



Scottish Prison Service

2015/16 Annual audit report to Members and the Auditor General for Scotland

June 2016

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Angela Cullen, Assistant Director, Audit Scotland is the appointed external auditor of Scottish Prison Service for the period 2014/15 to 2015/16.

This report has been prepared for the use of Scottish Prison Service and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.

Financial management and sustainability

- The total underspend in 2015/16 was £33.1 million against a budget of £360.8 million. There was an underspend of £34.9 million against the capital budget - £30.0 million of this relates to the budget for the new female prison at Inverclyde, which will no longer be built. Total net operating expenditure was overspent by £1.8 million. This was a result of an underspend of £4.3 million in net resource expenditure which was offset by a credit overspend in annually managed expenditure.
- The total budget for 2016/17 has decreased by £6.7 million to £354.1 million. The operating budget of £344.1 million has increased by £20.8 million. The capital budget of £10.0 million is significantly lower than in 2014/15. The only major capital project in progress during 2016/17 is preparations for implementing the revised strategy for the management of women offenders. Ongoing budget pressures mean that SPS will need to plan to ensure it is financially sustainable in the longer term.
- We have concluded that SPS has satisfactory financial management arrangements in place.

Governance and transparency

- SPS has made good progress in addressing the findings in our review of governance arrangements and implemented the majority of our recommendations during 2015/16.
- Significant improvements in risk management arrangements were implemented during 2015/16.
- Systems of internal control within SPS headquarters operated effectively during 2015/16 but there is scope to improve internal controls within individual prisons.
- The internal audit function (AAU) is effective but we have identified areas for improvement.
- SPS could improve transparency by making Board minutes and papers and the register of interests more accessible.

Value for money

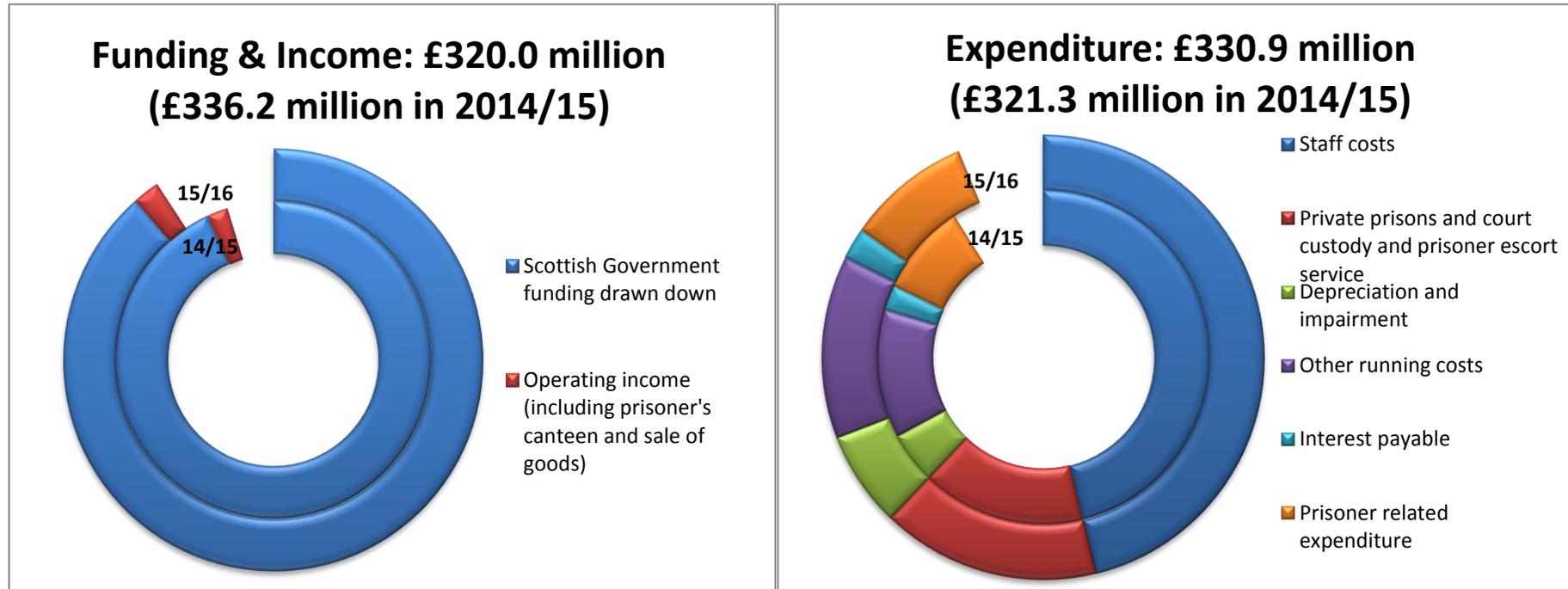
- SPS has made good progress in implementing the recommendations from our review of the prison estate capital investment programme. Formal governance arrangements have been agreed for the women's strategy but there is no long term capital investment strategy.
- Good progress has been made in improving workforce planning arrangements. Further improvements are needed to ensure that SPS is able to deliver services in the longer term and implement the changes arising from the organisational review.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Scottish Prison Service (SPS).
2. The management of SPS is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - publishing with their financial statements an annual governance statement and a remuneration and staff report
 - preparing a Scottish Government consolidation pack.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. The local reports are summarised at [appendix II](#) and the national reports relevant to SPS at [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that SPS understands its risks and has arrangements in place to manage them. The Risk Management and Audit Committee (RMAC) should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of SPS will be Scott Moncrieff. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

