

Scottish Police Authority

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

September 2019

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.



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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

2018/19 annual report and accounts

- 1** The financial statements of the Scottish Police Authority give a true and fair view of the state of affairs of the Scottish Police Authority as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- 3** 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 relevant legislation and directions made by Scottish Ministers.

Financial management

- 4** The year end resource outturn was an overspend of £35.6 million. This is consistent with the budget approved by the Board in March 2018. Additional cash of £35.9 million was provided by the Scottish Government to enable the Scottish Police Authority to meet its expenditure needs.
- 5** Other than the need to improve the profiling of capital expenditure, we concluded that the Scottish Police Authority has effective budgetary processes that supports the scrutiny of its finances.
- 6** Systems of internal control have improved with the introduction of the new payroll system, but other weaknesses still exist and need to be fully addressed.

Financial sustainability

- 7** We have concerns about the overall financial position of the Scottish Police Authority as financial balance will not be achieved in 2020/21 as planned. A reduction in police officer numbers to support financial balance has been postponed.
- 8** Detailed workforce plans are in development, but their continuing absence is a key barrier to robust medium to long term financial planning.
- 9** The timeline for the implementation of the Data, Digital and ICT strategy is uncertain as the required resources are not available within current funding provided by the Scottish Government. Work to reprioritise its implementation is underway. This will delay the plans to transform Police Scotland and deliver financial balance.

Governance and transparency

- 10** The Scottish Police Authority is open and transparent in the way it conducts its business.
- 11** The Chair has committed significantly more time to the Scottish Police Authority than would be expected in a non-executive role. This was approved by the Scottish Government and has resulted in a high level of remuneration. The Chair and some other board members are operating in a more executive capacity than would be expected in a public body.
- 12** The recent recruitment of Board members has brought in new skills and experience. There are new governance structures in place, but it is too early to determine their effectiveness. The volume of business for some committees could impact on the level of scrutiny.
- 13** A new permanent Chief Executive was appointed in October 2018. Due to the extended absence of the Chief Executive, the Chief Financial Officer has been designated as Accountable Officer. These interim arrangements created a potential conflict of interest and are now under review. The Chief Executive resigned in September 2019 and a new interim Chief Executive, who will also take on the role of Accountable Officer, is to be appointed.
- 14** There has been no progress in building the capacity and capability of the Scottish Police Authority corporate function and this is now urgently required to enable it to operate as envisaged by the legislation.
- 15** Risk management arrangements have been strengthened within Police Scotland, but remain in development in the Scottish Police Authority. The establishment of a strategic risk register for the Scottish Police Authority is now critical.

Value for money

- 16** The Scottish Police Authority is not in a position to demonstrate that it achieves best value due to the absence of a number of key strategies. In particular it must develop a corporate plan as a matter of urgency.
- 17** Plans are underway to review Policing 2026 in light of the financial constraints in place, however key underlying plans have still not been fully developed.
- 18** A new performance framework has been introduced in 2019/20 for Police Scotland that will support better performance monitoring and reporting, but the Scottish Police Authority does not yet have a system to enable it to fulfil its role.
- 19** A procurement improvement plan has been developed following the identification of deficiencies in the ICT department. The improvement plan requires to be actioned and progress regularly monitored.

Introduction

1. This report summarises the findings from our 2018/19 audit of the Scottish Police Authority. The scope of our audit was set out in our Annual Audit Plan issued to the Audit Committee in February 2019. This report comprises the findings from:

- an audit of the Scottish Police Authority's annual report and accounts
- consideration of the four dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

Adding value through the audit

2. We add value to the Scottish Police Authority by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- providing conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and guides.

3. In so doing, we aim to help the Scottish Police Authority promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

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

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

6. 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](#) and supplementary guidance.

7. 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 our 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.

8. Our Annual Audit Report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

9. 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 2018/19 audit fee of £210,900 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. This report is addressed to both the Scottish Police Authority and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

11. We would like to thank the Scottish Police Authority staff and Police Scotland officers and staff for their cooperation and assistance during our audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of the Scottish Police Authority give a true and fair view of the state of affairs of the Scottish Police Authority as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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 relevant legislation and directions made by Scottish Ministers.

Audit opinions on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 24 September 2019. We reported within the independent auditor's report that:

- 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 issued by Scottish Ministers
- 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 relevant legislation and directions made by Scottish Ministers.

13. In addition, we have nothing to report in respect of: misstatements in the other information in the annual report and accounts; the adequacy of accounting records; and the information and explanations we received.

Submission of annual report and accounts for audit

14. We received the unaudited annual report and accounts on 1 July 2019 in line with our agreed audit timetable.

15. 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.

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

Whole of Government Accounts (WGA)

16. In accordance with the WGA guidance we completed the required assurance statement and submitted to the National Audit Office (NAO) by the 27 September 2019 deadline.

Risk of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

18. We have no significant issues to report from our work on the risks of material misstatement in the financial statements highlighted in our 2018/19 Annual Audit Plan.

Materiality

19. 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.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£17 million
Performance materiality	£6 million
Reporting threshold	£200,000

Source: Scottish Police Authority Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

22. The significant findings are summarised in [Exhibit 3](#).

Qualitative aspects of the audit

23. We have no significant findings to report around the qualitative aspects of the accounts e.g. the accounting policies, accounting estimates and judgements in the 2018/19 annual report and accounts.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Pension scheme valuations</p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination. This related to the pension scheme transitional protection arrangements. It is known widely as the McCloud case. The UK Government sought leave to appeal this decision but in June 2019, the appeal was denied by the UK Supreme Court.</p> <p>This was considered an event after the reporting period. The actuaries Hymans Robertson (for the Local Government Pension Scheme) and the Government Actuary Department (for the Police Pension Scheme) produced revised reports in line with International Accounting Standard 19 – Employee Benefits (IAS 19) to take account of the McCloud case. This has affected all pension schemes across the public sector.</p>	<p>This has been adjusted for as a past service cost in the audited annual accounts.</p> <p>The amendments resulted in an increase in the pension liability of £712 million with a similar movement in the pension reserve.</p> <p>This has contributed to an in year overspend of Annually Managed Expenditure (AME) due to the pension adjustments for staff costs and staff pension interest costs (see Exhibit 4). The Scottish Government have confirmed this position.</p> <p>In addition, a narrative disclosure has been included in Note 31 in the annual report and accounts as this is an event after the reporting period.</p>
<p>2. Remuneration report</p> <p>The benefits in kind figures included in the remuneration table were incorrectly stated in the unaudited annual report and accounts.</p> <p>Elements of taxable and non-taxable benefits were included in the table, rather than only the taxable elements.</p>	<p>This has been amended in the annual report and accounts with only the taxable benefits included in the remuneration table.</p> <p>To support transparency, the total relocation payments, including non-taxable elements, have been disclosed in a footnote under the remuneration table.</p>
<p>3. Performance report</p> <p>The performance report is required to contain a fair, balanced and understandable analysis of the entity's performance. Upon receipt of the unaudited annual report and accounts there were a number of issues with the narrative provided. A specific issue related to reported weaknesses in the Scottish Police Authority corporate function which had not been reflected in the performance report. Our audit opinion requires us to consider the consistency of the disclosures and identify any potentially misleading information. This omission was deemed to be an issue in both respects.</p>	<p>The performance report disclosures in the annual report and accounts have been amended and are FReM (Government Financial Reporting Manual) compliant.</p> <p>Further improvements in the performance report are expected next year due to the implementation of the new Police Scotland Performance Management Framework.</p>
<p>4. Governance statement</p> <p>Similar to the performance report issue above, the governance statement requires bodies to identify weaknesses in governance arrangements and provide details of how these will be addressed.</p> <p>The disclosures in the unaudited annual report and accounts failed to disclose weaknesses relating to the performance of the Scottish Police Authority corporate function which had been reported to the Board.</p>	<p>The governance statement disclosures in the annual report and accounts have been amended.</p>

Issue	Resolution
<p>5. Pension debtor balance</p> <p>Each year the Scottish Government provides funding to cover the employer pension contributions and payment of police officer pensions and lump sums. As an estimation technique is used, the level of funding will never exactly meet the amount required resulting in a pension debtor or creditor in the statement of financial position.</p> <p>The pension debtor in year of £8.395 million was incorrectly included in the trade payables balance resulting in an understatement of both the payables and receivables balances in the statement of financial position.</p>	<p>This has been adjusted in the audited annual accounts and report.</p> <p>The amendments resulted in an increase in trade receivables in the statement of financial position of £8.395 million, and a corresponding increase in trade payables.</p>
<p>6. Credit balances in trade receivables</p> <p>Audit work identified that there was £0.978 million of credit balances included within the trade receivables balance.</p> <p>These were incorrectly classified and should have been reported as deferred income.</p>	<p>This has been adjusted in the audited annual report and accounts.</p> <p>The amendments resulted in an increase in trade receivables in the statement of financial position of £0.978 million, and a corresponding increase in trade payables.</p>
<p>7. Statement of cash flows</p> <p>Year end capital accruals were included in the cash flow instead of the movement between opening and closing capital accruals. This resulted in an error of £2.379 million within two lines in the statement.</p> <p>There was also an error in the accruals adjustment for the long term loans which resulted in a £1.093 million error between the interest and capital lines for long term loans.</p>	<p>These have been adjusted in the audited annual report and accounts.</p> <p>There is no impact on the cash and cash equivalent balance in the statement of financial position.</p>

Source: Audit Scotland

How we evaluate misstatements

24. There were two material adjustments to the unaudited annual report and accounts. There was a requirement to revise the pension liabilities for the impact of the McCloud case and this was classified as an adjusting event after the reporting period. In addition, there was an adjustment to correct the pension debtor classification error. These are both included in [Exhibit 3](#) above. Management have made the necessary adjustments in the audited annual report and accounts.

