

# Scottish Police Authority

2017/18 Annual Audit Report



 AUDIT SCOTLAND

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

November 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual report and accounts

- 1 Our audit opinions were all unqualified.
- 2 There was a material adjustment (£21.3 million) to the unaudited accounts due to an issue with the actuary's report on the local government pension schemes. This resulted in a decrease to the pension liability and associated reserve.
- 3 Audit testing identified a small number of board members' expenses that were paid before the associated receipts were submitted. The receipts have since been provided to support the payments. The process for paying board member expenses was strengthened during 2017/18.

## Financial management

- 4 The year end resource outturn was an overspend of £34.3 million. This represents an improvement on the planned £47.2 million deficit included in the approved 2017/18 budget.
- 5 There are robust budget monitoring arrangements in place.
- 6 Although the overall control environment is improving there are areas of significant weakness that are still to be fully addressed.

## Financial sustainability

- 7 The 2018/19 revenue budget was approved with a £35.6 million deficit and current forecasting indicates that budgeted deficit will likely be met.
- 8 The financial planning arrangements have improved and support the elimination of the revenue operating deficit by 2020/21 but are undermined by the delay in preparing a robust workforce strategy.
- 9 The successful delivery of Policing 2026 is dependent on underlying strategies that have still not been fully developed. The ICT strategy has been identified as the key strategy upon which transformation and the delivery of Policing 2026 all depend, but its £298 million investment requirement is not included in the financial plan as confirmation of Scottish Government support is awaited.

## Governance and transparency

- 10 During 2017/18 the governance arrangements have been strengthened. New leadership teams in both Police Scotland and the Scottish Police Authority have been established and must build upon their early work to support the implementation of Policing 2026 and the wider delivery of policing in Scotland.
- 11 The Scottish Police Authority conducts its business in an open and transparent manner.

## Value for money

- 12** The Scottish Police Authority and Police Scotland do not have a well-developed performance management framework in place.
- 13** A new system has been introduced in 2018/19 to strengthen performance reporting and its effectiveness must be prioritised to ensure that the Scottish Police Authority is able to properly hold Police Scotland to account.
- 14** The significant increase in the award of contracts for consultancy and external professional support requires robust internal monitoring arrangements to ensure the achievement of strategic objectives. It is too early to determine whether the Scottish Police Authority and Police Scotland are achieving value for money from their consultancy and external professional services expenditure.
- 15** The proposed integration of the British Transport Police in Scotland into Police Scotland has been postponed with no future go-live date being proposed. Clarification of the future of this project should be sought before the commitment of any further expenditure.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of the Scottish Police Authority. The scope of the audit was set out in our Annual Audit Plan presented to the Audit Committee on 6 March 2018. This report comprises the findings from an audit of the annual report and accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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2. The main elements of our audit work in 2017/18 have been:

- a review of the main financial systems
- an audit of the Scottish Police Authority's 2017/18 annual report and accounts
- audit work covering the Scottish Police Authority's arrangements under the four audit dimensions outlined in [Exhibit 1](#).

3. The Scottish Police Authority has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts in accordance with the accounts direction from the Scottish Ministers. It is also responsible for establishing effective arrangements for governance, propriety and regularity that enables the successful delivery of its objectives.

4. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

5. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

6. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £206,100 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

9. Our aim is to add value to the Scottish Police Authority by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

10. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

11. 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 2017/18 annual report and accounts



### Main judgements

The audit opinions were all unqualified.

There was a material adjustment (£21.3 million) to the unaudited accounts due to an issue with the actuary's report on the local government pension schemes. This resulted in a decrease to the pension liability and associated reserve.

Audit testing identified a small number of board members' expenses that were paid before the associated receipts were submitted. The receipts have since been provided to support the payments. The process for paying board member expenses was strengthened during 2017/18.

### Audit opinions on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 24 October 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

13. Additionally, we have nothing to report in respect of the other information in the financial statements, the adequacy of accounting records or the information and explanations we received.

### Submission of annual report and accounts for audit

14. We received the unaudited financial statements on 27 July 2018 in line with our agreed audit timetable. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Whole of Government Accounts

15. In accordance with the guidance we completed the WGA audit and submitted the required assurances to the National Audit Office by the 28 September 2018 deadline.

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.

## Risk of material misstatement

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

## Materiality

17. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

18. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and was included in the annual audit plan. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and these are summarised in [Exhibit 2](#). Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

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## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£16.7 million
Performance materiality	£6 million
Reporting threshold	£150,000

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## Significant findings from the audit in accordance with ISA 260

19. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. 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. These findings include our views about significant qualitative aspects of the Scottish Police Authority's accounting practices including:

- |                                                               |                                                                                 |
|---------------------------------------------------------------|---------------------------------------------------------------------------------|
| • Accounting policies                                         | • Accounting estimates and judgements                                           |
| • Significant financial statements disclosures                | • Timing of transactions and the period in which they are recorded              |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements            |
| • Misstatements in the annual report and accounts             | • Disagreement over any accounting treatment or financial statements disclosure |

## Exhibit 3

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Local government pension scheme valuations</b></p> <p>The Scottish Police Authority accounts for its share of local government pension schemes in accordance with International Accounting Standard 19 - Employee Benefits (IAS 19). This relies on valuations of pension fund assets and liabilities by the actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year. As a result, the asset returns were significantly lower than the actual returns achieved. This issue existed across the public sector and affects the pension liability and reserve disclosed in the statement of financial position.</p>	<p>This has been adjusted in the audited annual report and accounts.</p> <p>The amendments resulted in a net decrease to the pension liability of £21.3 million with a similar movement in the pension reserve.</p>
<p><b>2. Provisions</b></p> <p>The unaudited accounts included a contingent liability and £0.8 million accrual for the overtime payments associated with the Working Time Directive, however in September 2018 this was settled for £3 million.</p> <p>The accounting treatment for the dilapidations provision is incorrect. The provision is being built up over the life of the lease rather than being fully recognised at the start of the lease. In accordance with IAS 37 the Scottish Police Authority should be recognising the full liability in the accounts for returning the buildings to their original condition.</p> <p>Separately, audit testing of a sample of legal provisions identified a number of changes that were not picked up in a timely manner and therefore not always reflected in the accounts. One issue was identified for the 2017/18 balance where a provision was released prior to it being settled in July 2018 for £0.2 million. In addition, several provisions released in 2017/18 were settled during 2016/17 resulting in an overstatement in the prior year provision of approximately £1 million.</p>	<p>This has been adjusted in the audited annual report and accounts.</p> <p>Management has decided not to adjust the annual report and accounts for this error. It is therefore reported as an unadjusted error of £2.6 million in <a href="#">para 21</a>.</p> <p>A further unadjusted error of £0.2 million has been included in <a href="#">para 21</a>. A prior year restatement is not required as the amounts involved are not material.</p> <p>HR, legal and finance staff must work together to ensure that provisions are accurately reflected in the unaudited accounts. The process of reviewing the legal provisions spreadsheet should also be strengthened.</p> <p> <a href="#">Recommendation 1 (appendix 1, action plan)</a></p>

Issue	Resolution
<p><b>3. Non current assets</b></p> <p>When preparing the accounts, finance staff identified a £2.5 million overstatement in the opening revaluation reserve balance. This has been adjusted in the accounts and audit testing has confirmed that the year end revaluation reserve balance is correct.</p> <p>Audit testing identified a small number of historic generic asset descriptions in the asset register, which could impact on the accuracy of the classification and accounting treatment. In addition, some assets include both tangible and intangible elements that haven't been separately identified.</p>	<p>The disclosures for the revaluation reserve have been amended to reflect the simplifications in the FReM.</p> <p>Finance staff will continue work to ensure that the asset register contains specific asset details and that these are appropriately allocated to the asset categories.</p> <p> <a href="#">Recommendation 2 (appendix 1, action plan)</a></p>
<p><b>4. Performance report</b></p> <p>The purpose of the performance analysis section of the annual report and accounts is to enable bodies to provide a detailed summary of how performance is measured and the outcomes for the year. The disclosures within the unaudited accounts are weak.</p>	<p>The inclusion of a link to the Annual Review of Policing will help satisfy the FReM requirements.</p> <p>A new performance reporting system has been introduced in 2018/19 to support further improvements in this key area of the annual report and accounts.</p> <p> <a href="#">Recommendation 3 (appendix 1, action plan)</a></p>
<p><b>5. Board member expense claims</b></p> <p>Audit testing of a sample of 15 board member expense claims identified 5 forms that were not supported by receipts for the expenditure incurred. We recognise that arrangements were strengthened towards the end of 2017/18 but this weakness in internal control risks undermining the disclosures in the remuneration and staff report.</p>	<p>No changes are required to the remuneration and staff report as we are satisfied that the amounts disclosed are consistent with the payments that have been made.</p> <p>We have recommended that recent improvements to the arrangements for paying board member expense claims are maintained.</p> <p> <a href="#">Recommendation 4 (appendix 1, action plan)</a></p>
<p><b>6. Agency staff cost disclosure</b></p> <p>Audit testing identified a classification error with the agency staff costs disclosed in the remuneration and staff report and Note 2a. £3.4 million of agency staff costs were wrongly included in staff wages and salaries.</p>	<p>This has been adjusted in the annual report and accounts.</p> <p>The agency staff costs disclosure now correctly discloses the expenditure in year of £4 million.</p>

## How we evaluate misstatements

20. There was one material adjustment to the financial statements arising from our audit. This related to the error identified in local government pension scheme valuations across Scotland as highlighted in [Exhibit 3, point 1](#) above.

21. In addition, as noted in [Exhibit 3, point 2](#), the audit identified that the accounting treatment for the dilapidations provision is incorrect as the provision does not reflect the full liability for returning the buildings to their original condition. In addition, a legal provision released in year wasn't settled until after the year end. The provisions within the accounts are therefore understated by £2.8 million. It is our responsibility to request that all misstatements in the accounts, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for this.

22. In assessing the total errors we recognised that these exceeded our overall performance materiality of £6 million. We are content that we have identified the entire error associated with the pension valuation and the understatement of the provision. We therefore determined that no further audit work was required.

### **Follow up of prior year recommendations**

23. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

24. Of the 12 agreed actions raised in 2016/17:

- 7 have been fully implemented, and
- 5 have been partly actioned and where further progress is required are raised as actions for the current year.

25. Overall the Scottish Police Authority has made progress in implementing our recommendations and for those not yet fully actioned work is underway to address them.

# Part 2

## Financial management



### Main judgements

The year end resource outturn was an overspend of £34.3 million. This represents an improvement on the planned £47.2 million deficit included in the approved 2017/18 budget.

There are robust budget monitoring arrangements in place.

Although the overall control environment is improving there are areas of significant weakness that are still to be fully addressed.

### Financial performance in 2017/18

26. 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 budget in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Revenue DEL	1,022.380	1,022.732	1,060.683	37.951
Revenue Reform Funding	47.000	40.148	36.049	(4.099)
<b>Total Revenue Outturn</b>	<b>1,069.380</b>	<b>1,062.880</b>	<b>1,096.732</b>	<b>33.852</b>
Capital DEL	20.000	20.000	21.543	1.543
Capital Reform Funding	12.500	9.480	8.423	(1.057)
<b>Total Capital Outturn</b>	<b>32.500</b>	<b>29.480</b>	<b>29.966</b>	<b>0.486</b>
<b>Total Resource</b>	<b>1,101.880</b>	<b>1,092.360</b>	<b>1,126.698</b>	<b>34.338</b>
Non Cash DEL	50.000	50.000	31.885	(18.115)
Expenditure Outside DEL	5.404	5.404	4.190	(1.214)
Annual Managed Expenditure (AME)	-	33.000	43.781	10.781

Source: Scottish Police Authority Annual Report and Accounts & Budget Allocation and Monitoring: 2017/18 Letter

27. The Scottish Police Authority has reported a total resource outturn (revenue and capital) for 2017/18 of £1,126.7 million, against a budget of £1,092.4 million, resulting in an overspend of £34.3 million. The Scottish Government is aware of the overspend position and has accommodated it across the Scottish administration.

## Budgetary processes

28. 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.

## Revenue

29. The approved revenue budget for 2017/18 forecast an operating deficit of £47.2 million after accounting for identified savings of £16 million. More than 85% of the revenue expenditure related to police officer and staff costs highlighting the importance of strong workforce planning to support the identification and delivery of savings.

30. At the year end the provisional revenue outturn position, reported to the Board in May 2018, was an overspend of £35.2m which represents a positive position as it is an underspend of £12 million against the original budget. This does not represent a reduction in the underlying financial deficit position as much of this underspend was due to non-recurring savings. The reporting of the projected revenue outturn throughout the year is shown in [Exhibit 5](#).

## Capital

31. The Board set a balanced 2017/18 capital budget of £42.4 million comprising £20 million of capital grant from Scottish Government, planned capital receipts of £10 million and the use of £12.4 million of reform funding.

32. At the year end the capital budget was underspent by £8.4 million against the original budget primarily due to an underspend of £5.3 million on infrastructure modernisation and a £5.5 million underspend across the range of transformation projects. These were partly offset by a £3.6 million overspend on airwave replacement. The projected capital outturn reported throughout the year is shown in [Exhibit 5](#).

## Reform (Police Change Fund)

33. 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. The receipt of reform funding requires the preparation and approval of business cases which must comply with the internal investment governance framework before being passed to the Scottish Government for approval.

34. For 2017/18 the Scottish Government allocated the Scottish Police Authority a total reform budget of £59.5 million, including the £12.4 million for capital detailed above. During the year, the reform funding was reduced from £59.5 million to £49.6 million as shown in [Exhibit 4](#) to reflect the change in VAT rules, which generated a reform “saving” of £2.3 million, and the recruitment delays experienced for some of the corporate transformation roles. The projected reform outturn reported throughout the year is shown in [Exhibit 5](#).

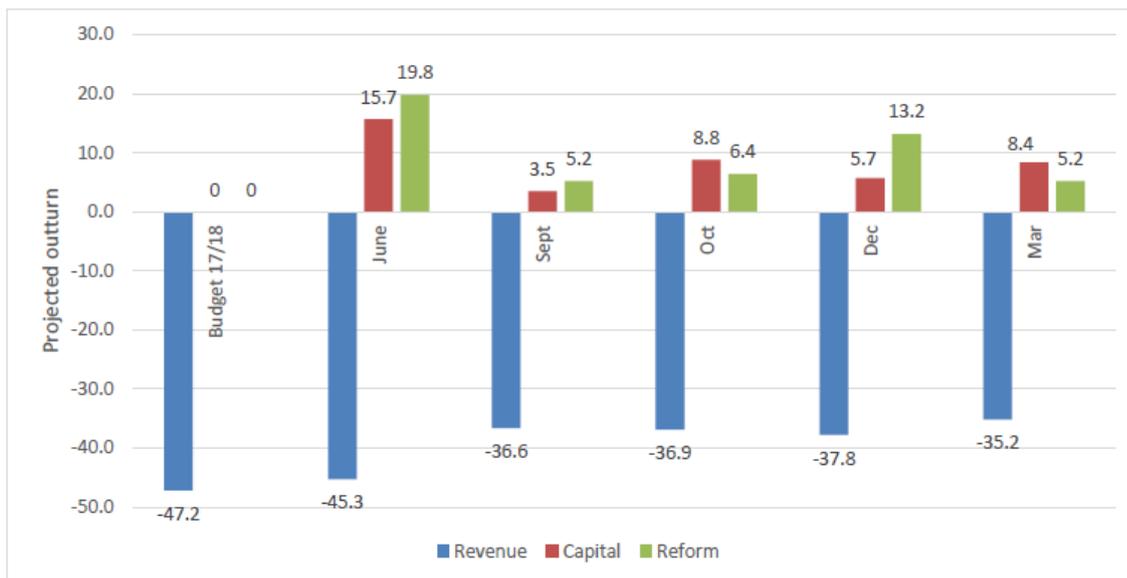
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Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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## Exhibit 5

### Reporting of forecast outturn positions



Source: Scottish Police Authority Financial Reporting

35. We concluded that the Scottish Police Authority has effective budget monitoring in place and note that improved arrangements have been introduced in 2018/19 for capital and reform to ensure this is actively managed throughout the year to remove the current volatility in reporting and enable budgets to be fully utilised. The financial monitoring reports allow both board members and budget holders to carry out effective scrutiny of its finances.

### Systems of internal control

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

37. Due to the control weaknesses identified in prior years, supported by internal audit reviews and our knowledge of the system changes required to establish a strengthened control environment, our planned audit approach was designed to ensure sufficient assurance could be obtained from substantive procedures. Despite this we undertook high level system evaluations to support our overall understanding and to enable us to identify and assess any controls that had already been strengthened and that could provide assurance. This work covered key controls in the areas of bank reconciliations, feeder system reconciliations, changes to supplier bank details and IT access controls.