2015/16 financial statements



Cash funding from the Scottish Government comprises 98% of total income and funding. SPS draws funding from the Scottish Consolidated Fund to meet its cash requirements during the financial year. The funding figure excludes movements in working capital and non-cash items such as depreciation. The funding and income figure varies from the total revised budget allocation of £360.8 million. The total budget is used to determine the annual under or overspend.

Expenditure in 2015/16 was £330.9 million, an increase of £9.6 million compared to 2014/15 (£321.3 million). The main increase related to depreciation and impairment costs (+£6.8 million). These are technical accounting adjustments which do not impact on cash flows. £5.5 million of this increase was due to a reduction in net impairment reversals from £16.3 million in 2014/15 to £10.8 million in 2015/16.

Audit of the 2015/16 financial statements

Audit opinions

<p>Financial Statements</p>	<ul style="list-style-type: none"> • The financial statements of SPS for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. • We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
<p>Regularity</p>	<ul style="list-style-type: none"> • In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance. • The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.
<p>Other prescribed matters</p>	<ul style="list-style-type: none"> • The part of the remuneration and staff report that has been audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made by the Scottish Ministers. • The information given in the performance report is consistent with the financial statements.

Submission of financial statements for audit

11. We received the unaudited financial statements on 20 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 10 June 2016.

Overview of the scope of the audit of the financial statements

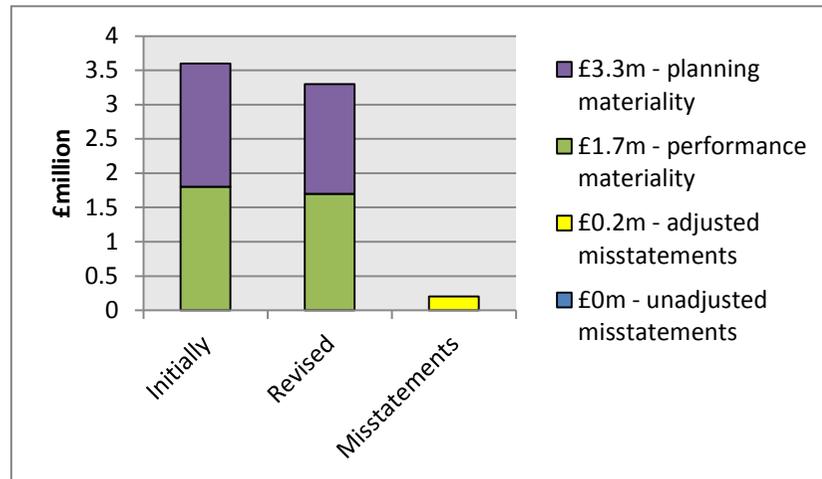
12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our annual audit plan presented to the RMAC on 14 March 2016.
13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed notional fee for the audit was £96,390 and, as we did not carry out any work additional to our planned audit activity, the notional fee remains unchanged.
14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks that had the greatest effect on the audit strategy, resources and effort. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance.

15. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
16. Our audit involved obtaining sufficient evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. We assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our annual audit plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £3.3 million (1% of gross expenditure).
19. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £1.7 million (i.e. 50% of materiality). Planning and performance materiality is illustrated in Exhibit 1 below. We report all misstatements greater than £40,000.

Exhibit 1: Materiality



Source: 2015/16 Annual Audit Plan

Evaluation of misstatements

20. We did not identify any misstatements during the audit which exceeded our misstatement threshold. SPS identified one misstatement in the unaudited financial statements. This misstatement related to errors arising from the processing of payroll by the payroll provider. The error was adjusted by management in the audited accounts with staff costs and other payables increasing by £0.2 million.

Significant findings from the audit

21. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
 - The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

22. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Strategy for the management of women offenders

23. In February 2016 the Cabinet Secretary for Justice announced that the closure of HMP Cornton Vale would begin in summer 2016. Plans for the previous women’s strategy, which included a new women’s prison in Inverclyde and the development of a women’s regional unit at HMP Edinburgh, were discontinued in January 2015. The remaining lives of the house blocks earmarked for closure at HMP Cornton Vale were revised from four years as at 31 March 2015 to six months as at the date of the closure announcement. The value of these blocks has been estimated by apportioning a percentage to the total value of the prison building and an impairment of £1.0 million was charged to the Statement of Comprehensive Net Expenditure. Expenditure of £0.4 million in respect of the women’s unit at HMP Edinburgh, which was included in assets under construction at 31 March 2015, has also been charged to the Statement of Comprehensive Net Expenditure as an impairment.

Resolution: We carried out sample testing of land and building valuations, including consideration of the valuation basis for the women’s estate. On the basis of the evidence available, we are satisfied that the estimations applied to value the site at HMP Cornton Vale are reasonable and the impairment in respect of the house blocks to be closed in summer 2016 has been correctly calculated and charged to the Statement of Comprehensive Net Expenditure. We are also content that the impairment charged to the Statement of Comprehensive Net Expenditure in respect of the women’s unit at HMP Edinburgh is correct.

HMP Aberdeen

24. SPS transferred the surplus land at the former HMP Aberdeen to the Scottish Government on 1 October 2015. SPS received no proceeds for the land which was independently valued prior to the transfer at a market value of £4.5 million. In accordance with guidance from the Scottish Government, SPS has not recognised any profit or loss related to the transaction. It is shown as a transfer from the General Fund in the Statement of Changes in Taxpayers’ Equity.

Resolution: We are satisfied that SPS has complied with guidance from the Scottish Government and the nature of the transaction has been adequately disclosed in the financial statements.

Significant findings from the audit in accordance with ISA260

Financial performance

25. SPS reported an underspend of £33.1 million against a budget of £360.8 million for 2015/16. The majority of this underspend arose from a capital underspend of £34.9 million and a net overspend of £1.8 million in respect of operating expenditure. The net overspend in operating expenditure was largely due to a credit overspend of £6.0 million relating to provisions and impairments (AME). The capital budget included an allocation of £30.0 million for the development of the women's estate. The Cabinet Secretary for Justice announced in January 2015, that plans for a women's prison in Inverclyde would not go ahead. SPS offered to return the £30.0 million budget together with a further £6.4 million of unallocated capital to the Scottish Government as part of the bi-annual budget revision process. The Scottish Government redeployed £2.5 million of the total unallocated capital budget that SPS identified.

Resolution: We reviewed correspondence between the Scottish Government and SPS in respect of the unallocated capital budget and are satisfied that financial performance disclosures are appropriate.

Significant findings from the audit in accordance with ISA260

Impairment reversals

26. Net impairment reversals of £10.8 million are disclosed in Note 8 of the financial statements. The net position is made up of gross reversals of £12.2 million less an impairment charge of £1.4 million. Reversals were the result of a rise in tender price indices provided by the District Valuer, which determines valuation and indexation movements. The majority of the charge relates to changes in the strategy for the women's estate.

Resolution: We have carried out testing on the valuation movements and are satisfied that the net impairment reversals are correctly stated in the Statement of Comprehensive Net Expenditure.

Payroll system

27. Systematic errors arising from the processing of payroll by the SPS's payroll provider, CGI Logica, have been identified from checks carried out by SPS Pay, Pension and Relocation Services (PPRS) staff and subsequent checks carried out by CGI Logica. The most significant errors related to the following:

- underpayment of amounts due in respect of employer's accruing superannuation liability charges (ASLC's) to the Cabinet Office
- incorrect rate applied for reserved rights prison officer ASLC's
- incorrect calculation of employee pension contributions due to the way in which the system dealt with notional statutory sick pay (SSP).

The total value of known and estimated errors arising from the above was £0.3 million. Staff costs and other payables were increased by £0.1 million prior to receipt of the unaudited financial statements. A further amendment of £0.2 million was made to the unaudited financial statements.

Resolution: We have been informed that the remaining checks on the accuracy of the payroll being carried out by PPRS are complete and no further errors, which exceed our misstatement threshold, have been identified. Management representations in respect of the accuracy of payroll figures in the financial statements are included in the ISA 580 written representations from the Accountable Officer.

Scottish Government accounts consolidation pack and whole of Government accounts information

28. SPS is required to complete a Scottish Government consolidation pack that we are required to audit. This pack includes a section to provide information for the whole of government accounts (WGA), which are the consolidated financial statements for all branches of government in the UK. We are not required to audit this section of the pack as SPS falls below the de-minimis level for audit of £350 million of gross expenditure.
29. SPS is required to submit an audited consolidation pack to the Scottish Government prior to the deadline of 15 July 2016. We have received the unaudited consolidation pack and expect to meet the Scottish Government timetable.

Compliance with the 2015/16 FReM

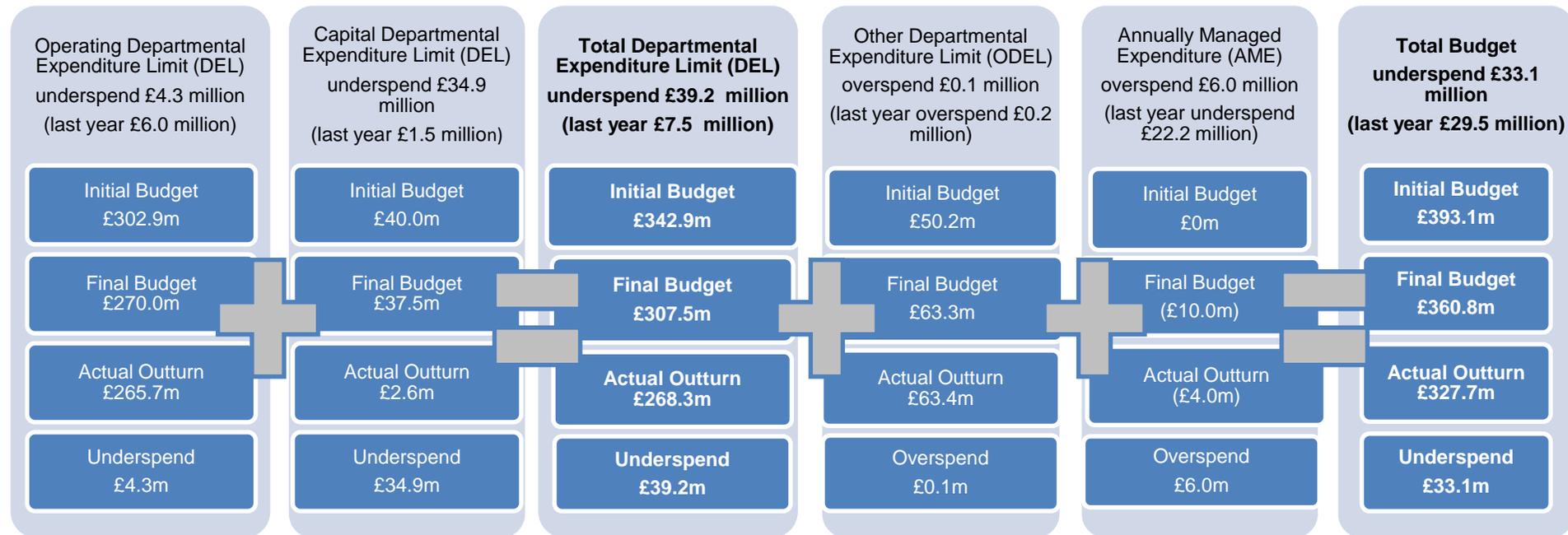
30. The 2015/16 FReM introduced changes to the form and content of the annual report and accounts. Our review of the performance and accountability reports identified a number of areas of non-compliance with the FReM. Our suggested amendments were considered by SPS and the reports were revised and updated to address the most significant points raised. There are a number of areas where further improvement is required to fully comply with the FReM for

example the inclusion of sustainability reporting. SPS is currently preparing a separate sustainability report for publication at the end of 2016. The final data is not available for inclusion in the annual report and accounts.