25. In assessing the total errors, we identified that these adjustments exceeded our overall performance materiality of £6 million. We are content that we have identified the entire error associated with the pension debtor and the balances in the statement of cash flows. The pension liability revision is not classified as an error due to its nature as an event after the reporting period which was not known when the unaudited accounts were prepared. We therefore determined that no further audit work was required.

26. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

Follow up of prior year recommendations

27. We have followed up the actions which were agreed and reported in our 2017/18 Annual Audit Report. We have reported progress against these actions in [Appendix 1](#). These are identified by the prefix b/f. Overall the Scottish Police Authority has made progress in implementing our prior year audit 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 £35.6 million. This is consistent with the budget approved by the Board in March 2018. Additional cash of £35.9 million was provided by the Scottish Government to enable the Scottish Police Authority to meet its expenditure needs.

Other than the need to improve the profiling of capital expenditure, we concluded that the Scottish Police Authority has effective budgetary processes that supports the scrutiny of its finances.

Systems of internal control have improved with the introduction of the new payroll system, but other weaknesses still exist and need to be fully addressed.

Financial performance in 2018/19

28. In the central government sector one of the main financial objectives is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The financial performance of the Scottish Police Authority for 2018/19 is shown in [Exhibit 4](#).

Exhibit 4

Performance against budget in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Revenue DEL	1,039.780	1,080.056	1,115.511	35.455
Revenue Reform Funding	25.000	25.000	25.011	0.011
Total Revenue Outturn	1,064.780	1,105.056	1,140.522	35.466
Capital DEL	23.000	23.940	24.039	0.099
Capital Reform Funding	4.600	4.600	4.600	0.000
Total Capital Outturn	27.600	28.540	28.639	0.099
Total Resource	1,092.380	1,133.596	1,169.161	35.565
Non-cash DEL	50.000	50.000	35.748	(14.252)
Expenditure outside DEL	5.404	6.430	6.407	(0.023)
Annually Managed Expenditure	-	38.000	58.953	20.953

Source: Scottish Police Authority Annual Report and Accounts & Budget Allocation and Monitoring: 2018/19 - Final

29. The Scottish Police Authority has reported a total resource outturn (revenue and capital) of £1,169.2 million, against a budget of £1,133.6 million resulting in an overspend of £35.6 million. This is consistent with the budget approved by the Board in March 2018. The Scottish Government is aware of this overspend position and has accommodated it across the Scottish administration. During the year the Scottish Government agreed to provide additional cash of up to £50 million to support the overspend position and enable the Scottish Police Authority to meet its expenditure needs. £35.9 million was used in year.

2018/19 financial position

30. The Statement of Financial Position summarises what is owned and owed by the Scottish Police Authority. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues (general fund) and that which has resulted through changes over time in the value of physical assets (revaluation reserve).

31. The annual report and accounts show that the Scottish Police Authority has a net liability of £16.6 billion, an increase of £0.3 billion from last year. The net liability position is due to the inclusion of pension liabilities for both police officers and staff, of £17 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 agree with the Scottish Police Authority's conclusion that this does not represent a going concern issue.

32. Excluding the pension liabilities, the net asset position for the Scottish Police Authority has continued to reduce and as at 31 March 2019 was £346.8 million. The reduction is primarily due to the movement in provisions which has almost doubled its prior year level (£24.5 million from £14.2 million) due to ongoing legal cases.

Budgetary processes

33. The Scottish Police Authority approved its 2018/19 budget in March 2018. The budget clearly identified the financial challenges being faced and provided detailed information on the available funding and planned expenditure for revenue, capital and reform.

Revenue

34. The approved revenue budget for 2018/19 forecast an operating deficit of £35.6 million after accounting for identified savings of £10 million. More than 85% of the revenue expenditure related to payroll costs highlighting the importance of strong workforce planning to support the identification and delivery of savings. Progress in this area is captured in paragraph [52](#). During the year revenue expenditure increased by £15 million primarily due to increased payroll costs associated with pay awards for officers and staff and the commencement of additional recruitment in support of planning for European Union (EU) withdrawal. The Scottish Government provided additional revenue funding to meet these costs.

Capital

35. The Board set a balanced 2018/19 capital budget of £41.7 million comprising £23 million of capital grant from the Scottish Government, planned capital receipts of £14 million and the use of £4.6 million of reform funding. The capital budget was established following the development of an Investment Governance Framework and new Capital Planning policy and process. At the year end the capital spend was £6.5 million less than budget due to capital receipts being less than half the budgeted amount. Spend on business-as-usual capital activities was prioritised meaning that the capital investment in transformation had to be restricted to meet the reduced budget available. By the end of quarter 3, the year to date capital expenditure was £16.5 million lower than planned as the profile of the capital budget was not being matched by the spend. As a result, a significant amount of spend was incurred in the last few months of the year.

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



Recommendation 1

The profiling of the capital budget should be reviewed to ensure it reflects the likely timing of the expenditure.

Reform

36. Since 2013/14 the Scottish Police Authority has received an element of non-recurring 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.

37. For 2018/19 the Scottish Government allocated the Scottish Police Authority a total reform budget of £29.6 million, including the £4.6 million for capital detailed above. The reform funding was used in full with the majority of the spend on professional services and in support of transformation projects and departmental reorganisations. The Scottish Government approved the use of £5.2 million reform funding to meet some of the costs of the programme to harmonise staff terms and conditions.

38. The monthly and quarterly budget monitoring reports are now presented to the Resources Committee which was established in year. The Resources Committee undertakes scrutiny of matters which had previously been carried out by the Finance Committee and the People Committee. Other than the need to improve the profiling of capital expenditure, we concluded that the Scottish Police Authority has effective budgetary processes that supports the scrutiny of its finances.

Systems of internal control

39. As part of our audit we completed high level system evaluations and performed a detailed review of the new national iTrent payroll system. Our objective was to identify and assess any controls that had been strengthened and that could provide assurance for the preparation of the financial statements.

40. Our findings were included in the management report presented to the Audit Committee on 11 July 2019. While we found that improvements had been made in the control environment, there were still several areas where controls were insufficient to provide the required assurances. Specific areas that require attention include payroll validation, change forms and segregation of duties in areas such as journals and credit notes.



Recommendation 2

The strengthening of the control environment should continue to be an area of focus.

41. Our audit approach was reviewed, and additional substantive testing undertaken to enable us to obtain the required assurances to support our audit opinion.

Internal audit

42. Internal audit provides the Scottish Police Authority and Accountable Officer with independent assurance on the internal control environment and corporate governance process. We reviewed the Scottish Police Authority's internal audit arrangements, provided by Scott Moncrieff, in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the results of the work. 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 financial planning, risk management, tendering and information management.

Part 3

Financial sustainability



Main judgements

We have concerns about the overall financial position of the Scottish Police Authority as financial balance will not be achieved in 2020/21 as planned. A reduction in police officer numbers to support financial balance has been postponed.

Detailed workforce plans are in development, but their continuing absence is a key barrier to robust medium to long term financial planning.

The timeline for the implementation of the Data, Digital and ICT strategy is uncertain as the required resources are not available within current funding provided by the Scottish Government. Work to reprioritise its implementation is underway. This will delay the plans to transform Police Scotland and deliver financial balance.

Financial planning

43. The Scottish Police Authority approved its 2019/20 budget in March 2019. It was noted that the proposed revisions to the three and ten year financial strategies would not take place until later in 2019, following the publication of supporting strategies e.g. estates and workforce. A budget strategy has also been prepared with early discussions already taking place with the Scottish Government regarding the 2020/21 funding requirement.

Revenue

44. The revenue budget for 2019/20 is £1,136.7 million and this includes a planned operating deficit of £24.6 million, plus a 'Brexit operating deficit' of £17 million. The core operating deficit of £24.6 million is consistent with the three year financial strategy set out in 2018. Additional funding is being provided by the Scottish Government to fully fund the 'Brexit operating deficit'. The budget includes:

- a provision for 400 additional police officers for the full year to respond to the challenges associated with the UK withdrawal from the EU
- an additional 214 permanent posts which had previously been funded by non-recurring reform funding
- a provision for a £10 million investment in staff pay, reflecting the outcomes of the Staff Pay and Reward Modernisation (SPRM) process which harmonised legacy police staff pay, terms and conditions.

45. The recruitment associated with EU withdrawal has meant that the Scottish Police Authority is now no longer on track to achieve financial balance by the end of 2020/21. 100 officers were recruited in early 2019 to reverse a reduction of 100 officers which had taken place earlier in 2018/19. In addition, the planned reduction of 300 officers in 2019/20 has been postponed.

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

Capital

46. The 2019/20 capital budget is £43.1 million, and this includes Scottish Government funding of £35 million, reform funding of £4.6 million and expected capital receipts of £3.5 million. The Capital Investment Group, which was established during 2017/18, received bids which significantly exceeded the amount of available capital funding. These were therefore subjected to a challenge and prioritisation process resulting in proposals in the budget papers which were approved by the Board. This resulted in £18.2 million for business as usual programmes and £25.2 million for transformation projects. The majority of the transformation budget is allocated to projects to support the delivery of the Digital, Data and ICT Strategy, which is covered at paragraph [56](#).

Reform

47. The 2019/20 approved reform budget is £29.6 million, which includes £4.6 million for capital which is included in the capital budget detailed above. Of this £15.5 million is already committed due to continuing costs from the business cases approved in prior years. In addition, £2.1 million of the planned expenditure is allocated to professional services (included within individual programmes costs) to progress the transformational change programme.

Changing landscape for public financial management and medium to long term financial planning

48. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for financial planning.

49. When the Scottish Police Authority's three year financial plan to 2020/21 was approved by the Board in May 2018, it outlined the plan to achieve financial balance in 2020/21. The Scottish Government was supporting this three year plan by providing funding to cover the deficits to 2020/21. A key factor in achieving this balance was the reduction of officer numbers by 750 by the end of 2020/21 by creating additional capacity. Due to the impact of EU withdrawal, the Chief Constable determined that it was necessary to recruit 100 officers in February 2019, reversing the previous reduction of 100 officers earlier in 2018/19, and postpone the planned reduction of 300 officers in 2019/20. This means maintaining police officer numbers at 17,234 (the position at the start of 2018/19). The planned balanced budget will now not be achievable.

50. Several options have been proposed regarding medium-term financial planning and these will form the basis of discussions with the Scottish Government about longer term financial sustainability. Revised three and ten year financial plans are due to be presented in late 2019 and these will outline the revised plan to achieve financial balance.



Recommendation 3

Revised medium and long term financial plans are required which detail how financial balance will be achieved. Engagement with the Scottish Government must confirm that ongoing support exists for the extended timeline.

Policing 2026

51. 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.

Workforce Strategy

52. Payroll costs account for more than 85% of expenditure 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. In May 2019 the Board approved the Framework for Strategic Workforce Planning 2019/26 which sets out a direction to support the preparation of workforce plans.

53. There is now an urgent need to prepare detailed workforce plans, including robust scenario planning, to support the transformation required to deliver Policing 2026. Workforce plans are a critical element of financial planning, particularly with the level of payroll costs incurred by the Scottish Police Authority, and until these are in place it is not possible to accurately determine long term financial sustainability.



Recommendation 4

Detailed workforce plans, including scenario planning, are required to support the delivery of financial balance and Policing 2026.

Estates Strategy

54. In May 2019 the Board approved the Estates Strategy 2019: A changing estate, following a full review of the previous strategy and consideration of the current police estate and future requirements. The strategy provides linkages to other key areas such as partnership working via co-location and improving digital capability while recognising the financial implications and constraints that exist. The approval of the strategy should support improvements in financial planning.

55. The strategy identifies that £400 million investment is required over the next 10 years to support a fit for purpose estate and ensure that the Scottish Police Authority meets its health and safety obligations. This sum includes an expected £150 million from asset disposals, with this being reinvested in the estate. This funding is not guaranteed and represents a risk to the Scottish Police Authority's ability to carry out this planned work. Achieving this level of capital receipts will require a full review of the estate with the development of implementation plans to support delivery and regular reporting.

Digital, Data and ICT Strategy

56. In 2018 Police Scotland prepared a Digital, Data and ICT (DDICT) Strategy that set out how information technology would be used to support Policing 2026. The Strategic Business Case was approved by the Board in September 2018 and recognised the need for significant investment. An estimated required budget of £298 million over the next nine years was projected.

57. The transformation change funding available for all capital projects was £12.4 million in 2018/19 and is budgeted as £25.2 million for 2019/20 (paragraph 46). This is significantly lower than the outline business case for DDICT which estimated a funding requirement for 2019/20 of £89 million. The limited capital funding has required projects to be assessed and prioritised based on a range of criteria. Projects which were postponed included the digital evidence platform and the national cybercrime infrastructure. The delayed implementation means the financial benefits and extra capacity which was expected to start being delivered in 2019/20 has been delayed.

58. Some key projects have started, for example, increasing the mobility of officers has been allocated £11 million of capital investment to fund 10,000 smartphone devices for officers. A further £6 million has been invested in Core Operating Solutions which will deliver software applications to improve how Police Scotland manages information. Limited funding is not the only factor contributing to the delays, as the timescales associated with procurement and the governance of business cases have also impacted project plans. The lessons learned from the delays should be captured for future capital profiling which was highlighted as an area for improvement in paragraph 35.

EU Withdrawal

59. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the EU. EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

60. In our Management Report 2018/19, presented to the July Audit Committee, we concluded that Police Scotland were in a state of readiness for withdrawal from the EU, ahead of the original expected withdrawal date (29 March 2019). Police Scotland officers would be required to provide support at the border and to customs officials, deal with civil unrest or support other forces in the UK. Planned reductions in officer numbers were postponed to respond to issues relating to EU withdrawal. Due to continuing uncertainty about the UK's date for leaving the EU, officers working to support EU withdrawal were released to provide other duties from 10 May 2019. These officers have been re-established as the 'Force Reserve' since 5 August 2019 to support the revised planned withdrawal date of 31 October 2019.

61. We concluded that the Scottish Police Authority has taken reasonable actions to address the risks associated with EU withdrawal. Police Scotland has a risk in relation to EU withdrawal in its strategic risk register and a specific risk relating to workforce implications in its operational risk register. The Chief Constable has directed Police Scotland to reassess its projected recruitment profiling for the remainder of 2019/20 to account for the continued uncertainty. The medium term financial position remains challenging. The costs associated with the 2018/19 recruitment have been accommodated within the 2018/19 operating budget, and Scottish Government support has been provided for the £17 million cost in 2019/20 for EU withdrawal, however no funding is currently available beyond 2019/20 to support the additional officers. 2019/20 costs to September 2019 are £8.6 million. Work is ongoing on regulatory matters which will impact the UK, with Police Scotland officers continuing to liaise with other UK law enforcement bodies.

Part 4

Governance and transparency



Main judgements

The Scottish Police Authority is open and transparent in the way it conducts its business.

The Chair has committed significantly more time to the Scottish Police Authority than would be expected in a non-executive role. This was approved by the Scottish Government and has resulted in a high level of remuneration. The Chair and some other board members are operating in a more executive capacity than would be expected in a public body.

The recent recruitment of Board members has brought in new skills and experience. There are new governance structures in place, but it is too early to determine their effectiveness. The volume of business for some committees could impact on the level of scrutiny.

A new permanent Chief Executive was appointed in October 2018. Due to the extended absence of the Chief Executive, the Chief Financial Officer has been designated as Accountable Officer. These interim arrangements created a potential conflict of interest and are now under review. The Chief Executive resigned in September 2019 and a new interim Chief Executive, who will also take on the role of Accountable Officer, is to be appointed.

There has been no progress in building the capacity and capability of the Scottish Police Authority corporate function and this is now urgently required to enable it to operate as envisaged by the legislation.

Risk management arrangements have been strengthened within Police Scotland, but remain in development in the Scottish Police Authority. The establishment of a strategic risk register for the Scottish Police Authority is now critical.

Governance arrangements

62. The Scottish Police Authority's governance arrangements have been subject to many reviews since its creation in 2013. The structure of the organisation is complex and consists of the non-executive Scottish Police Authority Board and committees, the Scottish Police Authority corporate function, Forensic Services and Police Scotland.

Board and committees

63. 2018/19 has been a period of significant change for the Scottish Police Authority Board. Seven new members were recruited in 2018, via an open public appointments process, to strengthen the skills and experience of the Board. A board member induction programme is in place alongside development plans. Wider governance arrangements were reviewed resulting in a revised committee structure with new terms of reference. For example, the creation of the Resources Committee, combining the previous Finance Committee and People Committee, supports a more complete understanding of resource implications, however there is a risk about the volume of committee items being considered and the ability to complete the necessary scrutiny. It is too early to determine the effectiveness of the

revised governance arrangements. We will monitor these arrangements and report during the 2019/20 audit.



Recommendation 5

The committee structure should be kept under review to ensure that the volume of information doesn't impact on the robustness of the scrutiny undertaken.

64. The remuneration report in the annual report and accounts shows that the Chair received remuneration of £125,000 during 2018/19. This is more than the full-time equivalent salary of the Chief Executive and considerably more than has been paid in previous years to former chairs. Since taking up post in December 2017 the Chair's inputs to the Scottish Police Authority have been agreed with the Scottish Government and subject to change as outlined below:

- December 2017 – 12 days per month
- January 2018 – 16 days per month
- June 2018 – 5 day working week
- January 2019 – 20 days per month

65. The Chair has led significant recruitment for senior police officers during the past year (see paragraph 71). The Chair and other board members have also been closely involved in the development of the work of the Board as it has looked to assert its role as interpreted by the Police and Fire Reform (Scotland) Act 2012. These, and the activities detailed in paragraph 63, have been significant contributory factors to her high levels of time commitment and remuneration. The Chair and some other board members are operating in a more executive capacity than would be expected in a public body. This reflects their view of the role of the Scottish Police Authority and its current capacity. We would expect that board members' inputs will decrease over the next year alongside the development of the Scottish Police Authority corporate function and provide clearer distinctions between their respective roles and responsibilities.

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



Recommendation 6

The Chair should engage with the Scottish Government on the time required to fulfil the role and ensure that there is no risk of the Chair and other board members operating in an executive capacity.

Scottish Police Authority

66. In March 2018 the review of the support provided to the Board by the Scottish Police Authority corporate function, 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 commissioned due to concerns about the Scottish Police Authority corporate function and the report contained a number of recommendations.

67. At the start of 2018/19 many of the key posts within the Scottish Police Authority were filled by temporary staff seconded from other public sector bodies to provide some stability during a period of recruitment and restructuring. In May 2018 the Board approved the Scottish Police Authority Improvement Plan 2018/19 which identified the four priority areas of:

- 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 corporate function.

68. A new Chief Executive was appointed in October 2018 and became Accountable Officer in November 2018. Implementing the Improvement Plan was the initial focus, however there has been no progress in building the capacity and capability of the Scottish Police Authority corporate function and this was reported to the Board by the Chair in June 2019. The lack of stability in the Chief Executive role over the last two years has impacted on the progress in developing the corporate function. There is now an urgent need for a clear articulation of the future plan for the Scottish Police Authority corporate function outlining how it will be developed to fulfil the role defined in the Police and Fire Reform (Scotland) Act 2012.



Recommendation 7

Detailed plans to build the capacity and capability of the Scottish Police Authority corporate function are urgently required to enable it to operate as envisaged by the legislation.

69. In accordance with the Scottish Public Finance Manual the Scottish Police Authority contacted the Scottish Government following an extended period of absence by the Chief Executive (since May 2019). At this point the Scottish Government designated the Director of Communications & Relationships as the Interim Chief Executive and the Chief Financial Officer (CFO) as Interim Accountable Officer. As the CFO reports to both the Deputy Chief Officer of Police Scotland, and therefore the Chief Constable, and the Chief Executive of the Scottish Police Authority, there is a potential conflict between the operational and governance roles he is being asked to perform.

70. In September 2019 the Chief Executive handed in his resignation. The Scottish Police Authority has agreed to pay his contractual notice period of three months. Steps are being taken to secure a new interim Chief Executive, who will also take on the role of Accountable Officer, in the near future.



Recommendation 8

If an Interim Accountable Officer arrangement is required for an extended period, the Scottish Government should be engaged to identify a more appropriate solution.

Police Scotland

71. The Force Executive has also experienced significant change with the appointment of a new Chief Constable, three new Deputy Chief Constables and several new Assistant Chief Constables. Police Scotland has an internal governance structure which involves several “Boards” (e.g. Change, Audit and Risk) that report into a strategic leadership board. This provides the internal structure to support reporting to the relevant committees and ultimately to the Board of the Scottish Police Authority. This investment in Police Scotland leadership and governance arrangements has improved the information provided to the Board.

Openness and transparency

72. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have 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.

73. The Scottish Police Authority operates in an open and transparent manner. The Board and committee meetings are held in public with items being taken in private where supported by justification detailed in the Standing Orders. Board meetings continue to be streamed live online and agendas, papers and minutes are available on the Scottish Police Authority's website.

74. An opportunity to further improve transparency is the development of the form and content of the annual report and accounts, in particular, the performance report. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and is essential in helping stakeholders understand the financial statements. The 2018/19 annual report and accounts is very text heavy with limited graphics and addressing this would support the wider accessibility of this key document.

Standards of conduct for prevention and detection of fraud and error

75. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct.

76. 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 any breaches of these standards including any instances of fraud or corruption. Based on our review of the evidence we have concluded that the Scottish Police Authority has appropriate arrangements in place. We are not aware of any specific issues that we need to bring to your attention.

National Fraud Initiative (NFI)

77. The 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.

78. In our Management Report 2018/19, presented to the July Audit Committee, we concluded that overall NFI arrangements are satisfactory, and excellent progress has been made in investigating matches. The work of reviewing matches was completed and resulted in the identification of five duplicate payments with a total value of £9,446.

Risk management

79. Risk management is about the identification, evaluation and prioritisation of risks and is a critical part of every organisation. In January 2019 the Audit Committee received a report from internal audit covering a review of risk management arrangements. The report concluded that *"Police Scotland and the Scottish Police Authority have put significant effort into developing their risk management arrangements and we are satisfied that these follow best practice. The pace of change in this area has been slow however and both organisations acknowledge that further work is still required to ensure risk management is fully embedded across the organisation."*

80. The Audit Committee receives regular progress reports on the new risk management arrangements. Police Scotland's risk management arrangements are now generally well developed, with risk appetite and tolerance levels now agreed. The development of a strategic risk register for Scottish Police Authority is still ongoing.



Recommendation 9

The development of a strategic risk register for the Scottish Police Authority is now critical to support decision making.

Good practice

81. The public accessibility of Board meetings, either via attendance or from viewing the online stream, is unusual in the central government sector and represents good practice in terms of openness and transparency.

Part 5

Value for money



Main judgements

The Scottish Police Authority is not in a position to demonstrate that it achieves best value due to the absence of a number of key strategies. In particular it must develop a corporate plan as a matter of urgency.

Plans are underway to review Policing 2026 in light of the financial constraints in place, however key underlying plans have still not been fully developed.

A new performance framework has been introduced in 2019/20 for Police Scotland that will support better performance monitoring and reporting, but the Scottish Police Authority does not yet have a system to enable it to fulfil its role.

A procurement improvement plan has been developed following the identification of deficiencies in the ICT department. The improvement plan requires to be actioned and progress regularly monitored.

Best value

82. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. Shortly after taking up post the Chief Executive requested that internal audit complete a review of Best Value Readiness. This work has now been completed and has identified a number of weaknesses in the arrangements in place. A key issue is the absence of a corporate plan and planning framework to articulate the key objectives and outcome measures.

83. In the absence of a corporate plan the Scottish Police Authority is not able to develop the necessary supporting strategies such as performance, workforce and financial management. Overall the Scottish Police Authority is unable to demonstrate that it achieves best value.

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



Recommendation 10

The Scottish Police Authority should develop a corporate plan as a key step to demonstrating the achievement of best value.

Policing 2026: 3 year implementation plan

84. In May 2018 the Board approved the updated Serving a Changing Scotland – Our 3 Year Implementation Plan 2017 - 2020. The plan outlines how Policing 2026 will be delivered in three phases over the period to 2026, with the initial focus on “creating capacity to improve”. 2018/19 was the second year of this plan, however we note that progress has been limited by the resources available, particularly the restriction on the Digital, Data and ICT programme.

85. The most recent progress report to the Board in May 2019 notes that key milestones have been achieved in the implementation of the Staff Pay and Award Modernisation programme, which seeks to unify terms, conditions and pay scales for all police staff across Scotland, and the project to deliver mobile devices which is currently on track. Plans are underway to refresh Policing 2026 and, with the financial constraints in place, it is a good opportunity to reflect on progress and refocus on key priorities. Key underlying plans must be fully developed to support the delivery of Policing 2026 (see paragraph [51](#)).

Performance management

86. 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. This has not been the case. In March 2019 the Board was provided with details of the new Police Scotland Performance Framework 2019/20. The framework is outcome focused using a range of impact measures designed to support performance monitoring. A review of the performance reporting has also been completed with a new style of report introduced for quarter 1 in August 2019. These new arrangements have not yet been subject to audit review.

87. The Scottish Police Authority therefore has a process in place for assessing the performance of Police Scotland using Police Scotland generated information. However, as noted at paragraph [83](#), without a plan and planning framework it has no way to assess its own performance in holding Police Scotland to account. The Scottish Police Authority also needs to consider a broader evidence base, including benchmarking against other forces as appropriate.

Contract management

88. Internal audit recently reported on work undertaken on procurement and tendering. This identified some issues with compliance with procurement legislation and deficiencies in the ICT department. We also noted that:

- the Board has not yet approved a procurement strategy.
- contract spend is currently not monitored consistently across the organisation. While there are processes in place for procurement staff and contract owners to carry out and record checks of invoiced costs against expected spend, the results of these checks and reasons for any differences are not clearly documented.
- the contract register requires regular updating to ensure it is a complete record of all contracts and accurately logs committed amounts, contract spend, associated key dates and procurement / business leads.

89. The Scottish Police Authority have considered the findings of this report and developed an improvement plan to address the issues and support overall improvement in the procurement function.



Recommendation 11

The Scottish Police Authority should finalise the procurement strategy, implement the improvement plan and report progress to the committee.

Consultancy and external support

90. Operating expenditure for 2018/19 included £6.5 million of consultancy costs (of which £6.3 million was charged to reform). This is almost 50% greater than the consultancy spend in 2017/18 (£4.3 million), and more than three times the amount spent in 2016/17 (£1.9 million). The staff report shows that agency staff costs have fallen in 2018/19 to £2.4 million from £4 million in 2017/18. It is worth noting that this level of expenditure should be considered in the context of an overall annual budget of £1.2 billion and reflects the process of reform and transformation that is underway.

91. The Scottish Police Authority have determined that for some specific areas they do not have the internal capacity or capability to deliver some of the activities required to meet the aims of Policing 2026 and its supporting strategies. Some good processes are in place with regard to reporting progress of the transformation programme, including the analysis of benefit realisation which is reported to members and considers Audit Scotland's Best Value criteria. So far, the transformation programme has seen some positive results in relation to filling identified expertise gaps in the Strategic Design and Business Investment sections within Police Scotland.

92. The organisation would benefit from areas of good practice being shared between teams to improve consistency in documenting both the progress of the programme and also the results and outcomes. [Exhibit 5](#) shows some of the key areas where reform funding on consultancy services has been used in year.

Exhibit 5 Consultancy reform spending in 2018/19

Project	Amount
ICT Strategy	£1.534 million
Transforming corporate support services (focus on the efficiency and productivity of customer services)	£1.000 million
Transformation of support services (focus on Strategic Design and Target Operating Model)	£0.990 million
Demand Productivity Performance	£0.975 million
British Transport Police integration	£0.345 million

Source: Scottish Police Authority Reform Spending report 2018/19

93. In the 2019/20 budget, the cost of consultancy is expected to reduce to approximately £2.1 million.

British Transport Police (BTP) Integration

94. 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. In September 2018, the Cabinet Secretary for Justice announced his intention to reconsider all the available options to achieve enhanced accountability of railway policing in Scotland. After consultation, a new medium-term option was developed using the existing legislation (Railway and Transport Safety Act 2003). In July 2019, the new Scottish Railways Policing Committee was established, as a delegated committee of the BTP Authority. This committee will oversee railway policing in Scotland and be made up of members of the Scottish Police Authority and the BTP Authority and be chaired by the Scotland member of the BTP Authority. The first meeting is due to be in autumn 2019.

95. The Scottish Police Authority incurred consultancy costs of £0.345 million in 2018/19 associated with this work. The commencement of the Railway Policing (Scotland) Act 2017 remains under review.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The 2018/19 reports are outlined in [Appendix 3](#).

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital budget profiling</p> <p>At the end of Q3, capital spend was £16.5 million below the capital plan. This led to a significant spend in the last few months of the year.</p> <p>Risk</p> <p>Poor capital profiling and management impacts on the delivery of planned projects and increases the risk that the budget is not fully utilised in year due to slippage.</p>	<p>The profiling of the capital budget should be reviewed to ensure it reflects the likely timing of the expenditure.</p> <p>Paragraph 35</p>	<p>Agreed.</p> <p>Significant effort has gone in to the profiling of the capital budget for 2019/20. There is a higher degree of confidence that spending will be delivered in line with the budget profile as a result of a significant percentage of planned spend being in relation to in-flight projects. This means that procurement and governance timescales do not present as big a risk to capital spending as in the previous year.</p> <p>Based on previous experience the 2019/20 capital budget was set with a £2 million slippage management allowance built in. What this means is that planned expenditure exceeds available resources by £2 million. Throughout 2019/20 the Capital Investment Group will closely monitor this, and where slippage starts to come through in the programme, the budget will be removed. This will provide budget holders with an incentive to spend their budget in line with the profile.</p> <p>Responsible officer: CFO</p> <p>Implementation date: Completed</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
2	<p>Control environment</p> <p>Control weaknesses still exist in key areas such as payroll validation and segregation of duties in areas such as journals and credit notes.</p> <p>Risk</p> <p>Weaknesses in controls increase the likelihood of fraud and error.</p>	<p>The strengthening of the control environment should continue to be an area of focus.</p> <p>Paragraph 39 - 40</p>	<p>Agreed.</p> <p>The Finance Senior Management Team is committed to continuing to strengthen the control environment. The move to a single payroll system has provided significantly strengthened controls in an area that represents nearly 90% of budget.</p> <p>Further improvements are continuing in the areas mentioned such as journals and credit notes.</p> <p>The Financial Controller is monitoring progress and regularly reports to the management team in this area.</p> <p>These further improvements will be completed in the current financial year.</p> <p>Responsible Officer: CFO</p> <p>Implementation date: 31 March 2020</p>
3	<p>Medium and long term financial plans</p> <p>The medium and long term financial plans identified that financial balance would be achieved in 2020/21 and the Scottish Government therefore agreed to support a deficit budget until 2020/21. Planned officer reductions are no longer going ahead because of the UK's withdrawal from the EU and financial balance will now not be achieved before 2022/23.</p> <p>Risk</p> <p>Financial balance is not achieved in the medium term, and the Scottish Government no longer supports a deficit position beyond 2020/21.</p>	<p>Revised medium and long term financial plans are required which detail how financial balance will be achieved. Engagement with the Scottish Government must confirm that ongoing support exists for the extended timeline.</p> <p>Paragraph 48 - 50</p>	<p>Agreed.</p> <p>A Medium Term Financial Planning Options paper will be presented to the Board in September 2019.</p> <p>In addition, significant engagement has, and will continue to take place with Scottish Government regarding the financial position. Specific packs have been presented to civil servants and to the Cabinet Secretary for Justice and Cabinet Secretary for Finance, setting out the financial situation as part of the Spending Review.</p> <p>It is anticipated that following the production of the Workforce Plan; and Estate Strategy implementation plan, as well as knowing the financial settlement for 2020/21, a Three Year Financial Plan and 10 Year Financial Strategy will be presented to the Board along with the budget in March 2020.</p> <p>The timescale for balancing the budget will be extended and as such confirmation from the Scottish Government of ongoing financial support will be sought.</p> <p>Responsible Officer: CFO</p> <p>Implementation date: 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>Strategic Workforce Plan</p> <p>There is now an urgent need to prepare detailed workforce plans, including robust scenario planning, to support the transformation required to deliver Policing 2026 and financial balance.</p> <p>Risk</p> <p>Workforce plans are a critical element of financial planning, particularly with the level of payroll costs incurred by the Scottish Police Authority, and until these are in place it is impossible to accurately determine long term financial sustainability. This will impact on the achievement of transformational change.</p>	<p>Detailed workforce plans, including scenario planning, are required to support the delivery of financial balance and Policing 2026.</p> <p>Paragraph 52 - 53</p>	<p>Agreed.</p> <p>A significant amount of resource and effort is now going in to the development of a Strategic Workforce Plan. This is pulling together information on demand, productivity and the Target Operating Model in order to develop a plan that will support the delivery of a sustainable policing model.</p> <p>It is anticipated that a first iteration of the plan will be presented to the Board in Autumn 2019. It should be recognised that the workforce plan will develop and strengthen over time as further iterations are developed, and there is a strong commitment within Police Scotland and the Scottish Police Authority to deliver upon this.</p> <p>Responsible Officer: Director of P&D Implementation Date: 31 March 2020</p>
5	<p>Committee structure</p> <p>A new committee structure was put in place during 2018/19 including the creation of a Resources Committee which considers all the people and finance related issues.</p> <p>Risk</p> <p>Due to the wider scope of the committees, the increased volume of information may impact on the level of scrutiny taking place.</p>	<p>The committee structure should be kept under review to ensure that the volume of information doesn't impact on the robustness of the scrutiny undertaken.</p> <p>Paragraph 63</p>	<p>Agreed.</p> <p>The Authority has already established a Governance Development and Improvement Group. The Governance Development and Improvement Group is meeting on a regular basis. It is acting as a vehicle to identify and accelerate progress on key areas for improvement. By bringing together a range of views and inputs from the Scottish Police Authority, Police Scotland and the Scottish Government, it is facilitating a 'joined up' approach to thinking and development both within the Scottish Police Authority and across the wider policing system. The group will facilitate and support further reviews of the committee structure, the scope of respective terms of reference, and also work on a revised scheme of delegation.</p> <p>Responsible Officer: Chief Executive Implementation date: 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
6	<p data-bbox="256 412 472 439">Role of the Chair</p> <p data-bbox="256 456 571 607">The time commitment and remuneration indicate that the work of the Chair is more than would normally be expected of the role.</p> <p data-bbox="256 629 316 656">Risk</p> <p data-bbox="256 674 571 824">This could impact on the ability of the Chair to provide the necessary scrutiny if already involved in operational matters.</p>	<p data-bbox="624 412 938 656">The Chair should engage with the Scottish Government on the time required to fulfil the role and ensure that there is no risk of the Chair and other board members operating in an executive capacity.</p> <p data-bbox="624 674 783 701">Paragraph 65</p>	<p data-bbox="983 412 1150 439">Partly agreed.</p> <p data-bbox="983 456 1430 1308">The Scottish Police Authority has an unusually demanding and complex range of roles, responsibilities and accountabilities which are vested in the Chair and Members of the Authority. In addition, the 2018/19 year saw an exceptional and significant programme of improvement and change to the leadership and governance of both the Scottish Police Authority and Police Scotland, which was led by the Chair. The Chair and Vice Chair have already examined issues of Members' time commitments and this matter is currently under active consideration by the Scottish Police Authority's Governance Development and Improvement Group. The Scottish Police Authority would welcome further consideration with Scottish Government regarding the time commitment required for the Chair and Members to perform their roles effectively together with a review of the method of remuneration to better reflect the nature of the roles.</p> <p data-bbox="983 1330 1406 1391">Responsible Officer: Scottish Police Authority Chair</p> <p data-bbox="983 1413 1430 1442">Implementation date: 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
7	<p>Scottish Police Authority corporate function</p> <p>Despite the Board approving the Scottish Police Authority Improvement Plan 2018/19 in May 2018 there has been no progress in building the capacity and capability of the corporate function.</p> <p>Risk</p> <p>The Scottish Police Authority corporate function is unable to support the Board in holding the Chief Constable to account.</p>	<p>Detailed plans to build the capacity and capability of the Scottish Police Authority corporate function are urgently required to enable it to operate as envisaged by the legislation.</p> <p>Paragraph 66 - 68</p>	<p>Agreed.</p> <p>Work is being taken forward to ensure that the Scottish Police Authority has the capacity, capability, culture and structure it requires to perform effectively in future. The aim being to develop a Scottish Police Authority that is strategic, assertive, front facing and trusted by the public. This is taking a 'whole system' approach to ensure there is greater clarity going forward on the roles, responsibilities, relationships and boundaries between the various parts of the policing system. Work has begun to develop a structured process of organisational design and development, including engagement with Board members and staff to shape and inform this work with the aim of developing proposals for a refreshed organisational structure by the end of calendar year 2019.</p> <p>Responsible Officer: Chief Executive</p> <p>Implementation date: 31 December 2019</p>
8	<p>Accountable Officer arrangements</p> <p>The Chief Financial Officer (CFO) has been appointed as Interim Accountable Officer. However, the CFO reports directly to the Deputy Chief Officer of Police Scotland, and therefore the Chief Constable, and the Chief Executive of the Scottish Police Authority.</p> <p>Risk</p> <p>There is a potential conflict between governance and operational roles.</p>	<p>If an Interim Accountable Officer arrangement is required for an extended period, the Scottish Government should be engaged to identify a more appropriate solution.</p> <p>Paragraph 69 - 70</p>	<p>Agreed.</p> <p>The temporary arrangements put in place to address the absence of the Chief Executive were envisaged to be both short-term and time limited. The Board has already initiated steps to ensure that interim leadership arrangements are put in place, and central to that will be the repatriation of the Accountable Officer responsibilities with the duties of the Chief Executive. It is therefore anticipated that the temporary arrangements will come to an end during September 2019.</p> <p>Responsible Officer: Scottish Police Authority Chair</p> <p>Implementation date: 30 September 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
9	<p>Risk register for Scottish Police Authority</p> <p>Although the Audit Committee receives regular progress reports on the new risk management arrangements, the development of a strategic risk register for Scottish Police Authority is still ongoing.</p> <p>Risk</p> <p>The Scottish Police Authority has not identified all potential obstacles and challenges which it faces, and this may impact on decision making.</p>	<p>The development of a strategic risk register for the Scottish Police Authority is now critical to support decision making.</p> <p>Paragraph 79 - 80</p>	<p>Agreed.</p> <p>The chair of the Audit Committee has sponsored discussion at two Board Development Sessions so far during 2019. These discussions have been both wide ranging and productive as steps toward agreeing, in the coming months, a fully populated and Board-approved risk management structure which covers the Scottish Police Authority remit over Police Scotland, Scottish Police Authority Corporate and Forensics Services. It is anticipated that this will be progressed and in place by the end of the calendar year 2019.</p> <p>Responsible Officer: Chief Executive</p> <p>Implementation date: 31 December 2019</p>
10	<p>Scottish Police Authority Corporate Plan</p> <p>The Scottish Police Authority does not have a corporate plan and planning framework in place.</p> <p>Risk</p> <p>The Accountable Officer is unable to satisfy his responsibilities to secure best value.</p>	<p>The Scottish Police Authority should develop a corporate plan as a key step to demonstrating the achievement of best value.</p> <p>Paragraph 82 - 83</p>	<p>Agreed.</p> <p>It will be a key priority by spring of 2020 for the Scottish Police Authority to refresh the ten-year strategy for policing, Serving a Changing Scotland, and in so doing fulfil its statutory requirement to develop an overarching strategic police plan. This is distinct from developing a corporate plan to underpin its own governance and statutory work, and this corporate plan will flow from inter-related work to develop the appropriate Scottish Police Authority corporate capacity and capability to effectively support the Board in discharging its wide-ranging duties and responsibilities, including to best value. The Scottish Police Authority is committed to having a corporate plan in place for the beginning of the 2020/21 reporting year.</p> <p>Responsible Officer: Chief Executive</p> <p>Implementation date: 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
11	<p>Procurement</p> <p>A number of internal audit reports and external audit work have identified weaknesses in the procurement function and an improvement plan has now been developed.</p> <p>Risk</p> <p>The spend on procurement is not monitored effectively and the contracts register is not complete. Procurement activities may not fully comply with legislation.</p>	<p>The Scottish Police Authority should finalise the procurement strategy, implement the improvement plan and report progress to the committee.</p> <p>Paragraph 88 - 89</p>	<p>Agreed.</p> <p>The Procurement Strategy will be developed as part of the Procurement Improvement Plan. Additional resources have been secured to move the plan forward, and good progress has been made to date. A Police Scotland Procurement Improvement Board has been established to govern the improvement work, which is chaired by the Deputy Chief Officer and whose membership includes a number of the Force Executive.</p> <p>An update will be provided to each Audit Committee throughout the lifetime of the plan.</p> <p>Responsible Officer: CFO</p> <p>Timescale: September 2020</p>

Follow up of prior year recommendations

b/f	<p>Provisions</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. In addition, the accounting treatment for the dilapidations provision was incorrect.</p> <p>Risk</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>Actioned</p> <p>The accounting treatment for the dilapidations provision has been revised.</p> <p>The process for employer liability and public liability provisions has been strengthened.</p> <p>There are opportunities to further strengthen arrangements which have been discussed and agreed.</p>
b/f	<p>Non-current assets</p> <p>Audit testing identified some aspects of the non-current asset accounting that should be strengthened.</p> <p>Risk</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>Actioned</p> <p>The arrangements for non-current asset accounting supports the preparation of the accounts.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>Performance report</p> <p>The performance report does not provide a detailed summary of performance measurement arrangements and the outcomes for the year.</p> <p>Risk</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>Partly actioned</p> <p>There has been some improvement in the performance report, however, the development of the new framework which was approved by the Board in March 2019 should allow for improved future reporting.</p>
b/f	<p>Board member claims</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>Risk</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>Actioned</p> <p>Testing has identified that since our Annual Audit Report was published last year, there has been no evidence of board members expenses being paid without corresponding receipts.</p>
b/f	<p>Control environment</p> <p>Control weaknesses still exist in key areas such as payroll and the processing of journal entries.</p> <p>Risk</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>Partly actioned</p> <p>Improvements have been made in the processing of journal entries.</p> <p>The controls for the new national payroll system iTrent have been reviewed and we were able to place reliance on some controls as identified in our management report.</p> <p>Further improvements in controls have been agreed.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>Supporting strategies for Policing 2026</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>Risk</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>Partly actioned</p> <p>The Outline Business Case for DDICT was approved by the Board in September 2018 however funding has been lower than expected.</p> <p>The Estates Strategy was approved by the Board in May 2019.</p> <p>A framework for strategic workforce planning was approved in May 2019, but the strategic workforce plan is still in development.</p>
b/f	<p>Performance management framework</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>Risk</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>Partly actioned</p> <p>The new performance framework was approved by the Board in March 2019 and the first reporting against this framework is due in Q2 of 2019/20.</p> <p>However, this has not been subject to audit review.</p>
b/f	<p>Consultancy and external support</p> <p>The external support required places demands on the key areas of contract award and management.</p> <p>Risk</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>Partly actioned</p> <p>Arrangements are in place to monitor spend against contracts, but these are not applied consistently across the organisation.</p> <p>Plans for monitoring benefits realisation have been taken to the Resources Committee during 2019, and the procurement team are carrying out a pilot for arrangements for assessing benefits. There has been some successful internal assessment of benefits by the teams involved in the transformation programme.</p>

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

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be significant in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business. 	<p>Results – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and our work on income and expenditure did not identify any significant transactions outside the normal course of business.</p> <p>Conclusion – No issues were identified that indicated management override of controls</p>
<p>2 Risk of fraud over income</p> <p>Scottish Police Authority receives income from a range of sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Testing of controls over receivables. • Carry out analytical procedures on income streams, other than funding from Scottish Government, to identify areas of risk and to direct our testing. • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year. 	<p>Results – We did not identify any significant issues from our testing of income transactions, and we did not identify any issues which would constitute a fraud risk.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice and Practice Note 10 extend the assumptions within ISA 240 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"> • Testing of controls over payables. • Carry out analytical procedures on expenditure streams to identify unexpected variances which will direct our testing. • Detailed testing of expenditure transactions focusing on the areas of greatest risk. • Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year. 	<p>Results – We did not identify any significant issues from our testing of expenditure transactions, and we did not identify any issues which would constitute a fraud risk.</p> <p>Conclusion – No fraud issues were identified.</p>
<p>4 Estimation and judgements - pensions</p> <p>There is a significant degree of estimation and judgement used in the measurement and valuation of the material account areas of pensions relating to the Police Pension Schemes and the Local Government Pension Schemes.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Assessment of the appropriateness of the actuarial assumptions. • Establish management arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. 	<p>Results – We identified the requirement for revised IAS 19 valuations for the Police Pension Schemes and the Local Government Pension Schemes to reflect the changes resulting from the McCloud case.</p> <p>Senior finance staff meet with the actuary to discuss issues such as assumptions, and movement in fund values. and in future will minute these discussions.</p> <p>Conclusion – Pension estimates have been correctly reflected in the audited accounts.</p>
<p>5 Provisions</p> <p>Our 2017/18 audit work identified a number of issues with the provision amounts disclosed in the financial statements. The current processes and procedures for identifying and recording provisions are being reviewed to ensure complete and accurate information flows between legal, HR and finance and is disclosed in the annual report and accounts.</p> <p>There is a risk for the completeness and accuracy of provisions in the financial statements.</p>	<ul style="list-style-type: none"> • Review the revised processes which have been introduced during 2018/19. • Assess the revised methodology for calculating the dilapidations provision. • Carry out detailed testing of provision balances in the 2018/19 financial statements. 	<p>Results – We assessed the revised methodology for calculating the dilapidations provision. No issues were identified.</p> <p>The processes for public liability and employer liability provisions have been strengthened, and no significant issues were identified.</p> <p>Arrangements for motor liability provisions could be strengthened, and improvements have been agreed for 2019/20.</p> <p>Conclusion – Improvements have been made in year, but there remains room for these to be developed further.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>6 National Payroll System</p> <p>A new national payroll system is being rolled out to replace the legacy systems. The scale and complexity of the project has been considerable. More than 85% of operating expenditure relates to officer and staff costs. It is therefore essential that the control environment is robust and that the reporting capability of the system meets the needs of management for budget setting and monitoring.</p> <p>There is a risk that the new system does not fully address the control weaknesses identified in previous internal and external audit reports.</p>	<ul style="list-style-type: none"> Carry out a detailed review of the new system and the control environment. Perform testing of system controls to assess adequacy and the extent to which they can be relied on to provide assurance. Substantive testing will be carried out, as appropriate, once controls have been assessed. Review the quality and nature of management reporting from the system. 	<p>Results – A detailed review of the new national system (iTrent) and the associated controls was carried out. We were able to place reliance on some payroll controls.</p> <p>There was limited reporting from the new system.</p> <p>Our substantive testing of iTrent was satisfactory, and we also carried out substantive testing of legacy systems which had not migrated over in year.</p> <p>Conclusion – Improvements have been made in year, but there remains room for controls to be developed further.</p>
<p>7 Performance Report</p> <p>The performance report in the 2017/18 annual report and accounts contained a summary of performance measurement arrangements and the outcomes for the year as required by the Government Financial Reporting Manual (FRoM). However, the disclosures could be strengthened to improve overall understanding of performance against Key Performance Indicators (KPIs).</p> <p>The weaknesses in the current performance management framework may impact on the quality of performance reporting for 2018/19.</p>	<ul style="list-style-type: none"> Early review and discussion with staff on the performance report requirements to support improved disclosures. Assessment of the 2018/19 Performance Report disclosures against the FRoM requirements. 	<p>Results - The disclosures in the unaudited accounts were weak. The audited report and accounts have improved disclosures for performance measurement arrangements and outcomes.</p> <p>Conclusion – Some improvements have been made in year. The new performance framework will be used in 2019/20 and therefore there is the expectation that this will result in improvements.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>8 Remuneration Report</p> <p>Previous audit reports have commented on errors in the remuneration report disclosures. Our 2017/18 audit identified improvements in the accuracy of the amounts reported. There has been a high turnover of Board members during 2018/19 with seven new members joining.</p> <p>Induction training for new members should include the procedures for payment of expenses to ensure that previous improvements are maintained and that the remuneration report disclosures are accurate.</p>	<ul style="list-style-type: none"> Detailed testing of all amounts and disclosures in the remuneration report. 	<p>Results – There has been a number of changes to ensure that benefits in kind are correctly disclosed and that the information presented is in line with guidance.</p> <p>There were two low value overpayments (£36.90 and £33.58) to members due to errors in expenses forms. These were reported in our management report and the members have repaid the balances.</p> <p>Conclusion – There was a number of issues in the remuneration report disclosures that have now been corrected.</p>

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

<p>9 Financial sustainability</p> <p>2018/19 Financial Position</p> <p>The revenue budget for 2018/19 is £1,121.6 million and includes a planned operating deficit of £35.6 million. The Scottish Police Authority plans to achieve a balanced budget by 2020/21. Recent budget monitoring shows that the outturn position is at risk with the net expenditure forecast currently £15.1m higher than budget largely due to in-year pay pressures.</p> <p>There have also been delays in implementing the Staff Pay and Reward Modernisation (SPRM) project as a result of the process required to obtain Scottish Government approval.</p> <p>The implications of the UK's decision to leave the EU is already having a cost impact for 2018/19, following Police Scotland's decision to recruit 200 additional officers.</p> <p>Achievement of a balanced budget is at risk and delivery of the required savings will be challenging and requires careful management.</p>	<ul style="list-style-type: none"> Review financial reporting of outturn position. Review progress against planning savings and for the remainder of 2018/19. Review the revised 3 year financial plan which supports the 2018/19 budget. 	<p>Results – The outturn resulted in a deficit of £35.6 million which was consistent with the budgeted operating deficit. This was achieved after additional funding was obtained from the Scottish Government of £15.3 million to support in-year pay pressures.</p> <p>The Staff Pay and Reward Modernisation project was approved and started on 1 April 2019.</p> <p>EU withdrawal continues to be a challenge with £17 million additional costs expected in year, but funding coverage has been agreed by the Scottish Government. The planned reduction in officer numbers is no longer going ahead and this means that financial balance will not be achieved by 2020/21.</p> <p>Conclusion – Budget challenges remain, and financial balance will no longer be achieved as planned in 2020/21.</p>
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Audit Risk	Assurance procedure	Results and conclusions
<p>10 Long term financial sustainability</p> <p>There are a number of financial pressures facing the organisation. The delivery of the objectives of Policing 2026 is a complex and extensive project with success dependent on a range of factors.</p> <p>The assumptions underlying the Three Year Financial Plan and Ten Year Financial Strategy are based on proposals regarding officer numbers and the level of Scottish Government funding for revenue, capital and reform.</p> <p>Reform funding continues to be required to support the many transformation projects that are underway and planned.</p> <p>Any changes to the agreed assumptions would have an impact on the achievement of financial sustainability.</p>	<ul style="list-style-type: none"> Review the arrangements for securing financial sustainability including the robustness of savings plans to address identified funding gaps. Monitor progress on developing strategies for ICT, workforce, estates and fleet including how these align to the overarching Policing 2026 strategy. 	<p>Results – As detailed above, financial balance will not be achieved in 2020/21.</p> <p>As a result of this the Three Year Financial Plan and the Ten Year Financial Strategy are both being refreshed by late 2019.</p> <p>Conclusion – Financial balance will now not be achieved in 2020/21 as planned and may not be achievable before 2022/23. The medium and long term financial strategies are to be revised to detail how financial balance will be achieved.</p>
<p>11 Data, Digital and ICT Strategy</p> <p>In May 2018 the Board approved the Data, Digital and ICT Strategy (DDICT) and on 27 September 2018, the Outline Business Case which includes a costed delivery plan. Implementation of the strategy is crucial for the delivery of many of the priorities in Policing 2026.</p> <p>The funding for the strategy, estimated at £298 million over 9 years, has not been agreed with the Scottish Government. Funding for the strategy was not included in the Scottish Government Draft Budget for 2019/20.</p> <p>The strategy is large, complex and inherently risky. Establishing the level, source and timing of funding and following robust governance and monitoring procedures will be crucial to its success.</p>	<ul style="list-style-type: none"> Review the arrangements for governance and scrutiny for the programmes within the strategy. Review the scenario planning based on different funding arrangements. 	<p>Results – Key projects were assessed, prioritised and allocated funding based on what was available.</p> <p>Work is approved and monitored through the various working groups, Police Scotland Boards and Resources Committee / Board as appropriate.</p> <p>Conclusion – There has been appropriate scrutiny of project business cases. Reprioritisation of projects has had to take place due to the funding constraints.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>12 Workforce Strategy</p> <p>The Ten Year Financial Strategy includes 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.</p> <p>A fully developed workforce strategy which considers the required skills mix and level of demand is now critical to the delivery of financial balance and the achievement of planned transformational changes.</p>	<ul style="list-style-type: none"> Review progress of the development of a workforce strategy. 	<p>Results – A Framework for Strategic Workforce Planning was approved by the Board in May 2019. This sets out the vision for the workforce plan.</p> <p>The strategic workforce plan is under development but is not complete.</p> <p>Conclusion – Work remains ongoing and the development of a workforce plan is now critical.</p>
<p>13 Estates Strategy</p> <p>The Ten Year Financial Strategy must be supported by robust and well developed corporate strategies. To achieve the cost savings detailed in Policing 2026 and to meet the demands of modern policing it is essential that the police estate is used in the most efficient way.</p> <p>A revised estates strategy and accompanying implementation plan are essential components of transformational changes.</p>	<ul style="list-style-type: none"> Review the approved estates strategy and assess the extent to which it is aligned to Policing 2026 and the other related strategies. 	<p>Results – The Estates Strategy was approved by the Board in May 2019. This identifies the plans for the future of the estate and looks for more co-location opportunities. Supporting implementation plans are required to identify how the strategy will be achieved.</p> <p>Conclusion – The Estates Strategy has been approved but supporting implementation plans have yet to be reported to the Resources Committee or the Board.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>14 Financial management</p> <p>Preparations for Brexit</p> <p>While the specific arrangements for the UK's exit from the European Union on 29 March 2019 remain unknown, the potential implications for operational policing and the financial impact need to be fully developed.</p> <p>As part of its preparations, Police Scotland has already started recruiting 200 additional officers.</p> <p>There is a risk that adequate preparations and funding plans for all possible Brexit scenarios have not been made or prove insufficient to deliver upon.</p>	<ul style="list-style-type: none"> Assess the extent to which management have considered the financial implications of Brexit and what plans they have in place. 	<p>Results – Preparations have been under way for the UK withdrawal from the EU. 100 additional officers were recruited in early 2019 to reverse an earlier reduction in 2018/19, and the total planned reduction of 750 officers by the end of 2020/21 has been postponed. This has placed pressure on the budget for 2019/20 with the additional £17 million costs being funded by the Scottish Government.</p> <p>Work has been ongoing to consider the regulatory impact of Brexit.</p> <p>Conclusion – Reasonable arrangements have been put in place to look at workforce, funding and regulatory challenges relating from the UK's withdrawal from the EU.</p>
<p>15 Governance and transparency</p> <p>Governance Changes</p> <p>In order for the Board to be more strategically focused, the committee structure has been revised. From November 2018 a new Resources Committee is in place to scrutinise matters previously undertaken by the Finance and People Committees. The new Strategy, Policy and Performance Committee will take on the remit and responsibilities of the previous Policing Committee.</p> <p>It is important that the Board keeps the success of these new arrangements under review so that its governance arrangements are effective.</p>	<ul style="list-style-type: none"> Consider the appropriateness of the new committee remits and whether they are achieving their objectives. Assess the level of decision-making responsibility that has been delegated to committees and whether it supports board capacity. 	<p>Results – The new committees created in year complement the structure of activities. It is too early to determine the effectiveness of these changes. The volume of papers to committees has been significant.</p> <p>There has been limited decision making responsibility delegated to the committees with many reports being taken to the Board for approval. However, the Board takes recognition of the work carried out by the committees, so this has reduced the time needed for discussion at Board level.</p> <p>Conclusion – It is too early to determine the effectiveness of the new committee structure.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>16 Executive capacity and capability</p> <p>During 2017/8 there was an increase in the amount of time spent by board members on the oversight and governance of the significant change and transformation projects. Member time has also been spent on tasks which are operational in nature and should be the responsibility of Scottish Police Authority executive directors.</p> <p>By strengthening the level of executive capacity in Scottish Police Authority, following the appointment of a permanent chief executive and a new executive team, the Board can take on a more strategic focus. It should also lead to improvements in the quality and timeliness of reports to the Board and its committees.</p>	<ul style="list-style-type: none"> Consider any changes made to the Scottish Police Authority executive and how it enables the Board to focus on strategic matters. Assess whether reporting to the Board and its committees supports robust scrutiny. 	<p>Results – There has been a high degree of turnover in the Scottish Police Authority corporate function in year, with a number of secondments ending, and new directors starting.</p> <p>There has been no progress in building the capacity and capability of the corporate function in year.</p> <p>Conclusion – Weaknesses in the capacity at the corporate function have been identified. Plans are required to ensure that the Scottish Police Authority corporate function can fulfil its role.</p>
<p>17 Performance management</p> <p>It is vital that there are robust performance management arrangements in place to demonstrate progress in the delivery of Policing 2026. Key performance indicators (KPIs) must be developed that link to strategic objectives. The Scottish Police Authority should track performance against these measures and identify areas of underperformance that need to be addressed.</p> <p>In the absence of a robust performance management framework that clearly links outcomes and priorities there is a risk that the Scottish Police Authority are unable to demonstrate that they are adequately holding Police Scotland to account.</p>	<ul style="list-style-type: none"> Review the revised performance management framework. Assess the level and quality of reporting against this framework to the Board. Consider how performance against the framework is reflected in the 2018/19 annual report and accounts. 	<p>Results – The revised performance framework was approved by the Board in March 2019 and the first reporting is due in Quarter 2 of 2019/20.</p> <p>The performance in the annual report and accounts has not been measured against this new framework.</p> <p>Conclusion - The new performance framework has not been used for the 2018/19 annual report and accounts. Due to the timings, the level and quality of reporting against the new performance framework cannot be assessed.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>18 Risk Management</p> <p>Risk management 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.</p> <p>The identification and reporting of risks that align to the delivery of Policing 2026, must be clearer to improve scrutiny and enable risk based decision making.</p>	<ul style="list-style-type: none"> Assess the adequacy of the new risk management arrangements. 	<p>Results – There has been regular reporting of the new risk management arrangements. The Scottish Police Authority's risk register is still in development.</p> <p>Conclusion – The Scottish Police Authority must develop its strategic risk register.</p>
<p>19 Value for money</p> <p>Procurement and Contract Management</p> <p>To support the delivery of its transformation programme, Police Scotland is using external professional support organisations and consultancy firms.</p> <p>There is a risk that the planned benefits are not realised and that contract costs are not managed due to capacity issues.</p> <p>Public bodies have recently experienced service delivery difficulties following the collapse of key suppliers. Ongoing monitoring of key contracts is an essential part of effective business continuity arrangements.</p>	<ul style="list-style-type: none"> Detailed testing of the procurement process for contracts awarded during the year. Review the contract management arrangements to ensure that the realisation of benefits and monitoring of costs are robust. Consideration of the findings from Internal Audit's review of procurement processes. 	<p>Results – From testing of new contracts in year no issues were identified with the contract award process.</p> <p>Work has begun for monitoring of costs and benefits realisation and this must be developed further in 2019/20.</p> <p>Internal audit identified issues with the monitoring of costs and that a small number of contracts had not been procured in line with legislation.</p> <p>Procurement has created an improvement plan to address these issues.</p> <p>Conclusion – Procurement must implement the improvement plan and monitor the financial position and benefits of each contract.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Relevant reports for the Scottish Police Authority

[Scottish Fire and Rescue Service: an update](#) – May 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Major project and procurement lessons](#) – August 2018

Scottish Police Authority

2018/19 Annual Audit Report

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