38. Our findings were included in the management report presented to the Audit Committee on 11 September 2018. While we found that improvements have been made in the control environment during 2017/18, areas of significant weakness still exist.



[Recommendation 5 \(appendix 1, action plan\)](#)

## Financial capacity

39. Previous Section 22 reports by the Auditor General for Scotland and annual audit reports highlighted issues relating to the capacity and capability of the finance team. We reported in our 2016/17 annual audit report that the finance team had been supported by significant temporary resource which had made a positive contribution. However, we also noted the risks associated with the temporary nature of the additional resources and highlighted the importance of ensuring that this was sustained over the longer term.

40. A Finance Service Improvement Plan has been developed as part of the wider Finance Stabilisation and Transformation Plan, which has identified the additional skills and resources required to enable the necessary transformation of the service to take place to achieve the objectives of Policing 2026. Permanent staff have now been appointed to key finance roles to provide stability and support ongoing improvements. We recognise the positive impact this has already had on the preparation of the unaudited accounts and the audit process.

# Part 3

## Financial sustainability



### Main judgements

The 2018/19 revenue budget was approved with a £35.6 million deficit and current forecasting indicates that budgeted deficit will likely be met.

The financial planning arrangements have improved and support the elimination of the revenue operating deficit by 2020/21 but are undermined by the delay in preparing a robust workforce strategy.

The successful delivery of Policing 2026 is dependent on underlying strategies that have still not been fully developed. The ICT strategy has been identified as the key strategy upon which transformation and the delivery of Policing 2026 all depend, but its £298 million investment requirement is not included in the financial plan as confirmation of Scottish Government support is awaited.

### 2017/18 financial position

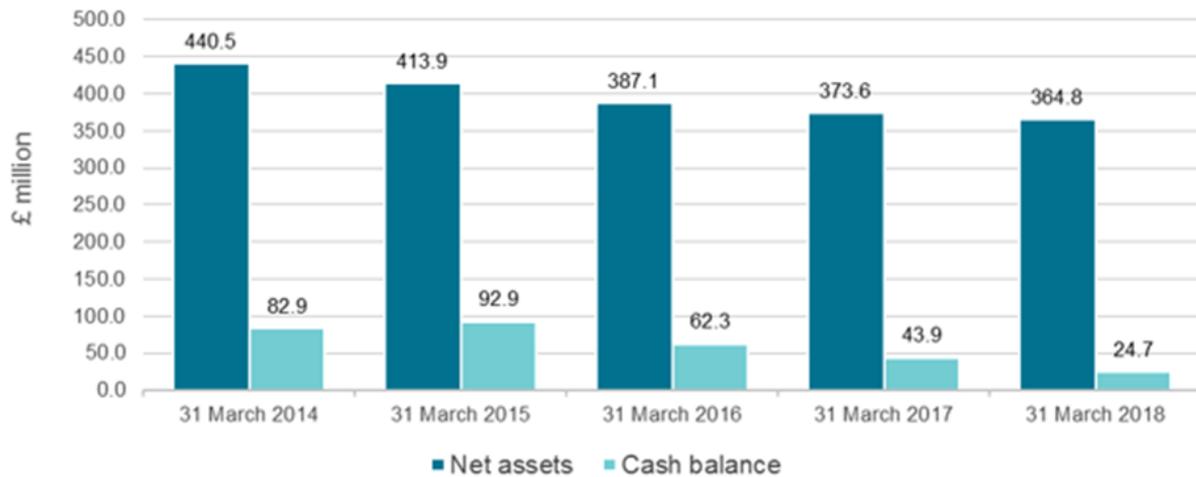
41. The annual report and accounts show that the Scottish Police Authority has a net liability of £16.3 billion, a small increase of £0.1 billion from last year. The net liability position is due to the inclusion of pension liabilities for both police officers and staff, of £16.7 billion. The Scottish Government is aware of the position and has provided assurances that they recognise the associated responsibility for funding these costs as they fall due. We therefore agree with the Scottish Police Authority's conclusion that this does not represent a going concern issue.

42. Excluding the pension liabilities, the net asset position for the Scottish Police Authority has continued to reduce and as at 31 March 2018 was £362.7 million. The reduction is primarily due to the movement in cash balances which is almost half its prior year level (£24.7 million from £43.9 million). It needs to be closely managed to ensure that its operating with necessary levels of liquidity. [Exhibit 6](#) shows the movement in both the net asset position, excluding pension liabilities, and the cash balances. As at 31 March 2014 cash represented 18.8% of the net asset position, however by this year it has reduced to 6.8%.

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.

## Exhibit 6

### Net assets v cash balance



Source: Scottish Police Authority Annual Report and Accounts

## 2018/19 financial planning

43. The Scottish Police Authority approved its 2018/19 budget in March 2018. The budget was presented alongside the Policing 2026 Three Year Implementation Plan which was then approved by the board, with the Three Year Financial Plan in May 2018. Further detail on these plans is included in [para 54](#) and [para 60](#).

### Revenue

44. The revenue budget for 2018/19 is £1,121.6 million and includes a planned operating deficit of £35.6 million which is consistent with the arrangements outlined in the Three Year Financial Plan originally approved by the Board in September 2017. The Scottish Police Authority is on track to eliminate the budget deficit by 2020/21. The budget includes:

- a provision to support the implementation of the Staff Pay and Reward Modernisation Project which is seeking to introduce new, standard terms and conditions for all staff for 2019/20
- £24.7 million to meet the cost of a pay award for officers and staff in line with the public sector pay policy
- £2.1 million to support the clearing of the historic backlog of forensic services cases within a total increase of £3.6 million (12.9%)
- £0.4 million to provide the Chair and Accountable Officer with the required investment for the Scottish Police Authority to effectively carry out the required scrutiny and accountability, an increase in total budget of 10%.

45. Recent financial reporting to the Board notes a year to date underspend of £5.6 million with a full year forecast underspend of £1.2 million. The Scottish Police Authority and Police Scotland recognise that the delivery of the required savings will be challenging and requires careful management.

## Capital

46. The 2018/19 approved capital budget is £41.6 million and includes expected capital receipts of £14 million. During 2017/18 a Capital Investment Group (CIG) was established to assess and prioritise capital bids. In setting the 2018/19 capital budget the CIG received bids totalling £71.9 million and the challenge process enabled these to be prioritised resulting in the 2018/19 capital plan which is comprised of:

- £20 million for business as usual programmes including categories such as estates (£4.4 million), fleet (£5 million) and ICT (£6.3 million)
- £20.5 million for change programmes including commercial services transformation (£1.1 million), criminal justice & custody (£2.8 million), digitally enabled policing (£6.4 million) and ICT (£8.9 million)
- £1.1 million for Forensic services.

47. The establishment of the CIG improves the governance arrangements for capital spend, however the development of an estates plan is now pressing to ensure that capital investment is aligned to the Policing 2026 strategic priorities.

48. Recent financial reporting to the Board notes a year to date underspend of £1.8 million with a full year forecast spend in line with budget. However, the report also highlights year to date slippage on capital receipts of £8.7 million due to the delay in the sale of the former Strathclyde Police building at Pitt Street in Glasgow. This asset was initially scheduled for disposal in 2016/17 and has been subject to significant delays representing a risk to the quantum and timing of the capital receipt and extent of the 2018/19 capital budget.

## Reform

49. The 2018/19 approved reform budget is £29.6 million, including £4.6 million for capital included in the capital budget detailed above. As noted in [para 33](#) reform funding provides the investment required to make change and transform policing to support the delivery of the Policing 2026 programme and the process requires the approval of business cases. The 2018/19 budget includes £9.2 million of expenditure already committed due to continuing costs from the business cases approved in 2017/18. In addition, £7.7 million of the planned expenditure is allocated to professional services to progress the transformational change programme.

50. Recent financial reporting to the Board details a year to date underspend of £1.2 million with a full year forecast spend in line with budget, after the reallocation of budgets between programmes.

## 2019/20 budget setting

51. A budget strategy has now been prepared to establish a framework for setting the 2019/20 revenue budget and ensure alignment with operational and strategic plans. It includes timetables and is supported by detailed guidance including key principles and responsibilities. The development of the budget strategy strengthens the overall budget setting process.

## EU withdrawal

52. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect finances.

- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect activities.

53. The impact of Brexit has not been built into the financial planning documents, however the Board received a verbal update on Brexit planning and preparation in June 2018. The update provided detail on the steps taken to identify and mitigate risks and the governance arrangements that are being established. Further developments will be reported to the Board as the work in this area progresses.

## Medium to long term financial planning

54. We recognise that the Scottish Police Authority is mainly funded from Scottish Government budget allocation which is determined on an annual basis. However, they have been able to prepare a Three Year Financial Plan and Ten Year Financial Strategy, initially approved by the Board in September 2017 and then further updated in May 2018. This represents an important step in bringing the Scottish Police Authority into financial balance by 2020/21.

### Medium term

55. The Three Year Financial Plan has been updated to align efficiency savings to individual projects for 2018/19, however gaps exist in addressing the emerging financial pressures for the ending of the public sector pay cap and the implementation of the staff pay and reward modernisation project. The development of the transformation programme has identified additional savings that could be realised, however work is still ongoing to prioritise and allocate these to individual projects.

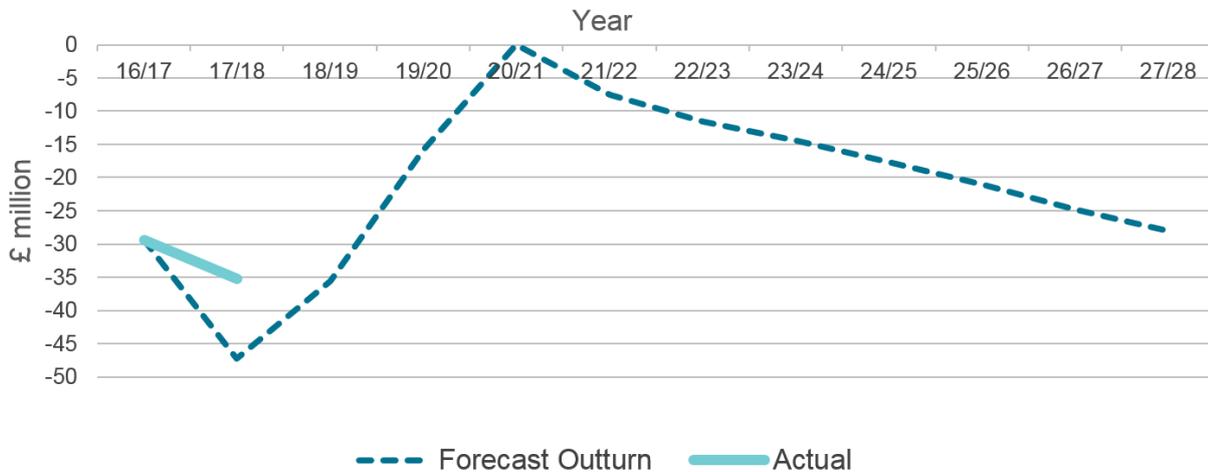
56. In addition to financial savings, the plan also outlines the work that is being done to create capacity within the organisation by streamlining processes, reducing bureaucracy and introducing new technology.

### Long term

57. The Ten Year Financial Strategy sets out the financial parameters that need to be considered when making operational and strategic decisions. It reflects the positive outturn achieved in 2017/18 but confirms that this has a limited impact moving forward as the majority of the savings were non recurring and therefore did not reduce the underlying deficit position. The strategy details that, despite the continuing assumption of 2% annual increases in Scottish Government funding and the availability of reform funding, the Scottish Police Authority will move back into an annual deficit position, after achieving a break even position in 2020/21 unless further transformation is delivered. This is shown in [Exhibit 7](#).

## Exhibit 7

### Reporting of outturn positions



Source: Scottish Police Authority Ten Year Financial Strategy

58. The Ten Year Financial Strategy has been developed using assumptions based on experience and includes some high level sensitivity analysis for the key areas of expenditure, officer and staff costs, and income, Scottish Government funding. However, the robustness of the financial planning is significantly undermined by the lack of a workforce strategy as more than 85% of the expenditure incurred relates to officer and staff costs.



[Recommendation 6 \(appendix 1, action plan\)](#)

## Policing 2026

59. In June 2017 Policing 2026 was laid before Parliament and approved by the Board. Policing 2026 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 Policing 2026 is the development of a flexible and adaptable workforce that can address the new and changing demands. It also identifies the critical role that new technology and approaches will play in improving outcomes.

### Three Year Implementation Plan

60. In May 2018 the Board approved the updated Serving a Changing Scotland – Our 3 Year Implementation Plan. The plan outlines how Policing 2026 will be delivered in 3 phases:

- creating capacity to improve – investing in areas that free up capacity and improve productivity to enable the prioritisation of resource to operational and specialist policing
- working smarter – enabling better decision making and innovation with evidence and information led policing
- connected services – streamlined and integrated services with partners and communities.

61. The plan also contains a delivery timetable aligned to the strategic objectives and is consistent with the medium term financial planning outlined above.

## Workforce strategy

62. Staff costs account for more than 85% of operating costs and Policing 2026 includes a focus on the restructuring of corporate services, with a review of the demand and skill mix of the workforce to be conducted by 2020 to inform future planning.

63. Resource management work to date has focused on ensuring that structures and headcount are monitored and reported consistently across the organisation. This is recognised as the first stage of developing strategic workforce planning, but that significant work is required to develop a formal workforce strategy that will support the achievement of Policing 2026.

64. There is now a need to prepare an action plan, agreed with key stakeholders including teams working on relevant strategic projects such as Demand and Productivity, to set out the action required and realistic timescales for delivery. It is critical that a workforce strategy is developed to underpin Policing 2026.



[Recommendation 6 \(appendix 1, action plan\)](#)

## Information and communications technology (ICT) strategy

65. In 2018 Police Scotland prepared, with the assistance of consultants, a Digital, Data and ICT Strategy. The strategy sets out how information technology will be used to support Policing 2026 and envisages an ambitious 4 to 5 year transition plan, in three phases, involving a selection of programmes and related underpinning projects.

66. The Strategic Business Case was approved by the Board in September 2018. It recognises the need for significant investment to refresh the current technology platforms and rationalise back-office systems to a single source of information that must be protected, secured and maintained before it can then be used to support innovation. The previous ICT strategy, prepared in 2015, also focused on these areas but progress was limited. An estimated budget of £298 million over the next 5 years has been projected, but a funding package has not yet been agreed.

67. There are other challenges in implementing the strategy, namely the complex governance arrangements that will be required given the innovative and technical approach being proposed. Staffing is another priority area as the strategy will require a change in skills and mindsets. Finally, there is the need to ensure any digital developments are compatible with external stakeholder needs.



[Recommendation 6 \(appendix 1, action plan\)](#)

68. The delivery of Policing 2026 requires the development of strong financial planning that must be underpinned and informed by other corporate strategies for workforce, estates and ICT. We note the developments noted above for ICT, however there has been no progress in developing workforce and estates strategies and this will constrain the Scottish Police Authority's ability to achieve long term financial sustainability.

# Part 4

## Governance and transparency



### Main judgements

**During 2017/18 the governance arrangements have been strengthened. New leadership teams in both Police Scotland and the Scottish Police Authority have been established and must build upon their early work to support the implementation of Policing 2026 and the wider delivery of policing in Scotland.**

**The Scottish Police Authority conducts its business in an open and transparent manner.**

### Governance arrangements

69. The Scottish Police Authority's governance arrangements have been subject to many internal and external reviews since its creation in 2013. Historically there has been a lack of stability and capacity at board level to enable the establishment of robust governance and scrutiny arrangements.

70. In December 2017 Susan Deacon CBE was appointed as the Chair of the Scottish Police Authority. A number of key changes have now been made including introducing the practice that all board and committee meetings, agendas and papers are publicly available. In addition, the committee structure was refreshed resulting in the reinstatement of the Complaints and Conduct committee and the creation of the Succession Planning and Appointments committee, both with delegated decision making powers.

71. In March 2018 the review of the support provided to the Board by the Scottish Police Authority executive team, commissioned by the Cabinet Secretary for Justice and led by the then Scottish Police Authority Deputy Chair, Nicola Marchant, and Comhairle nan Eilean Siar Chief Executive, Malcolm Burr, was published. The review was requested to specifically consider how the executive of the Scottish Police Authority could best support the board to take informed, transparent decisions. The report contained recommendations that helped inform the Accountable Officer's review of the capacity and capability of the executive team resulting in the approval, by the Board, of the Scottish Police Authority Improvement Plan 2018/19, in May 2018.

72. The Improvement Plan 2018/19 was developed following consultation with staff and focuses on four priority areas:

- improving services to the board and committees
- improving internal governance, policies and procedures
- strengthening external relationships and procedures
- building the capacity and capability of the Scottish Police Authority executive team.

**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. Additional changes to committee structures are being considered. The Scottish Police Authority is taking the right first steps to ensuring it is adequately equipped to support the board and committees.

## Transparency

74. Transparency means that the public has access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets. The Scottish Police Authority has strengthened its governance arrangements embedding the principle of transparency by ending the previous practice of meetings being “closed”. Board and committee meetings, apart from the Complaints and Conduct Committee, are now held in public. However, where appropriate, and based on agreed rationale, some items will be taken in private. Board meetings continue to be streamed live online and agendas, papers and minutes are available on the Scottish Police Authority’s website. We have concluded that the Scottish Police Authority conducts its business in an open and transparent manner.

## Leadership changes and succession planning

75. Since October 2017 the Scottish Police Authority has experienced significant leadership changes including the appointment of a new Chair of the board and the new interim chief officer role for Kenneth Hogg, following the departure of the former chief executive, John Foley. In addition, to help improve the capacity and effectiveness of the board and its committees, seven new members have been appointed. This has provided the Scottish Police Authority the opportunity to review and strengthen its current committee structure and membership.

76. Fees paid to members during 2017/18 have increased from £0.174 million to £0.244 million. This is representative of the additional time that board members have spent on oversight of the significant change and transformation projects underway but is also indicative of the time spent carrying out operational tasks which should be the responsibility of executive directors. By strengthening the board and committee structure and increasing the executive capacity at the Scottish Police Authority, the Board will have greater capacity to focus on strategic issues and external engagement.

77. Police Scotland has also experienced leadership change with the appointment of a new Chief Constable and further changes at both the Deputy Chief Constable and Assistant Chief Constable roles. In February 2018 the former Chief Constable resigned after an extended leave of absence of more than four months. On departure he received £28,227 for untaken annual leave and a further £54,137 payment in lieu of notice. Following receipt of legal advice to support this decision, the Scottish Police Authority applied proper governance procedures in making these payments and they are accurately disclosed in the remuneration and staff report in the annual report and accounts.

78. The creation of the Succession Planning and Appointments committee will help ensure that the recent extensive changes in leadership will be mitigated and more structured moving forward.

## Risk management

79. Risk management is about the identification, evaluation and prioritisation of risks and is a critical part of every organisation. It is an area that is now being developed and established within the Scottish Police Authority and Police Scotland, including the development of a risk management framework. Although we recognise that the Audit Committee has received regular progress reports on the new risk management arrangements this has not yet developed into robust risk reporting that is connected to performance management arrangement or fully informs decision making.

## Internal audit

80. Internal audit provides the Scottish Police Authority and Accountable Officer with independent assurance on the internal control environment and corporate governance process. The internal audit function is carried out by Scott Moncrieff who were re-appointed, for a further 2 years, in May 2018 after a competitive tender process.

81. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with 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. We did not place any formal reliance on internal audit for our financial statements assurance but considered areas that supported our conclusions on our wider dimension audit responsibilities, including performance management, risk management and budgeting and reporting.

## Governance Statement

82. HM Treasury's Financial Reporting Manual (FReM) states that the Scottish Police Authority must prepare an annual 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.

83. 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 receiving completed controls checklists and assurance certificates from all members of the Scottish Police Authority's Senior Management Group and Police Scotland's Force Executive.

84. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

## Standards of conduct for prevention and detection of fraud and corruption

85. We have reviewed the arrangements in place to maintain standards of conduct including the Codes of Conduct for Board members and staff of both the Scottish Police Authority and Police Scotland. There are procedures in place for preventing and detecting breaches of these standards including any instances of fraud or corruption.

86. Based on our review of the evidence we concluded that the Scottish Police Authority has arrangements in place for the prevention and detection of bribery and corruption. Our audit work has not identified any specific issues we need to bring to your attention.

## Complaints handling

87. The Police Investigations and Review Commissioner published a report on the audit of the Scottish Police Authority's complaints handling including recommendations to address the issues identified. Progress has been made in implementing these recommendations including the reinstatement of the Complaints and Conduct Committee. On a quarterly basis the Professional Standards Department of Police Scotland and the Scottish Police Authority Complaints and Conduct Team report to this committee on complaints received in the period, the outcome of complaints and any associated lessons learned.

## Whistleblowing

88. The National Gateway Assessment Unit was established within the Professional Standards Department in February 2017 following recommendations from Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) Inspection of the Counter Corruption Unit. Referrals to the National Gateway Assessment Unit are reported to the Audit Committee on a regular basis.

89. As a result of an internal review, whistleblowing procedures for Police Scotland the Scottish Police Authority are currently being revised.

## National Fraud Initiative

90. 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 irregularity.

91. In our 2016/17 annual audit report we noted clear improvements in the NFI process within the Scottish Police Authority with all recommended matches being completed and closed by October 2017. The 2018/19 NFI exercise will shortly be launched and we look forward to the Scottish Police Authority continuing to have strong engagement with the process.

## Cyber security

92. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. Police Scotland's Information Governance Board and Cyber Resilience Board lead on all cyber security matters. They have recognised that cyber resilience is not yet embedded within procurement activity and utilise the Scottish Government's Cyber Resilience Unit to assist.

93. Staff in the dedicated Virtual Security Operations Centre (VSOC) have appropriate qualifications and the capability and skills are being reviewed across the ICT function. All staff awareness has been tackled by electronic briefings, however a new staff training programme is being developed.

94. The Scottish Police Authority is actively strengthening its cyber resilience arrangements and is currently working towards Cyber Essentials Plus accreditation having already achieved full Cyber Essentials compliance.

## General Data Protection Regulation

95. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. GDPR has introduced new and significantly changed data protection concepts including a wide range of new rights for individuals in respect of their personal data. Failure to comply with new GDPR data handling arrangements could result in significant fines.

96. Neither the Scottish Police Authority or Police Scotland achieved full compliance with the new regulations at the point of introduction, but work is ongoing including liaising with the Office of the Information Commissioner. Standard Operating Procedures are in place to support consistency in data treatment and in the reporting of any incidents.

# Part 5

## Value for money



### Main judgements

**The Scottish Police Authority and Police Scotland do not have a well-developed performance management framework in place.**

**A new system has been introduced in 2018/19 to strengthen performance reporting and its effectiveness must be prioritised to ensure that the Scottish Police Authority is able to properly hold Police Scotland to account.**

**The significant increase in the award of contracts for consultancy and external professional support requires robust internal monitoring arrangements to ensure the achievement of strategic objectives. It is too early to determine whether the Scottish Police Authority and Police Scotland are achieving value for money from their consultancy and external professional services expenditure.**

**The proposed integration of the British Transport Police in Scotland into Police Scotland has been postponed with no future go-live date being proposed. Clarification of the future of this project should be sought before the commitment of any further expenditure.**

### Best Value

97. 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. Best Value sits at the heart of our public sector audit model as outlined in [Exhibit 1](#). In addition, in conjunction with Her Majesty's Chief Inspector of Constabulary in Scotland (HMICS), we may undertake specific work in this area in future years.

### Performance management

98. Policing 2026 outlines the vision for future policing and, given the extent of change required, it is vital that there are robust performance management arrangements in place to demonstrate progress. Initially performance measures and key performance indicators (KPIs) must be developed that link to operational plans. Effectively monitoring and reporting performance against these measures and KPIs then enables the Scottish Police Authority to track progress and identify areas of underperformance that need to be addressed.

99. A recent internal audit review of the current performance management arrangements concluded "...more work is required to link identified KPIs to Strategic Objectives and to define, document and structure how the performance management processes will work in practice."

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

100. We concluded that the Scottish Police Authority does not have an effective performance management framework in place to support the delivery of Policing 2026.



[Recommendation 7 \(appendix 1, action plan\)](#)

## Performance reporting

101. Quarterly Performance Reports are prepared and presented to the board to outline performance and support the delivery of the Annual Police Plan priorities. Performance is monitored against the six operational priority areas of: 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. These areas are the focus of the performance summary and analysis section of the annual report and accounts and we noted weaknesses in this area in [Exhibit 3, point 4](#).

102. The weaknesses in performance reporting have been recognised by the Scottish Police Authority with new arrangements introduced in 2018/19. These have not yet been subject to audit review.

## Payments to senior staff

103. In our 2016/17 annual audit report we commented on the governance and value for money of the redundancy process for the post of the Scottish Police Authority Chief Executive. Our 2017/18 audit work considered the payments to ensure they were correctly processed and accounted for and we did not identify any issues. The business case pointed to the significant reduction in line management responsibilities, due to the removal of Forensics, as a key driver for making the post redundant. The Scottish Government assessed these reduced responsibilities when determining the salary range for the Interim Chief Officer role. In August 2018 the Board announced that Hugh Grover had been appointed as the new Chief Executive with a salary consistent with the previous Chief Executive role. The Scottish Government approved the starting salary.

## Consultancy and external support

104. Operating expenditure for 2017/18 included £4.3 million on consultancy fees, more than double the amount spent in 2016/17 (£1.9 million). The staff report also discloses expenditure on agency staff of £4 million which is also a significant increase from the £1.5 million that was spent in 2016/17.

105. However, this increased expenditure should be considered in the context of an overall annual budget of £1.2 billion and is representative of the extensive process of reform and transformation that the organisation continues to undergo. The achievement of the objectives of Policing 2026 are dependent on a number of key strategic projects and the Scottish Police Authority and Police Scotland have determined that for some specific projects they do not have the capability or capacity internally to be able to deliver these. During 2017/18 reform funding of £3.7 million was spent on consultancy and professional services. [Exhibit 8](#) below shows some of the key projects that incurred expenditure on consultancy during 2017/18.

## Exhibit 8

### Reform expenditure on consultancy

Project	Expenditure in 2017/18
Commercial Excellence	£1.025 million
British Transport Police Integration	£0.288 million
Corporate Support Services Transformation	£0.721 million
Data, Digital and ICT Strategy	£0.772 million

Source: Scottish Police Authority Reform Reporting

106. As part of our financial statements audit we selected a sample of contracts to assess the robustness of the business cases that had been developed and to ensure that they were subject to appropriate governance and approval. From our audit work we found evidence that there are appropriate governance arrangements in place.

107. The number and value of contracts being awarded places considerable pressure on the staff within the organisation, in particular within the procurement and finance functions. The preparation of business cases for approval, managing tender exercises and monitoring the subsequent contracts is onerous.

108. The value for money of this expenditure cannot be evaluated at this time. Given the long term, strategic nature of the support the impact will not be demonstrated in the short term. It is essential that Police Scotland and the Scottish Police Authority have arrangements in place to monitor the spend against these contracts and ensure that the planned benefits and knowledge transfer, detailed in the original business cases, and the desired contribution to the organisation's strategic objectives are achieved.



[Recommendation 8 \(appendix 1, action plan\)](#)

### British Transport Police (BTP) Integration

109. In April 2017, following the Smith Commission and the Scotland Act 2016, the Scottish Government announced proposals to integrate the British Transport Police in Scotland into Police Scotland. Delivery of the programme of work to implement operational integration was overseen and managed by a Joint Programme Board (JPB), chaired jointly by the Scottish Government (SG) and Department for Transport (DfT). Membership of the JPB includes Police Scotland, BTP, British Transport Police Authority (BTPA), the Scottish Police Authority and Transport Scotland.

110. In February 2018, following advice from the JPB, Scottish Ministers agreed that the original proposed 'go live' date for integration of 1 April 2019 could not be met safely. They called for a re-planning exercise to be completed to enable a revised date for operational integration to be determined. A Project Management Office (PMO) was established to carry out the re-planning exercise. The PMO was led by Scottish Government and staffed by Police Scotland and BTPA representatives.

111. Both the Scottish Police Authority and Police Scotland have stated that given the concerns and challenges around costs, future funding, ICT and staffing, which remain unresolved they are not able to recommend proposals for a 'go-live' date. On 18 September 2018 the Justice Minister, Humza Yousaf, advised the Scottish Parliament's Justice Committee that all options to achieve integration are being revisited with, as yet, no revised timescale for implementation. Given the range of transformational challenges facing the Scottish Police Authority and Police Scotland there is a risk that the ongoing uncertainty about future plans for the devolution of railway policing in Scotland continues to absorb resources impacting on the delivery of its wider strategic objectives.

### **National performance audit reports**

112. Audit Scotland carries out a programme of national performance audits on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which may be of direct interest to the Scottish Police Authority. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Provisions</b></p> <p>Audit testing identified a number of changes to the legal cases used to value the provision that were not picked up in a timely manner.</p> <p>In addition, the accounting treatment for the dilapidations provision was incorrect.</p> <p><b>Risk</b></p> <p>The accounts do not correctly reflect the provisions of the Scottish Police Authority.</p>	<p>HR, legal and finance staff must work together to ensure that provisions are accurately reflected in the unaudited accounts.</p> <p>The process of reviewing the legal provisions spreadsheet used in the preparation of the accounts should be strengthened and the current accounting treatment for the dilapidations provision should be reviewed.</p> <p><a href="#">Exhibit 3, point 2</a></p>	<p>Agreed.</p> <p>Management has identified the risk and as a result finance and legal staff have already made arrangements to agree a formalised process for ensuring clear information flows about provisions in the accounts between legal, HR and finance.</p> <p>This will ensure that any budgeting and forecasting considerations, along with year-end accounts impacts, are fully captured going forward.</p> <p>Responsible officer: Chief Financial Officer / Financial Controller</p> <p>Implementation date: 31 December 2018</p>
2	<p><b>Non current assets</b></p> <p>Audit testing identified some aspects of the non current asset accounting that should be strengthened.</p> <p><b>Risk</b></p> <p>The previous progress in non current asset accounting is not maintained resulting in errors in the accounts.</p>	<p>Finance staff should review the asset register to identify and correct any generic codes. The accounting for revaluation changes and classification of assets should be subject to robust review.</p> <p><a href="#">Exhibit 3, point 3</a></p>	<p>Agreed.</p> <p>The recommended asset register review is underway and this will include improving asset code descriptions where possible. Accounting for revaluation and asset classification will be reviewed in conjunction with relevant guidance, including from the Scottish Government, and updated as appropriate.</p> <p>Responsible officer: Financial Controller / Statutory Reporting Lead</p> <p>Implementation date: March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Performance report</b></p> <p>The performance report does not provide a detailed summary of performance measurement arrangements and the outcomes for the year.</p> <p><b>Risk</b></p> <p>The performance report is non-compliant with the FReM.</p>	<p>The new performance reporting system should be used to inform the performance report in the annual report and accounts to ensure it provides a detailed summary of performance for the year.</p> <p><a href="#">Exhibit 3, point 4</a></p>	<p>Agreed.</p> <p>A new performance reporting system was brought into effect on 1 April 2018 and, subject to any further improvements, will be used to inform the performance report in the 2018/19 Annual Report.</p> <p>Responsible officer: ACC Strategy &amp; Innovation</p> <p>Implementation date: March 2019</p>
4	<p><b>Board member claims</b></p> <p>Audit testing identified Board member claims that had been paid even though they were not supported by receipts to evidence the expenditure.</p> <p><b>Risk</b></p> <p>Claims are paid for expenditure that has not been incurred.</p>	<p>Board members should be reminded of the need to provide receipts and payments should not be made until these are submitted.</p> <p><a href="#">Exhibit 3, point 5</a></p>	<p>Agreed.</p> <p>Improvements were made during 2017/18 and since that time, all expenses have been fully evidenced.</p> <p>Responsible officer: Accountable officer</p> <p>Implementation date: Already implemented</p>
5	<p><b>Control environment</b></p> <p>Control weaknesses still exist in key areas such as payroll and the processing of journal entries.</p> <p><b>Risk</b></p> <p>Weaknesses in the control environment, and inconsistent practice across locations, increases the likelihood of fraud or error.</p>	<p>The strengthening of the control environment should continue to be an area of focus.</p> <p><a href="#">Paragraph 38</a></p>	<p>Agreed.</p> <p>Significant work continues to strengthen the control environment. The issue raised in respect of journal entries has now been resolved.</p> <p>The Financial Regulations, the Scheme of Delegation and a new Income and Debt Management Policy have been recently updated and approved.</p> <p>The national payroll project continues to progress on schedule. Officers and staff from legacy Lothian &amp; Borders, Fife, Dumfries &amp; Galloway, Grampian and Tayside are now being paid through the new national payroll system. Officers and staff on the remaining legacy payrolls will be transferred to the new system in the coming months.</p> <p>A project to strengthen non-pay expenditure controls has also commenced and will</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
6	<p><b>Supporting strategies for Policing 2026</b></p> <p>Financial planning arrangements have been developed to support the delivery of Policing 2026, but these are undermined by the delay in developing robust supporting strategies for key areas such as workforce and ICT.</p> <p><b>Risk</b></p> <p>The extent of change required to deliver Policing 2026 may not be achieved.</p>	<p>The creation and approval of a workforce strategy is now critical.</p> <p>The further work required to fully develop the Data, Digital and ICT strategy should continue to enable funding to be identified and plans to be implemented.</p> <p><a href="#">Paragraph 58, 64 &amp; 67</a></p>	<p>deliver further improvements over the next six to nine months.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: 30 June 2019</p> <hr/> <p>Agreed.</p> <p>Police Scotland expects to consult key stakeholders on a draft Workforce strategy by the end of March 2019.</p> <p>Following approval of an integrated Data, Digital and ICT (DDICT) strategy in May 2018, and Outline Business Case to take forward delivery of the DDICT strategy was approved the Board on 27 September 2018.</p> <p>A revised Estates strategy and accompanying implementation plan is expected to be completed by the end of March 2019.</p> <p>Responsible officer: Deputy Chief Officer</p> <p>Implementation date: March 2019</p>
7	<p><b>Performance management framework</b></p> <p>An effective performance management framework is not in place to enable the progress of delivering against Policing 2026 to be monitored.</p> <p><b>Risk</b></p> <p>The inability to understand performance impact on the delivery of Policing 2026.</p>	<p>The newly implemented performance management framework must be reviewed and developed to support the identification and reporting of key performance areas.</p> <p><a href="#">Paragraph 100</a></p>	<p>Agreed.</p> <p>A new performance management and reporting framework was introduced by Police Scotland on 1 April 2018, and is being used to report performance to the Board during 2018/19, including on the delivery of the 10-year policing strategy 'Policing 2026: Serving a Changing Scotland'.</p> <p>Responsible officer: ACC Strategy &amp; Innovation</p> <p>Implementation date: March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
8	<p><b>Consultancy and external support</b></p> <p>The external support required places demands on the key areas of contract award and management.</p> <p><b>Risk</b></p> <p>Contracts may be incorrectly awarded or managed increasing the risk of fraud.</p>	<p>With the extent of spend it is vital that robust arrangements are in place to monitor spend against contracts and ensure the planned benefits are being delivered.</p> <p><a href="#">Paragraph 108</a></p>	<p>Agreed.</p> <p>Ownership of each contract is assigned to a senior Officer or member of Police Staff, and delivery is monitored weekly.</p> <p>In 2018/19, a full benefits realisation procedure will be developed. Expenditure on consultancy is monitored at both individual contract level and aggregated level to ensure expenditure remains within budget.</p> <p>Responsible officer: Director of Change</p> <p>Implementation date: March 2019</p>

#### Follow up of prior year recommendations

b/f	Relocation Expenses	<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><b>Actioned</b> – The disclosures in the remuneration report were accurate and audit testing did not identify any payments paid outwith the expected control system.</p>
b/f	Board Members' Remuneration	<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><b>Partially actioned</b> – Audit testing confirmed that claims were submitted more regularly, but many did not contain receipts to support the expenditure being claimed.</p> <p><a href="#">see action plan point 4 above</a></p>
b/f	Staffing Capacity	<p>Management should prepare resource plans for the finance function which focus on the medium to long term.</p>	<p><b>Actioned</b> – New finance structure introduced with appointments to key roles already completed.</p>
b/f	Exit Packages	<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><b>Actioned</b> – Audit testing of exit packages in 2017/18 confirmed that they supported the organisational change programme and represented value for money.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	Internal Controls	Management should continue to focus on improving the internal controls to support a strong, and consistent, control environment.	<b>Partially actioned</b> – Significant work has been undertaken to improve the controls, however the time required to implement new systems and arrangements mean that the control environment is not yet robust. <a href="#">see action plan point 5 above</a>
b/f	Capital & Reform Budget	Capital and reform funding should be utilised to support the transformational change programme required to deliver the efficiency savings and achieve financial balance	<b>Partially actioned</b> – More robust arrangements in place for capital and reform funding, however additional improvements introduced for 2018/19.
b/f	Medium and Long Term Financial Planning	The 3 year implementation plan, and supporting workforce and ICT plans, should be completed as soon as possible.	<b>Partially actioned</b> – The financial planning arrangements are undermined by the lack of a robust workforce plan and fully developed ICT strategy. <a href="#">see action plan point 6 above</a>
b/f	Governance and Accountability	Management should ensure that the recommendations in the HMICS review are implemented and that decisions are subject to public scrutiny.	<b>Actioned</b> – The Scottish Police Authority has revised governance arrangements to support improved transparency.
b/f	Forensics Services	An action plan should be put in place and monitored to ensure that all HMICS recommendations are implemented.	<b>Actioned</b> – A Forensics Strategy is now in place and action against the HMICS recommendations is reported to the Forensics Committee and the Board.
b/f	Recruitment Document Retention	An agreed policy should be in place for the retention of evidence to support key decisions such as the appointment of temporary senior staff.	<b>Actioned</b> – Arrangements have been strengthened to ensure documentation is retained to support key decisions.
b/f	ICT Risks	An IT strategy should be developed that supports the delivery of Policing 2026.	<b>Partially actioned</b> – A Digital, Data and ICT Strategy has now been approved, but further work to develop the proposals, including identifying the funding, is ongoing. <a href="#">see action plan point 6 above</a>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<b>Succession Planning</b>	Management should ensure that through robust planning there is clarity over the future leadership of the Scottish Police Authority and Police Scotland.	<b>Actioned</b> – A Succession Planning and Appointments committee has been established to ensure a more robust and managed approach moving forward.

