustainability of the organisation over an extended period and can help identify problems with affordability at an early stage. Underpinning strategies covering ICT, estates management and workforce remain incomplete.</p> <p>Without robust long-term planning, there is a risk that decisions may be taken without a clear understanding of the implications beyond the current financial year and how they affect the overall financial sustainability and delivery of policing in Scotland.</p>	<ul style="list-style-type: none"> • Monitor progress on developing long-term plans in finance, ICT and workforce, including how these align to the overarching strategy for policing, <i>Policing 2026</i>. • Review the financial position and arrangements for securing financial sustainability including the appropriateness of plans to address identified funding gaps. 	<p>Results – A three year financial plan and long term financial strategy have now been developed.</p> <p>Conclusion – This is a good first step, but many of the underlying strategies and plans need to be developed to support the delivery of financial sustainability in the medium to long term.</p>
<p>6 Capital budget underspends</p> <p>In November 2016, the Scottish Government allowed the Scottish Police Authority's capital budget underspend (£19.4 million) to be offset against the revenue budget overspend (£20.5 million), resulting in a reduced overspend for 2015/16. Transferring capital to revenue budgets is done on an exceptional basis only, with the approval of the Scottish Government. In 2016/17, finance reports to the board suggest that planned capital underspends will be used again to offset revenue overspends.</p> <p>There is a risk to the integrity of the budget planning process if budgeting arrangements include a presumption that an element of the capital budget will be used to offset revenue overspends. Planned non delivery of the capital spending programmes risks undermining Police Scotland's ability to deliver services effectively.</p>	<ul style="list-style-type: none"> • Review financial year-end reporting of outturn performance. • Review evidence of any request, and subsequent permission, of offsetting capital budget underspends against revenue overspends. • Review budget plans for 2017/18 including the adequacy of scrutiny and challenge of the capital budget allocation. 	<p>Results – The 2016/17 outturn was a capital overspend of £5.8 million, however this was after the Scottish Government approved a transfer from capital to revenue of £20.5 million. Financial monitoring for 2017/18 shows a project capital underspend of £7.6 million.</p> <p>Conclusion – The monitoring of capital spend has improved and the projected underspend is part of ongoing discussion with the Scottish Government.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>7 Financial management</p> <p><u>Finance team capacity</u></p> <p>During 2017, Police Scotland recruited 15 members of staff to its finance team on a temporary basis. These appointments, together with the planned recruitment of a permanent Chief Financial Officer, means there will be significant on-going changes to the structure and personnel of the finance team.</p> <p>While these temporary appointments are designed to help increase the financial skills and capacity of the finance team in the short term, there remains a risk to the delivery of the audit timetable due to their arrival not occurring until almost the end of the financial year.</p>	<ul style="list-style-type: none"> Discussions with management over plans for finance staff recruitment both in the short term and longer term and how these are expected to support the audit process, including the preparation and submission of the draft accounts to audit within the agreed timetable. 	<p>Results – The additional temporary finance staff enabled the annual report and accounts to be delivered in accordance with the agreed timetable and to a good standard.</p> <p>Conclusion – No issues with the finance team capacity for the 2016/17 audit, but aware that these additional resources are a temporary solution.</p>
<p>8 Governance and transparency</p> <p>Recommendations from the Governance Review, undertaken by the Chair of the Scottish Police Authority, are currently being implemented. This will see changes to the operation and structure of the board and committees. During 2015/16, we reported that public board and committee papers are, at times, insufficiently transparent to enable interested parties and stakeholders to monitor the progress of key initiatives.</p> <p>With ongoing changes to the governance arrangements for policing, there is a risk that the openness and transparency of decision making may be reduced, preventing the Scottish Police Authority from demonstrating high standards of effectiveness in its use of public funds.</p>	<ul style="list-style-type: none"> Review the new governance arrangements in place to assess their appropriateness and effectiveness. Review at Board and Audit Committee level whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports. Her Majesty's Chief Inspector of Constabulary in Scotland has signalled his intention to inspect the Scottish Police Authority during 2017. His review will also include consideration of the effectiveness of the governance arrangements. As is required of us under the Police and Fire Reform (Scotland) Act 2012, we will coordinate our work and reporting with HMICS. 	<p>Results – Following the HMICS review committee meetings are now held in public and papers for Board meetings are available 3 days in advance of the meeting.</p> <p>Conclusion – The public now has improved access to information. A further review by HMICS is planned for 2017/18.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>9 Value for money</p> <p>The national i6 system was expected to be a central element of longer-term police reform. It was intended to improve information and provide operational and financial benefits to the Scottish Police Authority and Police Scotland. i6 was expected to replace around 130 IT and paper-based systems used by the predecessor police forces in Scotland. In March 2017, the Auditor General reported that the failure of the i6 programme means that some of the benefits of police reform have been, at best, delayed.</p> <p>There is a risk that the anticipated benefits are delayed further unless urgent action is taken to determine what the next steps should be. This requires an assessment of how to procure, develop and deliver new police IT systems.</p>	<ul style="list-style-type: none"> Review the Scottish Police Authority's plans to develop and deliver a new police IT system following the termination of the i6 contract. 	<p>Results – The Digital Transformation Team is developing a business case for COPS – Core Operational Policing Systems – a business intelligence solution which will use existing data sources and systems.</p> <p>Conclusion – There has been limited progress in developing a new police IT system.</p>

Appendix 3

Summary of unadjusted errors

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

Misstatements were noted during our audit testing which were not corrected in the financial statements. We are satisfied that these errors do not have a material impact on the financial statements. While entry number 1 is below our reporting threshold, due to the nature of the circumstances leading to this misstatement, as discussed at paragraph 82, it is included here for information.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Staff costs	53			
	Current liabilities				53
2	Accruals			191	
	Property, plant and equipment				191
	Net impact	53	-	191	(244)

Notes:

Entry 1 relates to an under accrual of tax and national insurance liability in respect of a relocation package which was not recognised in the 2016/17 accounts.

Entry 2 relates to the timing of expenditure on capital being recognised in 2016/17 instead of 2017/18.

Appendix 4

Summary of national performance reports 2016/17



Month	Report Title	Report Title	Report Title
Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

Central Government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's new financial powers](#) – September 2016

[i6: a review](#) – March 2017

[Managing new financial powers: an update](#) – March 2017

Scottish Police Authority

2016/17 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk