



# Scottish Prison Service

2020/21 Annual Audit Report to the Accountable Officer and the Auditor General for Scotland

July 2021



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# 1. Key messages

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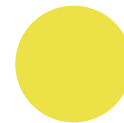
## Annual accounts audit

The annual report and accounts for the year ended 31 March 2021 were considered by the Risk Monitoring and Audit Committee on 30 June 2021 and authorised for issue by the Accountable Officer on the same date. We report an unqualified opinion within our independent auditor’s report.

We received the unaudited annual report and accounts and supporting papers of a high standard. Our thanks go to staff at SPS for their assistance with our work.

## Wider scope audit

### Auditor judgement



#### Financial Sustainability

COVID-19 continues to have impact in the management of the prison service, in particular in capacity and financial planning and management.

SPS has identified a maximum funding gap of £14.5 million in 2020/21 reflecting in part additional cost and uncertainty associated with the COVID response.

During the year management focused on the COVID-19 impact and the update to the financial strategy was moved to March 2022.

There had been delays to the capital programme resulting from the COVID-19 restrictions.

The prison population remained at 7,400 in June 2021 and close to its operating capacity of 7,669.

### Auditor judgement



#### Financial Management

SPS operated within budget during 2020/21, reporting an underspend of £15.373 million in year.

SPS reported underspends in both its maintenance programme and capital programme in 2020/21 and this continues a trend of underspends in these areas over many years. Given the ageing profile of the SPS estate there is scope to prioritise more effective estates investment planning and management .

Further enhancements could be made to the budget setting and monitoring processes, although budget reporting is considered reasonable.

We found the systems of internal control to be adequate.

**Auditor judgement**



**Governance & Transparency**

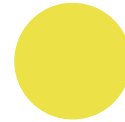
The SPS senior leadership team, including the chief executive, continues to be appointed on an interim basis.

Interim arrangements put in place in the previous year in response to COVID-19 are still in place, and work continues to return the Service back towards a more normal operating position.

The Internal Audit has operated with no head of audit during the year, has not fully complied with Public Sector Internal Audit Standards and has provided only limited assurance over the governance and internal control arrangements operating at SPS.

All of the above issues together make long term vision, leadership and governance more challenging for SPS.

**Auditor judgement**



**Value for Money**

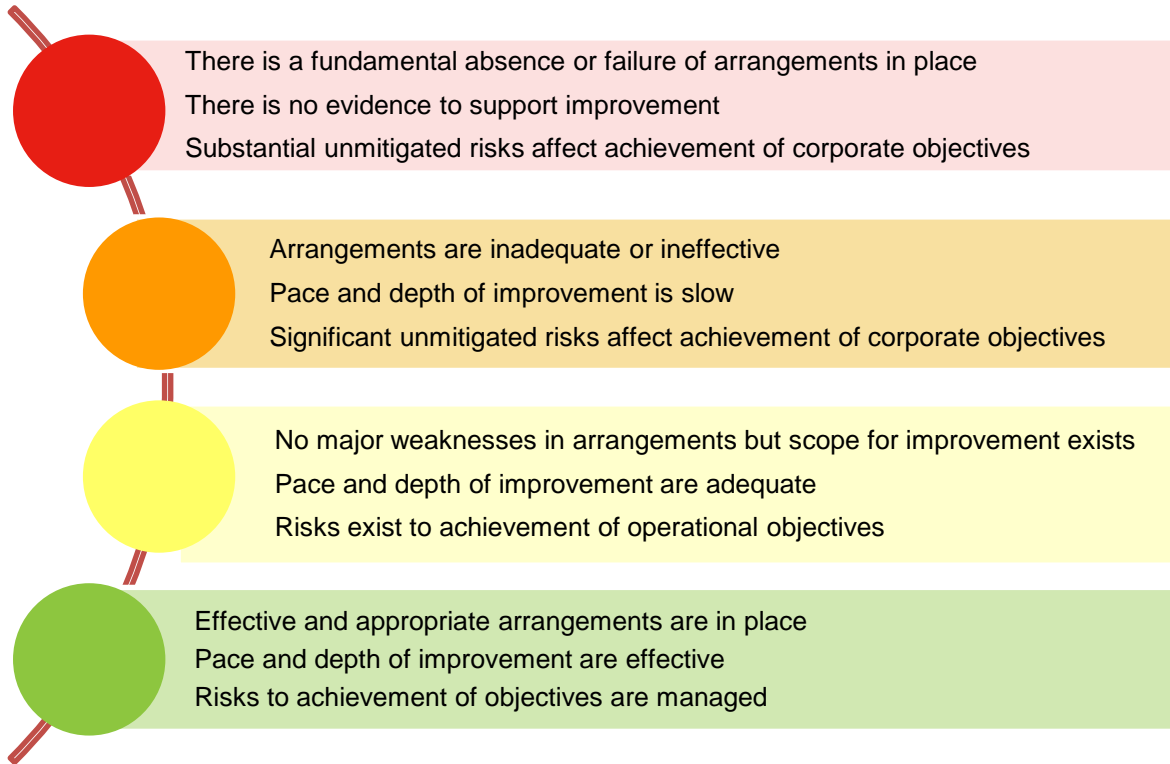
The refreshed Corporate Plan 2019-22 was published in 2019. The previous delivery plan delayed and re-profiled actions were reviewed and incorporated into the Delivery Plan 2020/22.

We note that SPS spent £1.180 million during the year on protective equipment in response to the COVID-19 pandemic. In addition, the PPE stock with a value of £0.932 million has been written down during the year as it was no longer required.

SPS' performance on six of the 17 indicators has improved compared with prior year, six indicators have deteriorated and five have not changed. The improving indicators related to the lower number of assaults and injuries. Deteriorating KPIs included purposeful and educational activities of which delivery was impacted by COVID-19 restrictions.

## Definition

Our wider scope audit involves consideration of the Scottish Prison Service's arrangements as they relate to financial sustainability; financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



## Update on the Report prepared by the Auditor General for Scotland on the 2018/19 audit of the Scottish Prison Service

In 2019-20, the Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for the Scottish Prison Service. Those factors included issues relation to the financial position, high levels of prisoner population, staffing levels, performance outcomes and the prison estate.

SPS in conjunction with the Scottish Government provide a response to Parliament on the report prepared by the Auditor General on the 2018/19 external audit. Observations include:

- Sickness absence rates have declined in comparison with the previous year.
- Ex gratia payments have decreased.
- The prison population decreased to c.6,800 in May 2020 and steadily climbed to above 7,400 by September 2020, on the resumption of court proceedings. The prison population has remained at that level at June 2021, and SPS noted that it is more difficult to predict and plan for prison population numbers going forward due to continuing uncertainty due to the COVID-19 impact.
- The Scottish Government included the replacements for HMP Barlinnie and HMP Greenock in its *Infrastructure Investment Plan 2015: progress report for 2020 to 2021*. There continues to be uncertainty over the timing of SPS receiving funding for these replacements, but the Scottish Government's plan estimates that HMP Glasgow will be completed in 2026.
- The trend of significant underspends against capital budgets continues, partly reflecting challenges in delivering capital works during the pandemic.
- The SPS senior leadership team continues to operate largely on an interim basis.

We will continue to monitor SPS' response to the report during 2021/22, taking into account the current environment which it is operating in.

### Conclusion

This report concludes our audit for 2020/21. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Azets**  
**July 2021**

# 2. Introduction

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**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Prison Service for 2020/21.**

**We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.**

**The Accountable Officer and the Scottish Prison Service Advisory Board have designated the Risk Monitoring and Audit Committee as “those charged with governance” for the purposes of audit communication.**

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## Introduction

1. This report summarises the findings from our 2020/21 audit of the Scottish Prison Service (“SPS”).
2. We outlined the scope of our audit in our External Audit Plan, which was considered by the Risk Monitoring and Audit Committee (RMAC) at the outset of our audit. The core elements of our work include:
  - an audit of the 2020/21 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - monitoring SPS’ participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. SPS is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified from our audit are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. There are no action points resulting from 2020-21 audit, but there is an action plan in relation to prior year points. Senior management should continue to assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help SPS assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with management. We would like to thank all management and staff for their co-operation and assistance during our audit.

### Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council’s Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence.

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

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SPS promote improved standards of governance, better management and decision making and more effective use of resources.

### **Feedback**

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

### **Openness and transparency**

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# 3. Annual report and accounts

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SPS' 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.

In this section we summarise the findings from our audit of the 2020/21 annual report and accounts.

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## Annual report and accounts

### An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2021 were considered by the Risk Monitoring and Audit Committee on 30 June 2021 and authorised for issue by the Accountable Officer on the same date. We report an unqualified opinion within our independent auditor’s report.

### Audit conclusion

12. The annual report and accounts for the year ended 31 March 2021 were considered by the Risk Monitoring and Audit Committee on 30 June 2021 and authorised for issue by the Accountable Officer on the same date.
13. Our independent auditor’s report includes:
  - an unqualified opinion on the financial statements;
  - an unqualified opinion on regularity; and
  - an unqualified opinion on other prescribed matters.

### Our assessment of risks of material misstatement


14. The assessed risks of material misstatement described in Exhibit 1 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1.

## Exhibit 1 – Our assessed risks of material misstatement and how the scope of our audit responded to those risks

### Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements.


*Noted in the 2020/21 External Audit Annual Plan*

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15. We have not identified any indication of management override in the year. We have reviewed the SPS’ accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SPS could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.


*Noted in the 2020/21 External Audit Annual Plan*

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16. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for Scottish Government grant funding.
  17. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated SPS' key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

## Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Noted in the 2020/21 External Audit Annual Plan*

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18. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion we carried out testing to confirm that the SPS' policy for recognising expenditure is appropriate and has been applied consistently throughout the year.


## Estates valuation

SPS, in accordance with its accounting policies, carries out a full revaluation of land, dwelling and other buildings at five yearly intervals. In the intervening years, both specialised and nonspecialised assets are valued on a rolling programme revaluing, on average, four establishments each year. Appropriate indices provided by the Valuer are used to restate values in the intervening years between full valuations. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

The valuation provided by the valuer as at 31 March 2020 recognised a material uncertainty, indicating that lower confidence could be attached to the valuation than otherwise would be the case given the unprecedented impact of COVID-19 on global markets.

There is a risk of material misstatement to the financial statements relating to asset valuations.


*Noted in the 2020/21 External Audit Annual Plan*

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19. In 2020/21 the District Valuer revalued eleven operational properties, including eight prisons. We conducted testing on the re-valuations and gained reasonable assurance over the accuracy of the estates valuation and those assets were accounted for appropriately.
  20. The assets were in total valued down by £99.9 million, of which £87.4 million related to the 11 assets revalued in the year and the remaining balance related to the annual indexation movements on the other assets. As most of the assets are revalued on the depreciated replacement cost, the downward movement represents the decrease in the tender price index (TPI) at the end of the financial year. The TPI decrease is based on the smaller pipeline of projects in the UK and their slow conversion to tenders and works on site. Other factors impacting the valuation were the impact of COVID outbreaks on sites, their impact on manufacture and material production, drop in salaries, with some of the materials prices increases not having yet impacted the tenders pricing.
  21. We confirmed that SPS provided the valuer with the most up-to-date information to support the valuation process. We also confirmed that SPS finance team considered the result of the valuation for inconsistencies with their knowledge and data, without identifying any.
  22. We confirmed that the indexation has been applied correctly to the remaining assets as per the valuer's report.
  23. We reviewed Advisory Board minutes and conducted a media review to ensure that there was no evidence of any significant events that would affect the valuation obtained.
  24. We considered the competence, capability and objectiveness of the external valuer and concluded these were appropriate. This year RICS has not proclaimed valuation uncertainty as the markets started to move and there was more transactions available to assess assets values.
  25. Overall, we concluded that the valuation of assets as shown in the accounts is appropriate.

### Provisions (significant accounting estimate)

SPS in its financial statements includes provisions for legal obligations in respect of, for example, staff and prisoner claims. SPS engage the services of the Scottish Government Legal Directorate, the Department of Work and Pensions and other legal firms to assist in preparing estimates of potential liabilities for staff and prisoner claims. There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

*Noted in the 2020/21 External Audit Annual Plan*

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26. We have examined working and calculations behind all provisions categories and have selected a sample of provisions to confirm their accuracy with no issues identified. We have also assessed completeness of the disclosures by confirming the list of claims and provisions with individual departments of SPS outwith the finance section to gain independent assurance. In addition, we have reviewed the ledger codes with legal expenses and assessed for any unusual movements. Our conclusion is that the provisions and contingent liabilities notes are accurate and complete.

## Impact of COVID

27. The pandemic continued to impact on practical aspects of the audit, but to a lesser degree. Key areas of impact included:

- Ease of access to audit evidence
- Timescales/administrative processes.

### Ease of access to audit evidence

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28. This is the second year when our audit has been carried out remotely. We have continued the greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

29. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.

30. We received the unaudited annual report and accounts and supporting papers of a high standard. Our thanks go to staff at SPS for their assistance with our work.

### Timescales/Administrative processes

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31. In Scotland, the administrative deadline for the submission of audited accounts of central government bodies to Audit Scotland was changed to 30 September 2021. The legislative deadline for laying accounts in the Scottish Parliament remains at 31 December 2021.

32. RMAC considered the annual report and accounts on 30 June 2021. The Accountable Officer approved the accounts on the same date.

## An overview of the scope of our audit

33. The scope of our audit was detailed in our External Audit Plan, which was considered by the RMAC in May 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPS. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

34. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

35. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained below.

## Our application of materiality

36. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

37. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

38. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

39. Our initial assessment of materiality for the financial statements was £6.7 million. On receipt of the 2020/21 draft accounts, we reassessed materiality and retained it at £6.7million. We consider that our reassessment has remained appropriate throughout our audit.



	Materiality £million
<b>Overall materiality:</b> Our assessment is made with reference to operating expenditure as users of the accounts are primarily interested in how SPS funding has been spent in delivering expected performance.	6.700
<b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	5.025

Item	Quantity	Value written down
Goggles	48,681	£418,657
Sanitiser	19,638	£272,575
Masks	40,800	£240,312
<b>Total</b>		<b>£931,544</b>

40. We noted within our External Audit Plan that we would report to SPS all audit differences in excess of £250,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

### Audit differences

41. We identified no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. There were no unadjusted differences to the unaudited annual accounts.
42. There was one adjusted error of £0.737 million identified in relation to PPE stock donated by NHS NSS to SPS. The error was a result of the technical guidance clarification from Audit Scotland following the audit of NHS & NHS NSS accounts and other correspondence in June 2021. SPS' accounts amended appropriately.

### Other matters identified during our audit

43. During the course of our audit we noted the following:

#### Other stock write off

44. In the midst of the pandemic and in response to it SPS has acquired a number of PPE items, goggles, sanitisers and masks. Not all of these were fit for purpose and some had short expiry dates. This resulted in the year end write down of £0.932 million of PPE items to their net realisable value as detailed below.

### Other information in the annual report and accounts

45. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

#### The performance report

46. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
47. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

#### The accountability report

48. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

#### Governance statement

49. We consider the coverage of the governance statement to be in line with our expectations.
50. Based on the audit work carried out, we have concluded that the governance statement has



been prepared in accordance directions from Scottish Ministers and is consistent with the financial statements.

### Remuneration and staff report

51. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance directions from Scottish Ministers and is consistent with the financial statements.

### Regularity

52. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

53. In our opinion in all material respects 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.

### Qualitative aspects of accounting practices and financial reporting

54. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with application and considered appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.  We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Agency will continue to operate for at least 12 months from the signing date.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which are not already included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.

Qualitative aspect considered	Audit conclusion
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

# 4. Financial sustainability

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

COVID-19 continues to have impact, in terms of the financial plans and capacity pressures facing SPS.



SPS has identified a maximum funding gap for 2021/22 of £14.5 million; of which of which £4 million refer to private contracts inflation, £3 million to virtual meeting requirements and £2.7 million to COVID-19. SPS expects to reduce this gap to £8 million based on their most likely scenario estimates prepared recently.

A medium term financial strategy was prepared in 2019/20, however during the year management have focused on the COVID-19 impact and the update to the financial strategy was moved to March 2022.

There had been delays to the capital programme resulting from the COVID-19 restrictions with the works restarted after the restrictions were lifted. There are uncertainties remaining in relation to pricing and impact of Brexit on materials supply in the construction sector that might impact the cost of the capital projects. SPS has a history of recording underspends in capital projects and more should be done to improve budget forecasting and management of capital programmes .

The prison population decreased to 7,400 at March 2021 and close to the operating capacity of 7,669. Because of Covid-19, fewer people being sent to custody due to the suspension of court business and some were released due to the new pandemic related legislation. Upon the resumption of court business, it is anticipated that this declining trend will reverse and the numbers of people in custody may increase.

## 2021/22 financial plans

55. The Scottish Government Budget 2021/22 was agreed by the Scottish Parliament in February 2021, and provides SPS with a total budget allocation of £460.2 million (£427.4 million excluding capital charges). This is an increase of £18 million (4%) on the 2020/21 opening budget and an increase of £28.8 million (7.8%) against the 2020/21 Revised budget (Spring Budget Revision).
56. The most recent financial update / budget monitoring position prepared by SPS notes that there is a maximum funding gap of £14.5 million in 2021/22; of which £4 million relates to private contracts inflation, £3 million to virtual courts requirements and £2.7 million to COVID-19. SPS expects to reduce this gap to £8 million based on their most likely scenario estimates prepared recently. SPS is also forecasting to see continued pressure from absence dismissal payouts, further staff compensation and legal case settlements.
57. The estimates have been prepared on the assumption that SPS will be operating in a Covid environment for the first 6 months.
58. SPS has identified a number of cost pressures associated with achieving a balanced budget for 2021/22 which will require to be managed throughout the year. These include:
- Covid-19 additional costs;
  - pay due to the 2021-22 pay award and workforce planning;
  - HQ relocation;
  - planned increase in the number of courts impacting on cost of the GeoAmey contract;
  - social care contract costs;
  - absence dismissal cases;
  - staff Compensation Injury Benefits;
  - legal case settlements;
  - estates maintenance;
  - utilities costs;
  - women's estate running costs; and
  - virtual courts.
59. The update of the Medium Term Financial Strategy has been impacted by COVID-19. Focusing on lessening the impact of the pandemic resulted in some strategies not being fully developed, including the Estates and Digital strategies not yet being fully detailed or costed. In addition, changes were made to a range of regimes and operating procedures during the pandemic, and it is not clear how long these changes will need to continue. Other changes include introduction of the core day and the associated impact on workforce planning models
60. During the year, the new SPS' leadership team priorities was to deal with managing the pandemic and as a result revising and updating the existing Medium Term Financial Strategy (MTFS) has been moved to March 2022.
61. It is planned that the MTFS will consider the ongoing impact of the pandemic along with other areas including:
- recovery – roll out of vaccine and return to 'normality';
  - Ageing estate and associated maintenance costs;
  - workforce planning;
  - Annual Delivery Plan;
  - impact of backlog courts on population management;
  - impact on court custody contract & continuing virtual visits;
  - impact infrastructure plan, including the Women's Strategy/HMP Kilmarnock;
  - full impact of Brexit;
  - complexity of population; and
  - elements introduced during the pandemic which may, at some point, be considered to be business as usual.
62. Financial sustainability remains a challenge and it is recognised that work is required to further develop the financial strategy to reflect the emerging position taking cognisance of the impact of the above factors and reflect dynamically changing circumstances.
63. SPS' directorates and establishments are still working through identifying events and their financial impact for 2022-24. One of the events identified to date is the end of the current PFI contract for HMP Kilmarnock in March 2024 and transfer of this prison operation to SPS.

## Longer term financial strategy

59. The update of the Medium Term Financial Strategy has been impacted by COVID-19. Focusing on lessening the impact of the

## Long term capital investment programme

64. The long term capital investment programme constitutes two primary programmes of work: the Major Infrastructure Work programme which includes replacement and new prison development; and the planned preventative Maintenance Programme, which is a rolling five year maintenance and replacement programme primarily based on asset condition and risk assessment.

65. The current key components of the Major Infrastructure Work programme for delivery over the next five years are:

- the Woman’s National Facility (estimated completion date is Spring 2022) including community custodial units;
- redevelopment of HMP Glasgow, with the estimated completion date in the summer of 2026;
- redevelopment of HMP Highland to be completed by autumn 2023, albeit the timing of this project is largely dependent on funding being committed by Scottish Government;
- headquarters “Work smart” initiative; and
- an upgrade existing healthcare and prisoner reception facilities in HMP Barlinnie.

66. All of the above capital projects were delayed because of COVID-19 impact on the construction industry. The key projects affected by the pandemic this year include The Women’s National facility and the Community Custody Units. Both have been delayed as a direct result of the SG direction which paused the construction sector for a period of 12-weeks. This has meant that construction works have required to be undertaken over the winter period and a proportion of capital spend will now require to be pushed back into financial year 2021/22.

67. The construction of HMP Highland and HMP Glasgow have been delayed over the years. HMP Highland is at the invitation to tender stage. The procurement process to obtain a contractor for HMP Glasgow has started, with market soundings of potential main contractors who are on a Crown Commercial Services framework. The invitation to tender is planned for November 2021 and the contract of the construction to be awarded by Summer 2023.

68. It is anticipated that upcoming projects during 2021/22 and possibly 2022/23 may be impacted by ongoing COVID-19 cost pressures, however, these will be factored in, where possible, at the inception stage of any future project.

69. SPS has a history of capital budgets underspends as presented in the table below and indicates a need for a more robust capital projects planning.

Capital budgets (£’m)			
Year	2020-21	2019-20	2018-19
Original	67.8	47.5	16.2
SBR adjustment	-17.1	-35.7	3.1
Revised	50.7	11.8	19.3
Underspend at year end	-9.7	-0.5	-4.7

70. Uncertainties around the impact of pandemic and supply chain, combined with increased demand for major capital projects, present a higher risk that future capital costs may increase and further delays are possible. Management recognise these challenges and are currently developing and updating the capital plans.

## Prison population

71. SPS has a daily operating capacity of 7,669 prisoners and during the year 2020/21, the average number of prisoners was 7,349 (8,198 in 2019/20). The prisoner population was at c.7,400 in June 2021.

72. The decline is due to the suspension of court business during the pandemic and the implementation of the Coronavirus (Scotland) Act 2020 providing new powers enabling early release of some prisoners. A total of 348 prisoners were released in May 2020 based on this legislation.

73. Trends in prisoner numbers remain affected by a number of factors. The prisoners population continues to become more complex as a result of

the increasing proportion of those in SPS care who have to be accommodated separately due to their legal status (remand or convicted), sex, age or offending history, for example, those with a history of sexual offending and individuals with links to Serious and Organised Crime. Managing these complexities alongside the necessary regime restrictions has presented unprecedented challenges for the SPS in the past year. At the end of February 2021 these various sub-populations accounted for nearly 59% of the total prisoners population. In effect, while some of the prisons were operating above the design capacity at points during the year, others were operating significantly under capacity.

74. In the past SPS has worked with the SG Justice Analytical Services Team to project the prisoner population size and composition. However, this year, due to impact of COVID-19, there is an increased uncertainty in the prisoner population and this has made it more challenging for management to plan for financial and operational sustainability.

# 5. Financial management

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

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SPS operated within budget during 2020/21, reporting an underspend of £15.373 million in year.



SPS reported underspends in both its maintenance programme and capital programme in 2020/21. Given the ageing profile of the SPS estate such underspends should be reviewed and scrutinised to ensure no long term implications for the estate.

Further enhancements could be made to the budget setting and monitoring processes, although budget reporting is considered reasonable.

We found the systems of internal control to be adequate.



## Significant audit risk

75. Our audit plan identified a significant risk in relation to financial management under our wider scope responsibilities.

### Financial management: financial planning and budget management

The previous years' trend of decreasing underspend percentage has reversed in 2020-21 where the underspend increased to £15.373 million from £4.042 million in 2019-20. In addition, the underspend estimated at January 2021 was £3.5 million lower than the actual at 31 March 2021. The increased underspend and the movement in the last quarter of the financial year (mainly due to capital and estates maintenance slippages) indicate that SPS' actual resource outturn was not closely aligned to budget and that the forecasting process requires improvement.

For 2021/22 there exists a significant risk of ineffective financial management. With the increased uncertainty around the prisoners population fluctuations and its financial impact the effective budget and scenario planning will help SPS to manage its position and plan deliver services. SPS performed an extensive exercise for 2021/22 budgeting, to build the establishments and directorate budgets from the ground-up in order to address budget management issues.

*Risk identified during the audit year*

76. SPS performed a review of the Finance Structure to consider the issues and recommendations made in our prior year audits and review the options for redefining the current structure, reporting arrangements, capabilities and resources associated with the management of finances at SPS establishments. A further review of the corporate structure is ongoing and might impact on the finance structure.
77. For 2021/22 and to avoid the significant shifts from planning to final position, management have carried out additional work on pay including reviewing HQ vacancies and workforce planning arrangements at SPS establishments and are carrying out additional scrutiny of contracts with private prisons. In addition, an estimated 2021/22 forecast position was prepared in order to demonstrate where potential spends/underspends could materialise based on past trends. This included making a number of assumptions and estimates in relation to ex-gratia costs, pay underspends, an estimate of recruitment into vacant HQ posts, establishment workforce plans, and potential service credits for private prisons. This work will also help shape the forecasts going forward.
78. Over the last five years, SPS has repeatedly reported year end outcomes within budget, but the underspend this year is significantly higher. Budget setting and budget monitoring and reporting arrangements have been detailed within paragraphs 82 to 94 respectively.

## Financial performance

79. During this challenging year SPS achieved an underspend of £15.373 million. Total outturn for the year was £416.019 million against the SBR budget position of £431.392 million.
80. The underspend arose primarily as a result of slippage in the capital, pay and estate maintenance, of which £8.9 million relates to slippage and rephasing of the Women's National Facility and community custodial units.
81. The key revenue items of underspent included pay underspends of £1.244 million due to a high number of vacant operational posts, smaller staff compensation legal cases payments of £1million and the estate maintenance programme slippage of £1.950 million.



82. In 2020/21 the capital profiles were revisited to establish any known impact of the COVID-19 pandemic. SPS identified £17.1 million of capital underspend as a result of the disruption to on site construction services and it was returned to the SG as a part of the SBR exercise. This part of the capital budget was agreed with the SG to be re-phased to 2021/22 and does not form an additional budget for that year.
83. The post-SBR capital allocation for 2020/21 was underspent by the total of £9.7 million due to slippage in the key capital projects and assigned to the COVID-19 restrictions impact.
84. We have highlighted in previous years that SPS reported underspends against its capital allocation. Given the ageing profile of the SPS estate and the reported underspends on both the maintenance programme and capital programme such underspends should be reviewed and scrutinised to ensure no long term implications for the estate. We will continue to monitor the capital programme and outturn over the coming year.

### 2020/21 Performance against SBR budget

	Revised budget £million	Actual outturn £million	Variance £million
Total Departmental Expenditure Limits (DEL)	351.306	336.320	(14.986)
Total outside DEL Expenditure	78.993	78.428	(595)
Annually Managed Expenditure (AME)	1.093	1.271	178
<b>Total</b>	<b>431.392</b>	<b>416.019</b>	<b>(15.373)</b>

### Operating expenditure

85. Operating expenditure of £376.329 million incurred in year consisted £195,433 million (52%) of staff costs and £67.608 million (18%) of PFI service charges and prisoner escort service costs, with 30% of total operating expenditure therefore consisting of all other operating costs. This split is consistent with prior years.
86. Staff costs have increased by 4.7% compared with 2019/20 and other operating expenditure has increased by 1.4% in year. The largest contributing factor to the increase in staff costs is the 2021/22 pay award.
87. During the year SPS spent £12.8 million on COVID-19 related cost, of which most significant items include:
- £3.2 million on in-cell mobile phones;
  - £2.9 million on exceptional staff payments; and

- £2.4 million on prisoner escort contract.

### Budget setting

88. The SPS budget is set by the Scottish Government and the approach to financial planning is aligned with the Scottish Government's budget setting process. SPS is expected to manage its budget in accordance with the SPS Framework Document and the Scottish Public Finance Manual.
89. The SPS central finance team is responsible for the overall development of the annual budget with input from all Establishments and Directorates. However, due to the SPS governance structure it is the Interim Chief Executive who has responsibility for challenging submissions and holds ultimate authority as to what costs can and cannot be included.
90. Budgets are set based on the indicative funding allocation from the Scottish Government. On receipt of indicative funding levels, the central finance team create an annual budget, and issue

budget packs to all public establishments and HQ Directorates/Areas. The Finance Manager of each establishment is then responsible for setting an annual budget for their local area. Standard budget templates are used which prompt users to set out the main cost drivers for their area along with scope for identified efficiencies.

91. For 2020/21, SPS received a resource allocation of £374.4 million (£342.2 million excluding capital charges). Following the Autumn Budget Revision (ABR) and Spring Budget Revision (SBR), SPS received a total resource allocation for 2020/21 of £380.7 million (£348.5 million excluding capital charges). At the SBR, COVID-19 related changes were made and SPS requested additional £2.9 million to meet additional revenue cost and returned £17.1 million of the capital allocation due to rephasing of the capital plan.
92. As noted above, over the last five years SPS has repeatedly reported financial outcomes comfortably within budget. The prior years trend of decreasing underspend has reversed in 2020-21 where the underspend increased to £15.373 million from £4.042 million. In addition, the underspend estimated at January 2021 was £3.5 million lower than the actual at 31 March 2021 (see also paragraph 80) indicating weaknesses in the budget information being supplied to the finance team. SPS should review current internal forecasting processes in order to identify potential areas of improvement moving forward, particularly in relation to the capital and estates maintenance budgets.
93. For the 2021/22 resource budget, an extensive exercise was carried out to build the establishment and directorate budgets from the ground up, by getting budget holders to review their actual requirement irrelevant of past budget allocations. SPS will continue to build on this method of financial planning moving forward.

### **Budget monitoring and reporting**

94. The establishment Finance Managers complete monthly expenditure monitoring returns for the Operations Directorate and Financial Policy & Services, which are reviewed and used to prepare the overall monthly performance report. Variances in excess of £5,000 are subject to investigation.
95. The Head of Financial Policy and Services prepares the monthly financial monitoring reports

which are presented to the RMAC, EMG and the Advisory Board. The monitoring reports provide sufficient explanations for any significant variances to date and forecast against budget.

96. The Interim Chief Executive has introduced and chairs monthly budget meetings with Directors and HQ finance to review the financial position. Areas of concern can be identified and discussed at the meetings to improve accountability.
97. From our review of papers and regular attendance at RMAC, we note that financial monitoring reports are well received. The reports are considered to be succinct, logical and key points clearly set out for users' benefit.
98. However, the increased underspend of £15.373 million indicates that SPS' actual outturn was not closely aligned to budget, which indicates SPS should review current internal forecasting processes in order to identify potential areas of improvement moving forward.

### **Systems of internal control**

99. SPS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.
100. SPS has comprehensive financial regulations and policies in place, which are held within the shared network of SPS. Where variations in procedure are appropriate for an establishment, prison specific policies are constructed and held centrally. The Finance Manual is to be refreshed by autumn 2021.
101. The central finance team has experienced the pandemic impact, including having to support several new initiatives, adjusting to remote working (including a lack of IT equipment at the beginning of the year) and Covid related absences within the central finance team. The focus has been on supporting the organisation through the pandemic and maintaining business as usual. We are satisfied that the skills and experience of the current team are appropriate.
102. We also note that SPS plans to recruit temporarily an interim Director of Finance prior to the conclusion of the ongoing review of the corporate structure. However due to the short-

term nature of this position it may prove difficult to secure a suitable candidate.

103. SPS is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
104. In accordance with the Audit Scotland's briefing *Covid-19: Emerging fraud risks* we have assessed whether SPS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic and fraud and corruption in the procurement function. We found that SPS arrangements are appropriate.
105. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found SPS' arrangements for the prevention and detection of fraud and other irregularities to be adequate.

### National fraud initiative

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106. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
107. Participating bodies were required to submit data in October 2020 and received matches for investigation in January 2021. Investigation work is ongoing and the results recorded on the NFI system.

# 6. Governance and transparency

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

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SPS' senior leadership group, including the chief executive, continues to be appointed on the interim basis.

Interim arrangements put in place in the previous year in response to COVID-19 were still in place to enhance the decision making. Work is still ongoing to move the business back towards a normal operating position.

Internal audit had no head of audit during the year and has only been able to provide limited assurance over the governance and internal control arrangements at SPS. This outcome partly reflects the outcomes from an external review of the internal audit service which found that the service was not fully compliant with Public Sector Internal Audit Standards (PSIAS).

The COVID-19 pandemic created significant operational challenges for the prisons services which has continued to operate effectively during this difficult period. These uncertainties have impacted on the ability of management to progress the development of longer term corporate planning for the Service.

## Governance and transparency

### Governance arrangements

108. The Chief Executive is a member of the Advisory Board, which is supported and advised by Executive Management Group (EMG) and the Risk Monitoring and Audit Committee (RMAC). The Advisory Board is chaired by a non-executive director and the RMAC is chaired by an independent member. No significant changes have taken place in year to the overall governance structure or members of the Advisory Board and supporting committees and groups.
109. After the previous chief executive's retirement Teresa Medhurst was appointed as Interim chief executive on 30 March 2020. SPS ran a recruitment campaign for the new chief executive early in 2021, but it did not result in a permanent appointment. The interim chief executive was confirmed as continuing in role.
110. During 2020/21 SPS has experienced some stability in its Senior Leadership Group. There are interim Executive Directors in each of the three Directorates. However, that means that the entire SPS Leadership team comprise interim appointments.
111. SPS is currently procuring the services to carry out a review of the corporate structure. The purpose is to undertake a structural review to ensure that the organisation is fully aligned to the strategic intent and development of SPS and to make recommendations to the CEO on the structure, roles and responsibilities of the SPS directorates.

### Responding to COVID-19

112. The new governance arrangements resulting from Covid-19 SPS' governance structures enhancement continued this year. The interim arrangements were designed to expedite urgent decision making in a rapidly changing environment.
113. During the period of lockdown, Executive Directors and the Chief Executive met daily. The Executive Management Group continued to meet every 2 weeks. The Advisory Board met every 2 weeks by video conference and continued with its normal meeting schedule.
114. SPS established a National Corona Virus Response Group (NCRG) which, in the early

phases of the pandemic response, was chaired by SPS' Head of Health and Justice. As the pandemic progressed and SPS moved into phase 3 of its pandemic response, the chair of the NCRG became the responsibility of the Director of Operations. This continues to be the case. The NCRG provides the link between the strategic direction and SPS' operational estate, communicating with both internal and external stakeholders to translate and direct the strategic direction into operational policy, practice and procedure.

115. A Strategic Oversight Group (SOG), chaired by the Interim Chief Executive was established to oversee the NCRG and to provide a link with Scottish Government, National Health Service and other key strategic stakeholders to ensure that the pandemic is managed in line with SG and public health guidance.
116. Local Corona Virus Response Groups (LCRG) were also initiated at each establishment to co-ordinate the local response.
117. Work is ongoing to move the business back towards a normal operating position. SPS intend to steadily reintroduce planned activities over 6 monthly planning bursts. This will be aligned to the SG route map, but will be designed to fit within recognised corporate plan.

### Risk management

118. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk management arrangements helps bodies to make effective decisions and secure better use of resources.
119. SPS has an established risk management framework in place which sets out the risk management process and culture. Risk management reports are presented as a standing item to the RMAC and the Advisory Board are kept sufficiently abreast of developments.
120. Updates to the Corporate Risk Register ensure that the significant operational and financial challenges currently faced by the organisation are appropriately recognised within.

### Internal audit

121. An effective internal audit service is an important element of SPS' governance arrangements. SPS operates an in-house internal audit function (AAU).
122. Out of 20 audits originally planned, 10 were completed, 2 audits were cancelled because of COVID-19 and further 8 were dropped from the plan throughout the year. Of the completed audits 6 of gave reasonable assurance and 3 limited assurance (two audits were combined as one).
123. The operational plan consisted of 22 audits undertaken across the establishments. Of these, 10 were given substantial assurance and 5 reasonable assurance. The remaining 7 were not provided with a full assurance rating as the auditors were unable to obtain sufficient evidence due to the Covid-19 restrictions.
124. The Head of Audit retired in June 2020 and the assurance opinion for 2020/21 has been prepared on an exceptional basis. The Audit and Assurance Unit (AAU) provided a limited assurance opinion and stated a moderate exposure to weaknesses.
125. The opinion is based on the following factors:
- All senior management team positions are interim;
  - There is no director of finance role within SPS
  - The succession planning for non executive directors has only just commenced
  - The risk registers are of variable quality
  - Internal Audit was found to be non-compliant with PSIAS
  - SPS have not engaged with the Gateway Review process for its capital projects.
126. An external quality review of the Internal Audit function was commissioned by management during the year and highlighted a number of areas of non-compliance with the Public Sector Internal Audit Standards (PSIAS). This resulted in a limitation of scope being placed on the Internal audit activities which means that full reliance cannot be placed on the work undertaken. In response to these findings, the Chief Executive is considering a range of options for the future delivery and management of internal audit. As an interim measure, the SPS internal audit team has been supervised by the Scottish Government internal audit team until a decision can be reached on the future operation of internal audit.
127. We welcome the action taken by management to address known issues with the internal audit function and we will continue to monitor the performance of internal audit as part of our 2021/22 audit.



# 7. Value for money

**Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to SPS' own reporting of its performance.**



The refreshed Corporate Plan 2019-22 was published in 2019. The Plan is designed to be delivered over a three-year period whilst being flexible to accommodate change.

The previous delivery plan has been delayed with re-profiled actions incorporated into the Delivery Plan 2020/22 as and where appropriate.

SPS also report that Covid-19 pandemic had an impact on KPI figures for the reporting year. SPS' performance on six of the 17 indicators has improved compared with prior year, six indicators have deteriorated and five have not changed. The improving indicators related to the lower number of prison assaults and injuries. Deteriorating KPIs included purposeful and educational activities of which delivery was impacted by COVID-19 restrictions.

SPS in conjunction with the Scottish Government provided a response to Parliament on the report prepared by the Auditor General on the 2018/19 external audit. Observations include:

- Sickness absence rates have continued to decline in comparison with the previous years;
- Ex gratia payments have decreased in 2020/21; and
- The prison population decreased to low levels in May 2020, due to suspension in the courts business and Early Release legislation. It rose to c.7,400 in September 2020 and kept around this level up to June 2021.

## Value for money

### Corporate Plan 2020/21

- 128. The Corporate Plan 2019-22 was developed in response to the unanticipated challenges SPS faced in 2018/19. This included an increase in demand for prison places and a population that was becoming more complex along with associated financial challenges.
- 129. The Corporate Plan 2019-22 was published on 5 April 2019. The Plan is designed to be delivered over a three-year period whilst being flexible enough to accommodate change. In the Plan priorities are expressed through five Strategic Themes (Development, Engagement, Impact, Standards and Collaboration) and Outcomes. 23 Key Aims state explicitly what must be delivered in order to achieve each Outcome.
- 130. For each year of the Plan, SPS develop an Annual Delivery Plan (ADP). The ADP sets out the Essential Actions to be delivered during the course of the year in order to deliver its Strategic Outcomes.
- 131. Covid-19 delayed and re-profiled actions were reviewed and incorporated into the Delivery Plan 2020/22, which was developed in the year, as and where appropriate with timescales adjusted as necessary.
- 132. Quarterly performance monitoring and reporting to the executive management group and Advisory Board was maintained throughout the 2020/21 reporting year.

### Summary of performance in 2020/21

- 133. Due to the unprecedented population management pressures, combined with the associated financial challenges, ten of the 20 Essential Actions for 2019-20 were delivered in full with ten being delayed or reprofiled. Delayed and re-profiled actions were reviewed and incorporated into the Delivery Plan 2020/22 as and where appropriate. Timescales were adjusted where necessary to reflect the change in circumstances.
- 134. The overriding priority for the SPS was, and is, to ensure the continuity of safe and secure service delivery for those in its care and for those who work in its service. Through its recovery planning arrangements SPS intend to prepare a new prioritised delivery plan to ensure it continues to deliver best value in our prison system.

### SPS 2020/21 performance against its remaining actions

	Re-profiled actions
1	Develop and implement an electronic purchase to pay solution based upon the Scottish Government's PECOS product.
2	Develop and implement a staff engagement strategy
3	Develop a new suite of KPIs.
4	<p>Review the SPS Young Person's Strategy</p> <p>This has been incorporated into our Delivery Plan 2020/22 as:</p> <p><i>Develop a health and wellbeing strategy for those in our care that recognises the changing and more complex prison population and includes a specific focus on children and young people.</i></p>



<b>Re-profiled actions</b>	
5	<p>Develop a health and wellbeing strategy that recognises the challenges of the changing demographics of the prison.</p> <p>This has been incorporated into our Delivery Plan 2020/22 as:</p> <p><i>Develop a health and wellbeing strategy for those in our care that recognises the changing and more complex prison population and includes a specific focus on children and young people. s population.</i></p>
6	<p>Develop a Prisons Strategy that takes account of the changing demographics and operational demands.</p> <p>This has been incorporated into our Delivery Plan 2020/22 as:</p> <p><i>Work intensively with Justice and other partners, including third sector, to identify, develop and implement a range of policy and other solutions in order to achieve a sustainable prison population.</i></p>
7	<p>Develop a Framework for Engagement with service users.</p> <p>This has been incorporated into our Delivery Plan 2020/22 as:</p> <p><i>Develop a framework for engagement with Service Users as part of a more transparent and balanced evidence base for organisational improvement.</i></p>
<b>Delayed actions</b>	
1	<p>Develop a revised individual case management model</p> <p>This is specifically reflected in 2 Key Elements of the Delivery Plan 2020/22:</p> <p><i>Develop a new case management platform. (As a KE of Action 5. 'Digital Solutions').</i></p> <p><i>Implement a revised case management approach for women. As a KE of Action 10. 'Women's Strategy').</i></p>
2	<p>Review SPS Operational Structures and the activity day within prisons.</p> <p>This has been incorporated into our Delivery Plan 2020/22 as:</p> <p><i>Improve the design and delivery of prison services, drawing on the lessons learned from the COVID-19.</i></p>
3	<p>Embed the Operations Directorate Audit and Assurance Group into day to day prison management arrangements in order to improve the recording, management and monitoring of audit outcomes.</p> <p>Postponed. It will be rescheduled in due course through the Business Planning process, subject to the course of the continuing pandemic response.</p>

## Key performance indicators

135. The current KPIs are grouped to cover areas of security, safety, personal development, rehabilitation and progression. It should be noted that, although performance is compared against previous delivery in these measures, no annual targets are set against KPIs for individual prisons.
136. Work was undertaken in 2019/20 to review the existing KPIs and identify options for the development of a new suite. With regard to the existing KPIs, a report was considered by the SPS EMG which set out recommendations in respect of their retention, discontinuation or modification. Subsequently work commenced on the development of an Improvement Framework for SPS which aims to position SPS alongside leading edge public bodies in terms of its approach. This is reflected in the SPS Delivery Plan 2020/22.
137. This Improvement Framework will comprise several strands of activity; one of the pillars of which is the development of a suite of outcome focused indicators. Progress against these will be measured utilising a matrix approach in order to ensure triangulation of evidence.

impact, have impacted on the organisation's delivery against key operational performance indicators.

139. As included within Appendix 9a of the 2020/21 Annual Report and Accounts, SPS' performance on six of the 17 indicators have improved (see green colour coding), six have deteriorated compared with prior year (see red colour coding) and there has been no movement on the remaining five (see yellow colour coding).
140. SPS' main driver for this was adhering to Scottish Government and public health guidance throughout the pandemic. This included prevention of outbreaks, minimising public health harm and keeping people safe. SPS performance in these areas resulted in improvement of the indicators relating to the number of assaults and injuries in prisons.
141. The KPIs adversely affected relate to the purposeful activities and vocational employment targets. Achieving these is key to prevention and effective rehabilitation of offenders. However, we recognise that the performance in those indicators was impacted by the country wide COVID-19 restrictions. The table below sets out these results.
142. Full commentary on the managing of operational performance and associated KPIs can be found within the Performance Summary section of the SPS 2020/21 Annual Report and Accounts.

## 2020/21 Key Performance Indicators

138. The significant challenges faced by SPS during the year, with particular regard to the COVID-19

## Comparison of KPI performance for over the last three financial years

		2020/21	2019/20	2018/19
KPI1a	Extreme Risk Escapes*	0	0	0
KPI1b	Escapes at other supervision level*	0	0	0
KPI2a	Serious Prisoner on Staff Assaults**	8	12 (12)	10
KPI2b	Minor & No Injury Prisoner on Staff Assaults**	290	358 (401)	410
KPI2c	Serious Prisoner on Prisoner Assaults**	67	112 (125)	135
KPI2d	Minor & No Injury Prisoner on Prisoner Assaults**	1,388	2,892 (3,629)	2,994
KPI 3a	Purposeful Activity Hours	3,410,103	6,082,903	6,258,125
KPI 3b	Average Purposeful activity Hours per week per Convicted prisoner	14	19	20
KPI4a	% of education classes spent delivering literacy skills	35.8%	38.3%	36.0%

		2020/21	2019/20	2018/19
<b>KPI4b</b>	% of education classes spent delivering numeracy skills	27.9%	24.5%	20.8%
<b>KPI5a</b>	Vocational & Employment Related Qualifications	6,411	24,569	26,883
<b>KPI5b</b>	Vocational & Employment Related Qualifications at SCQF level 5 or above	143	1,526	1,781
<b>KPI6</b>	Employability Prospects Increased	-	-	-
<b>KPI7</b>	Reduced Substance Abuse ***	-	-	45%
<b>KPI8</b>	- % of ICM case conferences with CJSW in attendance	91%	88.1%	86.7%
<b>KPI9</b>	Average Annual Cost Per Prisoner Place****	£39,350	£38,213	£35,601
<b>KPI10</b>	Reducing Carbon Emissions*****	-	-	-

\* The SPS amended the definition and reporting process from 1 October 2019, therefore this is the first reporting year that the full year figures are based on this new definition. The new definition reflects the position that only those incidents that are recorded as having a confirmed Assault, either through an Orderly Room adjudication, and/or a charge that is recorded by Police Scotland will be treated as a KPI.

\*\*The data in brackets would have been reported if the SPS had not changed the definition of the KPI Assaults from 1 October 2019. This change was agreed by the EMG, and the Cabinet Secretary is aware of the change in definition. The new figures are recorded by the number of incidents and not by the numbers of people involved, unless it is a serious assault, where it is clearly defined, then it will be reported as more than 1. Also, perpetrator has to be found Guilty in Orderly Room, and/or incident reported to Police.

\*\*\* Annual Prevalence Testing did not take place in 2019-20 or 2020-21.

\*\*\*\* The average cost per prisoner place excludes capital charges, exceptional payments and the cost of the Court Custody and Prisoner Escort Contract. SPS publishes cost and performance information on the latter separately on its website.

\*\*\*\*\* A separate report is published on SPS website.

## Update on the 2018/19 audit of the Scottish Prison Service – Report prepared by the Auditor General for Scotland for Parliament

143. In 2018/19, the Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for the Scottish Prison Service. Those factors included Finances, Prisoner Population, Staffing, Performance and the Prison Estate.

144. The Parliament's Public Audit and Post Legislative Scrutiny (PAPLS) committee took evidence from the Auditor General, SPS and Scottish Government during 2019/20. SPS in conjunction with the Scottish Government has provided written responses to the PAPLS committee. Actions have been taken during the last two years to address some of these pressures as noted below:

### Sickness Absence:

145. Levels of absence within the SPS continue to be high although they have declined in comparison to the prior years. Progress has been made in reducing these numbers and the average

working days lost (AWDL) is consistently falling on a monthly basis within the performance year. Impact of COVID-19 is estimated to have increased the average days lost by 1.9 days.

146. The Average Working Days Lost (AWDL) to sickness absence per employee is detailed in the table below:

Average Working Days Lost to Sickness Absence	
2020/21	15.2
2019/20	15.4
2018/19	16.3

147. A new Attendance Management Policy, developed in consultation with trade unions, was published internally in March 2021. Due to the COVID-19 pandemic, SPS took the decision to postpone the introduction of the new policy until 5 April 2021.
148. The new policy has been developed to support a person centred and proactive approach to managing absence, taking account of all circumstances and providing opportunities to allow colleagues, as far as possible, to maintain attendance at work. What this means in practice is that the employee and line manager are expected to be far more active in considering what steps can be taken to maintain a healthy environment and discuss these at the earliest opportunity.
149. Excluding COVID-19 absence, the AWDL figure for 2020/21 is 13.3 days. During the initial stages of the pandemic, non-COVID related sick absence reduced significantly, however, whilst the annual figure is down on previous years, it was a concern to SPS that this absence increased significantly in the third quarter of 2020/21.
150. As SPS continues to support those affected by the pandemic, and also look more broadly to the future, SPS has committed as part of Equality Outcomes for 2020/22 to carry out activities which are designed and implemented to improve the Mental Health and Wellbeing of their employees. These activities will be informed by the needs of our workforce and guided by professionals including its Occupational Health service provider.

### Ex-gratia payments

151. To maintain service delivery, SPS continues to incur costs in terms of voluntary, non-contractual (ex gratia) payments to officers for working increased hours to cope with absences.
152. Ex gratia payments were introduced in 2004. Ex gratia payments are made in exchange for operational prison employees working over their contracted weekly hours in order to maintain service. In 1987 the Fresh Start agreement changed the contractual terms and conditions of employment for operational prison staff. As a result overtime is only payable to non-operational employees for working in addition to contractual hours.
153. In 2020/21, SPS made £4.026 million in ex-gratia payments; a decrease of £1.737 million in comparison with the prior year.

Ex gratia payments	
2016/17	£2.149million
2017/18	£2.574million
2018/19	£4.247million
2019/20	£5.763million
2020/21	£4.026million

154. The decrease in the payments was largely due to the implementation of a truncated 'core day' regime, delivering essential critical services only due to COVID19.

### Capacity

155. SPS has a daily operating capacity of 7,669 prisoners and during the year 2020/21, the average number of prisoners was 7,349. In quarter one, the Early Release and the reduction in court activity had the effect of reducing the overall prison population from a high of 8,123 to 6,829 by 29 May 2020. However, by the end of the financial year the weekly average population had increased to c.7,400.
156. This trend may continue and the numbers of people in custody may increase significantly, bringing with it the added complication of delivering services whilst adhering to physical distancing requirements. However, the uncertainty of the impact of COVID-19 makes prediction more challenging.

157. Around 26% of the 348 individuals released through the Early Release scheme (introduced by the Scottish Government regulations) in May 2020 were back into custody by September 2020.

SPS Chief Executive and Directors are all interim appointments.

165. These interim measures may be reassessed upon the conclusion of successful Scottish Government led campaigns to recruit a new Chief Executive and associated senior civil service posts.

### Financial sustainability

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158. The Scottish Parliament approved SPS budget allocation of £460.2 million (£427.4 million excluding capital charges). This is an increase of £18 million (4%) on the 2020/21 opening budget and an increase of £28.8 million (7.8%) against the 2020/21 Revised budget (Spring Budget Revision).

159. The most recent financial update / budget monitoring position prepared by SPS notes that there is a maximum funding gap of £14.5 million in 2021/22; of which £4 million relates to private contracts inflation, £3 million to virtual courts requirements and £2.7 million to COVID-19. SPS expects to reduce this gap to £8 million based on their most likely scenario estimates prepared recently.

160. During the year, the new SPS' leadership team priority was to deal with managing the pandemic and, as a result, revising and updating the existing Medium Term Financial Strategy (MTFS) has been moved to March 2022.

161. During the challenging 2020/21 year, SPS reported an underspend of £15.373 million. Total outturn for the year was £416.019 million against the SBR budget position of £431.392 million.

162. £17.1 million of the capital funding was also surrendered to Scottish Government relating to the COVID-19 re-phasing of the development of the prison estate.

### Governance

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163. SPS is committed to developing its people and senior leaders and is committed to providing secondment opportunities which benefit individual staff, the SPS and the broader civil service cadre. This presents great opportunities for the SPS to suitably develop its existing workforce and draw on different skillsets, knowledge and experience.

164. As a result of this commitment, and the retirement of the previous Chief Executive, the

# 8. Appendices

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## Appendix 1: Respective responsibilities of SPS and the Auditor

### Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### In preparing the annual report and accounts, Chief Executive, as Accountable Officer is required to:

- apply on a consistent basis the accounting policies and standards approved by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual (the 2020/21 FReM) have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that SPS will continue to operate; and
- ensure the regularity of expenditure and income.

#### The Accountable Officer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor responsibilities

#### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of SPS' affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM ;
- they have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
- SPS has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- in all material respects 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 Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with

**We audit the annual report and accounts and give an opinion on whether:**

- the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by SPS to provide any non-audit services during the year.

## Audit Team

One of our External Audit Managers, Stacey Law, left in February 2019 to join SPS' finance team at group head level. Stacey previously acted as an Assistant Manager on the 2016/17 SPS audit. During the 2017/18 audit Stacey had involvement in the planning stage and then undertook a secondment to Scottish Government's Health Department. Stacey had no involvement in the 2018/19 audit. Stacey is well known to the entire external audit team.

We have considered the potential resulting independence issues in accordance with FRC's Ethical Standards. We have identified the following potential threats to our independence: self-interest, familiarity and intimidation. We have responded to each of these threats by implementing appropriate safeguards.





### Confirmation of independence

We confirm that we comply with FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets, SPS, its Advisory members and senior management that may reasonably be thought to bear on our objectivity and independence.

Our action plan details the weakness and opportunity for improvement that we have identified during our audit.

### Action plan grading structure

The recommendation has been rated to help SPS assess the significance of the issue and prioritise the action required.

The rating structure is summarised as follows:

Grade	Explanation
<b>Grade 5</b>	Very high risk exposure - Major concerns requiring immediate attention.
<b>Grade 4</b>	High risk exposure - Material observations requiring management attention.
<b>Grade 3</b>	Moderate risk exposure - Significant observations requiring management attention.
<b>Grade 2</b>	Limited risk exposure - Minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point.

## Appendix 2: Follow up of prior year recommendations

### 1. Sources of estimation uncertainty - sensitivity analysis

Initial rating	Issue & recommendation	Previous management comments
<p><b>Grade 2</b></p> <p><b>Current status</b></p> <p><b>Closed</b></p>	<p><b>Issue</b></p> <p>IAS 1 'Presentation of Finance Statements', requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.</p> <p>SPS has disclosed in its financial statements that 'the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts' and has therefore not disclosed any sensitivities on the property valuations.</p> <p><b>Risk</b></p> <p>There is a risk of non-compliance with accounting standards.</p> <p><b>Recommendation</b></p> <p>In future years, we would encourage SPS to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the any sources of estimation uncertainty.</p>	<p><b>2019/20 comments</b></p> <p>Accepted – in years where judgements are made about the any sources of estimation uncertainty – sensitivity analysis will be carried out.</p> <p><b>Responsible officer:</b></p> <p>Head of Financial of Policy &amp; Services</p> <p><b>Implementation date:</b></p> <p>Immediate</p> <p><b>2020/21 comments</b></p> <p>In the 2020/21 draft valuation report, the District Valuer advised "Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards." On that basis no sensitivity analysis was undertaken in 2020/21. The valuation report was made available to audit during the course of the audit.</p> <p><b>Responsible officer:</b> Head of Financial Policy &amp; Services</p> <p><b>Implementation date:</b> Immediate</p>

## 2. IT controls

Initial rating	Issue & recommendation	Previous management comments
<p><b>Grade 2</b></p>	<p><b>Issue</b></p> <p>The following control weaknesses were identified.</p> <ul style="list-style-type: none"> <li>• Password complexity requirements are not currently enabled;</li> <li>• SPS is not fully aware of the personal information held;</li> <li>• Windows 7 is used by SPS (including Windows 10 and Linx) and from January 2020 this package will no longer be supported; and</li> <li>• Backups are taken daily however there is no regular programme for testing backups.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Weak password policy increases the opportunity for fraud and data loss;</li> <li>• Risk of non-compliance with GDPR;</li> <li>• Unsupported systems are more vulnerable to cyber-attacks; and</li> <li>• Risk to loss of information if systems were to become corrupt and a viable back up is not available.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• SPS implement c complexity requirements such as alphanumeric requirements in order to avoid users from setting simple passwords;</li> <li>• A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold;</li> <li>• SPS start upgrading operating systems to Windows 10 where</li> </ul>	<p><b>2019/20 comments</b></p> <p><b>Recommendation 1</b></p> <p>SPS already implement alpha numeric requirements for SPIN user passwords as is recommended. In addition, users are required to change these on a regular basis. (3 monthly intervals)</p> <p><b>Implementation date:</b></p> <p>Complete</p> <p><b>Recommendation 2</b></p> <p>Compilation of a comprehensive information register has been delayed by a lack of resource and the COVID-19 pandemic. We are still aiming to have a high level information asset register completed by March 2021.</p> <p><b>Implementation date:</b></p> <p>March 2021</p> <p><b>Recommendation 3</b></p> <p>The windows 10 rollout has in general gone well and the deployment at the establishments completed were done quickly once on site. The majority of Establishments have been completed.</p> <p>Additionally, in many cases Windows 10 laptops have replaced desktop machines, largely as part of the Covid 19 response.</p> <p>The following establishments remain for Win 10 upgrades, Grampian, Greenock, Inverness, Dumfries, Cornton Vale and the remainder of HQ. DS assess this requires 750 units. There will be a requirement to buy additional units (or redeploy older but still compliant equipment) which needs a decision quickly to allow us to recommence. The rollout is just over 75% complete as at Jun 2020.</p> <p><b>Implementation date:</b></p> <p>June 2020 to March 2021</p>

this has not been done already;  
and

- Backups are tested regularly in order to gain assurance that data could be retrieved if required.

**Recommendation 4**

Systems are backed up, but a restore is tested only when it is required through some sort of issue.

A full recovery of a system should occur, but would require the application owner to carry out the majority of the testing, as Digital Services are not placed to determine whether (say) all aspects of PR are working as expected.

**Implementation date:**

Complete

**Responsible officer:**

Director of Operations, Operations Directorate

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Current status	Management response 2020/21
<b>On-going</b>	<p><b>Recommendation 2</b></p> <p>Slippage has occurred on this work as a result of the pandemic and the retirement of a key member of staff. The Information Asset register is currently 75% complete.</p> <p><b>Implementation date:</b></p> <p>Summer 2021</p> <p><b>Recommendation 3</b></p> <p>Roll out completed by 31 March 2021.</p> <p><b>Implementation date:</b></p> <p>Complete</p>

### 3. Ex gratia claims

Initial rating	Issue & recommendation	Previous management comments
<p><b>Grade 3</b></p>	<p><b>Issue</b></p> <p>Our testing of ex gratia claims identified five out of ten claims could not be reconciled back to source documentation.</p> <p>There is a risk of error and duplicate payments being made despite the checks being undertaken by line managers and senior line managers.</p> <p><b>Risk</b></p> <p>There is risk that erroneous ex gratia payments are paid.</p> <p><b>Recommendation</b></p> <p>SPS reviews the required checks by line managers and senior managers before ex gratia claims are approved. We would also recommend that refresher training is provided to operational staff making ex gratia claims, line managers and senior line managers.</p> <p>SPS undertakes a reconciliation of ex gratia payments to source documentation.</p>	<p>The two tier assurance from our Line Managers and Senior Manager designate has helped to be an effective means in validating ex gratia claims. Furthermore, the E-HR system helps to ensure that duplicate payments are stopped before being processed into individuals' bank accounts. However, we recognise that the potential for erroneous payments exist in a human process. We shall commission a review of policy, in conjunction with policy owners Corporate Services that helps to identify any steps SPS can take to improvement effectiveness in ex gratia payments. This will include consideration of whether training refresher is required to our Management staff group.</p> <p>We will review the completeness and accuracy of ex gratia payment with reference to source documentation.</p> <p><b>Responsible officer:</b></p> <p>Director of Operations, Operations Directorate and CEO Office</p> <p><b>Implementation date:</b></p> <p>March 2020</p> <p><b>2019/20 comments</b></p> <p>We found for one out of a sample of 31 tested that authorisation of the claim was not in place.</p> <p><b>Management response:</b></p> <p>An internal review of the Ex-gratia Payment System was carried out. This was commissioned by the then Chief Executive Colin McConnell, who retired from the SPS in March 2020.</p> <p>The work however has been interrupted by the Covid-19 outbreak. As a result, the Short Life Working Group has not yet concluded and made recommendations to the new Chief Executive.</p> <p>An initial report by the Short Life Working Group will be produced in late Autumn for consideration by the Interim Chief Executive.</p> <p><b>Responsible officer:</b></p> <p>Director of Corporate Services</p> <p><b>Implementation date:</b></p> <p>March 2021</p>



Current status	Management response – 2020/21
<p><b>On-going</b></p>	<p><b>Management response</b></p> <p>In response to the COVID-19 pandemic, SPS temporarily changed the way in which ex-gratia claims were submitted for processing in March 2020. This decision paused the work of the short life working group that had been set up to review the ex-gratia payment process.</p> <p>Pay related claims are now submitted manually by each establishment management team on a monthly basis directly to the SPS pay team. The previous process that utilised e-HR for ex-gratia claims has not yet been reinstated and SPS are embarking on an ambitious HR digitalisation journey that will transform the way in which HR services are delivered across the organisation. The initial priority is to implement a new system and process for the management of ex gratia. The revised system will address the concerns previously highlighted in past audits and provide a more robust assurance process around the management of ex gratia.</p> <p><b>Responsible officer:</b></p> <p>Director of Corporate Services</p> <p><b>Implementation date:</b></p> <p>Spring 2022</p>

## 4. Internal audit

Initial rating	Issue & recommendation	Previous management comments
<p><b>Grade 2</b></p>	<p><b>Issue</b></p> <p>AAU progress reporting to the RMAC in year did not provide a sufficiently clear link back to the annual plan, in part as a result of the significantly high number of audits taking place.</p> <p>Further, the RMAC did not have sufficient sight of progress against the implementation of recommendations raised by AAU.</p> <p>Our review of the AAU annual plan against the corporate risk register (as at the time of developing the plan) identified seven risks on the register that did not appear to be addressed by the plan. Further, for 33 of the 54 reviews (control areas) identified in the plan, the relationship between the scope of the review and the corporate risk to which the work had been linked was not clear.</p> <p><b>Risk</b></p> <p>There is a risk that the RMAC is not kept sufficiently informed of progress and</p>	<p>The CEO, RMAC Chair and Head of Internal Audit will ensure that the annual audit plan is reflective of the priority risks of the organisation and the requirements to maintain operational compliance.</p> <p><b>Recommendation 1 –Progress Reports</b></p> <p>For 2019-20, progress reporting to RMAC will be reviewed with clearer read across from the Audit Plan to the interim and annual report submitted to RMAC.</p> <p><b>Implementation date:</b></p> <p>December 2019</p> <p><b>Recommendation 2 - Development of a Tracker</b></p> <p>Prior to this recommendation being made, development of an improved tracker was underway to allow more effective monitoring of progress in delivering AAU assignments. This area will be further developed along the lines of the tracker system operating successfully in the Operational Audit side of the business.</p> <p><b>Implementation date:</b></p>

outcomes, restricting their ability to scrutinise and challenge effectively.

There is a further risk that the work undertaken by AAU is not sufficiently targeted to address the risks and meet the needs of the business.

**Recommendations**

AAU progress reporting to RMAC should be further enhanced to provide a clearer link back to the agreed annual plan.

The RMAC should be provided with a tracker for higher risk recommendations as identified by AAU to allow more effective monitoring of progress.

AAU must ensure that their annual audit plan is better aligned to address corporate risk, particularly in light of the significant operational and financial challenges facing the business. Where work is not planned against any corporate risk, the RMAC should be provided with sufficient commentary to support this decision.

December 2019

**Recommendation 3 - Alignment of the Audit Plan with Corporate Risk Register**

For the 2018-19 year, some risks appearing in the corporate risk register were fairly broadly based and did not lend to being mapped back to specific audit assignments, particularly financial audits. In future audit plans, (2020-21) we will mention which planned audit assignment maps back to a corporate risk and if the assignment is not associated with a specific corporate risk, then the reason for it being carried out will be articulated to RMAC.

**Responsible officer**

Head of Audit & Assurance

**2019/20 comments**

The SPS are in the process of commissioning an external organisation to undertake a thorough review of internal audit within the SPS. This review will consider the recommendations within this report as part of this review and the expected outcome should include:

- An assessment of how well internal audit functions conform to the International Standards.
- An evaluation of performance in respect of the internal audit charter and expectations of the Advisory Board, the Risk Monitoring and Audit Committee and the Executive Management Group.
- The identification of opportunities to improve performance and increase the value of internal audit to the organisation

The Internal Audit Review is anticipated to be completed later in the year.

**Responsible officer:**

Head of Corporate Risk and Change

**Implementation date:**

Summer 2021 (depending on scope and scale of recommendations – this may need to reviewed).

Current status	Management response – 2020/21
On-going	The report produced by BDO covered a wide range of recommendations on Internal Audit (IA) which still needs to be considered to determine the strategy going forward. As an interim measure

Scottish Government Directorate for Internal Audit & Assurance has recently been appointed to provide the SPS IA function with strategic support (at SCS level) and through the temporary appointment of a Head of Internal Audit role. The priority is to support SPS with delivery of their agreed 2021/22 audit plan.

**Responsible officer:**  
Head of Corporate Risk and Change

**Implementation date:**  
Spring 2022

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## 5. Financial Management

Initial rating	Issue & recommendation	Management comments
<p><b>Grade 3</b></p>	<p><b>Observation</b> SPS' 13 Finance Managers are directly accountable to the Operations Directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office. Limited assurance financial control reviews were identified by internal audit in 2016/17.</p> <p><b>Recommendation</b> In conjunction with movement in the governance structure in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs.</p> <p>SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective.</p>	<p>HQ Finance has provided resource to mentor a number of Finance Managers. Tri -Directorate work is on-going regarding the management and performance assessment of Finance Managers in prisons.</p> <p>SPS has implemented a number of actions:</p> <ol style="list-style-type: none"> <li>1. A series of pre audit support visits were instigated and undertaken by a member of the AAU.</li> <li>2. A quarterly finance managers' meeting has been formalised.</li> <li>3. To further support the management of finances throughout establishments, two mentoring programmes have been established- one for newly appointed Finance Managers and one for Accounts Managers who are temporarily acting into this role. A corporate job description has been introduced. This outlines the need for a minimum of an HND Accountancy or equivalent qualification.</li> <li>4. The CEO has instructed a Finance Structure Review (FSR) be undertaken, led by a member of the CEO's Office. This action is underway with a project plan being devised and critical dates identified.</li> </ol> <p><b>Responsible officer:</b> Head of Corporate Risk and Change</p> <p><b>Implementation date:</b> 31 March 2018</p> <p><b>2019/20 comments</b> The Head of Corporate Risk and Change is taking forward this action in conjunction with the Operations Directorate and the Head of Finance and Policy Services.</p> <p>Progress is being made and the review is on target to conclude before 31st March 2021.</p> <p>The purpose of Finance Structure review is to consider the issues and recommendations made and review the options for redefining the current structure, reporting arrangements, capabilities and resources associated with the management of finances at SPS establishments.</p>

Initial rating	Issue & recommendation	Management comments
		<p>The objective is to reduce the number of financial non-compliance issues and to strengthen financial governance and assurance.</p> <p><b>Responsible officer:</b> Head of Corporate Risk and Change</p> <p><b>Implementation date:</b> 31 March 2021</p>

Current status	Management response 2020/21
<b>On-going</b>	<p>A draft report was produced at the end of 2020 for consideration by the Interim Chief Executive however due to the post-holder leaving the organisation and a delay in the recruitment campaign as a result of COVID, there has been no capacity to progress this work at the moment. Interim arrangements are currently being progressed to appoint a Temporary Director of Finance to provide strategic oversight and input at SCS level for the finance function and to support any wider structure review undertaken.</p> <p><b>Responsible officer:</b> Head of Corporate Risk and Change</p> <p><b>Implementation date:</b> Spring 2022</p>

## 6. Value for money

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b> Scottish Government KPIs reported in the annual performance report do not feed into the strategic priorities of SPS' Corporate Plan. The KPIs are agreed and required by the Scottish Government but have not been revised in several years. These KPIs remain unlinked to the success/outcome indicators within the new 2017-20 Corporate Plan.</p> <p><b>Recommendation</b> SPS should conduct an exercise in conjunction with the Scottish Government to refresh the KPI trackers reported, and link appropriately to the 2017-20 Corporate Plan Success Outcomes.</p>	<p>Proposals for the review of KPIs were discussed by SDB on 5 October 2017 and agreed. Following on from the meeting, a critical path is being prepared and it is anticipated that the review process will formally commence early in 2018. The proposals were discussed and agreed by EMG on 13 December 2017. Advisory Board advised of review on 24 January 2018. Directors were invited to nominate representatives to a KPI Review Reference Group in February 2018. The Director of S&amp;I will liaise with Scottish Government Directorate for Justice regarding Scottish Government representation. The action relates to the commencement of the review process and the review process will have formally commenced and the action completed by the due date of 31 March 2018. However, the work of the Review Group will continue throughout 2018. It is</p>

Initial rating	Issue & recommendation	Management comments
		<p>anticipated that proposals will be presented to EMG for consideration in December 2018.</p> <p><b>Responsible officer:</b> Director of Strategy and Stakeholder Engagement</p> <p><b>Implementation date:</b> 31 December 2018</p> <p><b>2018/19 comments</b> The review has progressed through 2018/19. Work has been overseen by a KPI Advisory Group comprising senior representation from across SPS and the Scottish Government. Extensive consultation and engagement activity has taken place including a Knowledge Exchange Event in two parts; focus groups with staff and those in our care; and engagement with Third Sector representatives at a meeting of the Criminal Justice Voluntary Sector Forum. It is anticipated that outline proposals will be presented to the Chief Executive at the end of March 2019 with a view to developing the new set of indicators in 2019/20 linked to the Strategic Themes and Outcomes set out in the new Corporate Plan 2019/22.</p> <p><b>Responsible officer:</b> Director of Strategy and Innovation</p> <p><b>Implementation date:</b> 2019/20</p> <p><b>2019/20 comments</b> Work was undertaken in 2019-20 to identify options and principals for the development of a new set of indicators. A report on this was considered by the EMG in February 2020.</p> <p>As a result of that report, it was agreed that work should be taken forward to formulate proposals for a new set of KPIs, based on the following principals:</p> <ul style="list-style-type: none"><li>•The KPIs should be rebalanced to include measures which are more qualitative and outcome focused and better reflect the experience of living and working in prisons. Therefore, some existing indicators should continue - particularly those focusing on safety</li></ul>

Initial rating	Issue & recommendation	Management comments
		<p>and security while others should be re-formulated or removed entirely.</p> <ul style="list-style-type: none"> <li>•KPIs should be better aligned to HMIPS monitoring and inspection standards in order to promote consistency in reporting.</li> <li>•Wherever possible, the existing data sets should be used to avoid additional burdens on systems or staff resources.</li> </ul> <p>We are continuing work to develop more qualitative measures that could underpin a new set of KPIs. However, this work has been suspended since the Covid-19 outbreak and will recommence as soon as circumstances and resources permit. It would remain our intention to have new KPI proposals during 2022.</p> <p><b>Responsible officer:</b> Director of Strategy and Stakeholder Engagement</p> <p><b>Implementation date:</b> March 2022</p>

Current status	Management response 2020/21
On-going	<p>This work will form part of the new SPS Improvement Framework which is set out in the SPS Delivery Plan 2020/22 - Action 9.</p> <p>An indicative timeline of March 2022 has been set for the development of new Outcomes and Indicators. This work will be progressed in tandem with the development of a new Justice Strategy for Scotland to ensure outcomes flow from and support national objectives for custodial care and SPS is already fully engaged in these discussions with SG colleagues.</p> <p><b>Responsible officer:</b> Director of Strategy and Stakeholder Engagement</p> <p><b>Implementation date:</b> Spring 2022</p>



## 7. SPS Finance Policy and Manual

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b> There is risk that the SPS Finance Manual does not reflect up to date practices, which could result in inconsistent and/or inappropriate procedures and controls being operated.</p> <p><b>Recommendation</b> We recommend SPS undertakes a full review of the manual, and continues to review content on a timely basis to ensure it remains appropriate and reflects current practice.</p>	<p>Financial Policy and Services will continue the regular review of the FP&amp;GM and will carry out a full review by 31 March 2019.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 31 March 2019</p> <p><b>2018/19 comments</b> A full content review has been completed and updates are currently work in progress. There have been significant staff changes in year impacting on progress, with chapters being prioritised for review throughout the year.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 31 March 2020</p> <p><b>2019/20 comments</b> The refresh of the Financial Policy &amp; Guidance Manual is underway and considerable progress has been made however this has been delayed due to resourcing constraints within the finance team for a significant part of the year.</p> <p>This continues to be a priority, but the fluctuating demands on the organisation as a result of Covid-19 may result in further delays.</p> <p><b>Responsible Officer:</b> Head of Financial Policy &amp; Services</p> <p><b>Implementation Date:</b> Summer 2021</p>

Current status

Management response 2020/21

**On-going**

The refresh of the Financial Policy & Guidance Manual is underway and considerable progress has continued to be made however this has been impacted due to Covid-19.

This continues to be a priority but the ongoing resourcing constraints within the finance team may result in further delays.

**Responsible Officer:**  
Head of Financial Policy & Services

**Implementation Date:**  
Autumn 2021

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