# 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 responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></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 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"> <li>• Detailed testing of journal entries.</li> <li>• Review of significant accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Substantive testing of income and expenditure transactions at the financial year end.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments &amp; income and expenditure did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><b>Conclusion</b> – No issues were identified that indicate management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>The Scottish Police Authority receives a significant amount of 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>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed substantive testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of income transactions.</p> <p><b>Conclusion</b> – No fraud issues were identified.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice and Practice Note 10 extends the assumptions within ISA240 to the risk of fraud over expenditure. The Scottish Police Authority incurs significant expenditure on contracts and consultancy arrangements and therefore there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed substantive testing of expenditure transactions focusing on the areas of greatest risk.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of expenditure transactions.</p> <p><b>Conclusion</b> – No fraud issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>4 Remuneration Report</b></p> <p>Over many years, our audits of the Scottish Police Authority have identified numerous errors and omissions in the remuneration report disclosures relating to the Police Scotland Force Executive, the Scottish Police Authority Senior Management Group and Board members. There is a risk that the information in the remuneration report is not accurate and complete and that these remain uncorrected.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of all amounts and disclosures in the remuneration report.</li> <li>• Consideration of wider knowledge to ensure the completeness of the disclosures.</li> </ul>	<p><b>Results</b> – The remuneration report in the unaudited accounts was of a good quality and only required minimal changes as a result of the audit process.</p> <p><b>Conclusion</b> – The preparation and review process for the remuneration report has been strengthened.</p>
<p><b>5 Financial management</b></p> <p><u>Changes in finance function</u></p> <p>Additional temporary finance resources were engaged during 2016/17 with a positive impact on the preparation of the financial statements. A restructure of the finance function has taken place and considerable change is underway at a senior level with some key experienced staff taking voluntary redundancy.</p> <p>There is a risk that continued change within the finance function results in a lack of continuity and has a detrimental effect on the preparation and audit of the financial statements.</p>	<ul style="list-style-type: none"> <li>• Discussions with management over the roles and responsibilities of those involved in the preparation of the annual report and accounts and subsequent audit.</li> </ul>	<p><b>Results</b> – A finance structure has been introduced with permanent appointments to a number of key posts.</p> <p><b>Conclusion</b> – The unaudited financial statements were of a good standard and the audit process was well supported by the finance team.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>6 Financial sustainability</b></p> <p><u>2017/18 Financial Position</u></p> <p>The 2017/18 budget was approved in March 2017 with a £47.2m deficit. This budget includes £8m of unidentified savings which are not supported by detailed plans.</p> <p>The 3 year financial plan shows a balanced budget by 2020/21. Achievement of this objective is at risk in the absence of robust and detailed savings plans.</p>	<ul style="list-style-type: none"> <li>• Review financial year-end reporting of outturn performance.</li> <li>• Review the evidence of Scottish Government permission to offset any underspends against the projected revenue overspend.</li> <li>• Review the revised 3 year financial plan which supports the 2018/19 budget.</li> <li>• Review the financial position and arrangements for securing financial sustainability including the appropriateness of plans to address identified funding gaps.</li> </ul>	<p><b>Results</b> – The 2017/18 revenue outturn position was an overspend of £37.9m, an underspend of £9 million against the original budget. Savings plans have been built into the 2018/19 budget.</p> <p><b>Conclusion</b> – The annual financial planning and monitoring arrangements are now well developed.</p>
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Audit Risk	Assurance procedure	Results and conclusions
<p><b>7</b> <u>Long term financial planning</u></p> <p>Policing 2026 is underpinned by a number of supporting strategies, including the 10 year financial strategy and a 3 year financial plan both of which were approved by the Board in September 2017. A number of other corporate strategies relating to ICT, workforce, estates and fleet remain in development but are crucial to the delivery of the overall strategy. The financial plan and strategy will be refreshed in March 2018 to support the setting of the 2018/19 budget and at this time it will be crucial that the various corporate strategies are complete.</p> <p>There is a risk that without supporting plans in place the long term financial strategy does not fully and accurately reflect the costs and benefits of the various transformation projects required to deliver Policing 2026.</p>	<ul style="list-style-type: none"> <li>Review the arrangements for securing financial sustainability including the robustness of savings plans to address identified funding gaps.</li> <li>Monitor progress on developing strategies for ICT, workforce, estates and fleet including how these align to the overarching Policing 2026 strategy.</li> </ul>	<p><b>Results</b> – The Three Year Financial Plan and Ten Year Financial Strategy were updated for May 2018. However key underlying plans are still being fully developed.</p> <p><b>Conclusion</b> – The medium and long term financial planning is undermined by the lack of a robust workforce strategy.</p>
<p><b>8</b> <u>ICT Strategy</u></p> <p>The delivery of the 2026 Policing Strategy is dependent to a significant extent on the successful utilisation and management of technology.</p> <p>An ICT Health Check carried out by Scott Moncrieff in Autumn 2017 highlighted that the ICT strategy remains in draft and does not sufficiently demonstrate the vision of the future ICT function or the role of ICT in achieving the transformation activities in the Policing 2026 strategy.</p> <p>The absence of an appropriate ICT Strategy could hinder the achievement of the improvements outlined in Policing 2026.</p>	<ul style="list-style-type: none"> <li>Carry out detailed ICT audit work to assess the arrangements in place.</li> <li>Review progress in addressing the Internal Audit recommendations.</li> </ul>	<p><b>Results</b> – Digital, Data and ICT Strategy now approved, but further work is ongoing.</p> <p><b>Conclusion</b> – Progress has been made, but the funding and detailed plans are not yet fully developed.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>9 Governance and transparency</b></p> <p><u>Leadership changes</u></p> <p>There has been a number of changes at leadership level within both the Scottish Police Authority and Police Scotland. During 2017 a new Chair and Interim Chief Officer were appointed and in February 2018 the Chief Constable resigned from his post after an extended period of leave.</p> <p>There is a risk that the strategic direction and focus required to deliver the Policing 2026 strategy is adversely affected by persistent change at leadership level.</p>	<ul style="list-style-type: none"> <li>Assess the progress and pace of the key projects which are required to support progress towards the delivery of the strategic objectives of Policing 2026.</li> </ul>	<p><b>Results</b> – Both the Scottish Police Authority and Police Scotland have experienced significant leadership change. Board meetings have focused on developments to support the delivery of Policing 2026.</p> <p><b>Conclusion</b> – The creation of the Succession Planning and Appointments committee will support the management of future changes.</p>
<p><b>10 Governance arrangements</b></p> <p><u>Governance arrangements</u></p> <p>During 2016/17 the governance arrangements in the Scottish Police Authority were subject to significant attention and criticism. A number of changes have recently been made to strengthen the governance framework including re-instating the Complaints and Conduct Committee and the establishment of a Forensics Committee.</p> <p>A review to consider how the executive of the Scottish Police Authority can best support the Board to take informed, transparent decisions was commissioned in 2017 by the Cabinet Secretary for Justice. The review was led by the Scottish Police Authority Board Vice Chair Nicola Marchant and Comhairle nan Eilean Siar chief executive Malcolm Burr and is due to report in early 2018.</p> <p>As a result of the considerable changes to governance arrangements there is a risk that the effectiveness of scrutiny and decision making may be adversely affected.</p>	<ul style="list-style-type: none"> <li>Consider the findings from the HMICS Strategic Review and the review carried out by Nicola Marchant and Malcolm Burr.</li> <li>Assess the extent to which there has been improvement in governance and scrutiny and progress made against the recommendations made in the various reviews.</li> <li>Examine the remit and operation of the new committees and how they contribute to good governance.</li> </ul>	<p><b>Results</b> – The findings of the numerous governance reviews were collated to support the development of the Scottish Police Authority Improvement Plan.</p> <p><b>Conclusion</b> – Governance arrangements are now more transparent and a new executive structure for the Scottish Police Authority is being implemented.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>11</b> <u>Board effectiveness</u></p> <p>A recruitment process is currently underway to appoint five new Board members as a result of members' terms of appointment ending and some resignations. The audit committee is currently operating with only two members, given the importance of the scrutiny role of this committee, action to appoint an additional member should be considered as a matter of urgency.</p> <p>There is a risk that the audit committee does not have sufficient capacity to adequately fulfil its scrutiny role.</p>	<ul style="list-style-type: none"> <li>Review at board and audit committee level whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports.</li> <li>Assess the experience and background of newly appointed members to ensure that the board has an appropriate level of knowledge and capability.</li> </ul>	<p><b>Results</b> – Seven new Board members have now been appointed including the introduction of a new member to the audit committee to fill the vacancy.</p> <p><b>Conclusion</b> – Sufficient Board member capacity is now in place to support effective scrutiny.</p>
<p><b>12</b> <u>General Data Protection Regulations (GDPR)</u></p> <p>On 25 May 2018, the EU General Data Protection Regulations (GDPR) comes into force and brings with it a significant change to the UK's data protection laws. In addition, the Law Enforcement Directive (LED) will also take effect from May 2018 and generally follows the requirements of the GDPR whilst taking into account the operational needs of law enforcement agencies.</p> <p>In January 2018 Internal Audit reported significant concerns over the progress made in preparing for the implementation of the new legislation. There is a risk that as a result of non compliance, penalties could be incurred.</p>	<ul style="list-style-type: none"> <li>Review arrangements and progress in implementing GDPR requirements.</li> <li>Consider progress against the Internal Audit recommendations.</li> </ul>	<p><b>Results</b> – Considerable work has been completed to move towards full compliance with the requirements of GDPR.</p> <p><b>Conclusion</b> – Arrangements are in place to deal with data requirements.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>13 Value for money</b></p> <p><u>British Transport Police (BTP) merger</u></p> <p>The Scottish Police Authority is working with Police Scotland, BTP and the British Transport Police Authority to prepare for the planning integration in 2019. It is anticipated that 'operational integration' can be achieved by this date but that administrative and back office functions may not be fully integrated until a later date. The merger will require the transfer of assets and liabilities which is likely to be a complex process requiring negotiation and agreement. Issues relating to the impact on the terms and conditions, including the pensions, of BTP's officers and staff also remain unresolved.</p> <p>There is a risk that without careful project management the planned merger will not be successfully implemented.</p>	<ul style="list-style-type: none"> <li>• Review of the Integration Joint Programme Board (JPB) papers and minutes</li> <li>• Consider the progress made against the delivery milestones and high level costs outlined in the Programme Plan.</li> <li>• Consider the results of the Gateway Review of the Integration programme planned for early 2018.</li> <li>• Assess the extent to which the findings of the HMICS Strategic Overview have been addressed.</li> </ul>	<p><b>Results</b> – The proposed 'go live' date of 1 April 2019 was withdrawn with a re-planning exercise underway to enable a revised date for operation integration.</p> <p><b>Conclusion</b> – All options to achieve devolution of railway policing in Scotland are being revisited.</p>

# Appendix 3

## Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		Aug		
Equal pay in Scottish councils		Sept		
Transport Scotland's ferry services		Oct		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov		
		Dec		
		Jan		
Early learning and childcare		Feb		
Managing the implementation of the Scotland Acts		Mar		

### Central Government relevant reports

[\*Managing the implementation of the Scotland Acts\*](#) – March 2018

# Scottish Police Authority

## 2017/18 Annual Audit Report

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