Future accounting and auditing developments

31. No changes have been made to the 2016/17 FReM since the publication of the revised 2015/16 FReM.
32. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
33. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

Financial management and sustainability



Note: The operating DEL budget includes a non-cash budget for depreciation of £32.0 million (2014/15: £32.0 million). The underspend in respect of the non-cash element is £0.6 million (2014/15: £0.2 million).

34. The main financial objective for SPS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The Scottish Government sets a budget for the year which is determined by the spending review settlement and is subsequently approved in the annual budget bill. During the year revisions are approved in the autumn and spring budget revisions.

35. Departmental Expenditure Limits (DEL) are firm plans for three years and comprise the majority of the budget that covers programme expenditure and running costs of the Scottish budget (2015/16 is the final year of the current spending review). DELs are divided into operating and capital budgets. SPS also has a budget “outside” DEL (ODEL) to reflect a technical adjustment in respect of

the privately managed contracts for the operation of HMP Kilmarnock and HMP Addiewell and the contract for the court custody and prisoner escort service carried out by G4S. Annually Managed Expenditure (AME) is generally less predictable and controllable than DEL expenditure. SPS has AME budgets for provisions and impairments.

36. SPS is expected to manage its budget in accordance with its framework document and the Scottish Public Finance Manual (SPFM). SPS operated within the allocated budgets for 2015/16 as detailed above.

2015/16 financial position

37. The final budget of £360.8 million for 2015/16 is made up as follows:
- DEL - capital expenditure of £37.5 million and operating expenditure of £270.0 million giving a total of £307.5 million
 - ODEL - £63.3 million
 - AME – credit of £10.0 million.
38. The DEL outturn for the year is £268.3 million resulting in a DEL underspend of £39.2 million (13%). The total outturn, including ODEL of £63.4 million and an AME credit of £4.0 million, is £327.7 million giving a total underspend of £33.1 million (9%).
39. The majority of the DEL underspend is due to the unallocated capital budget of £33.9 million which remained within the SPS budget. The remaining £1.0 million of the £34.9 million capital

underspend is the result of minor underspends in respect of planned projects.

40. The balance of the £39.2 million DEL underspend is due to an operating DEL underspend of £4.3 million. Operating DEL is underspent due to both pay and non-pay. The majority of the pay underspend was the result of vacant posts during the year. The largest elements of the non-pay underspend relate to:
- anticipated expenditure associated with the sale of land at HMP Edinburgh not being incurred
 - an instruction from the Scottish Ministers to the Chief Executive not to incur any expenditure which was not already committed
 - late notification of the discount rate used for calculating the injury benefit provision.
41. The underspend of £4.3 million in net resource expenditure (DEL) together with an overspend of £0.1 million in respect of privately managed contracts (ODEL) and a credit overspend of £6.0 million relating to provisions and impairments (AME) resulted in a net operating overspend of £1.8 million. The overspend on provisions and impairments is due to the uncertainty inherent in estimating these costs.
42. During the year, net savings of £16.1 million were returned by the SPS to the Scottish Government for other priorities. Budget revisions were also required for technical adjustments in respect of the ODEL and AME budgets. These transfers are reflected in the final budget of £360.8 million. Savings were largely the result of planned expenditure not occurring.

Net assets

43. The Statement of Financial Position at 31 March 2016 shows net assets of £968.3 million (2014/15: £902.2 million). Net assets have increased by £66.1 million (7%) since 31 March 2015. This increase is mainly due to the rise in tender price indices provided by the District Valuer, which determines valuation and indexation movements.
44. The financial position of SPS remains stable in the short term. The body is operating within its available funding and reporting an excess of assets over liabilities largely due to the value of the prison estate.

Financial planning

45. As funding from the Scottish Government is SPS's primary source of income, the main focus for SPS is achieving a balanced financial plan to remain within its annual allocation.
46. SPS's corporate plan covers a three year period. Below this, the annual delivery plan sets out how SPS will achieve its delivery commitments each year. The financial information included in these plans is very high level and is limited to the budgets for the period covered by the Scottish Government spending review for 2016/17 only. There is a lack of medium and long term financial planning or links to other relevant strategies, including workforce plans and the capital investment programme.
47. The 2016/17 budget was approved by the Scottish Parliament in January 2016. The total budget of £354.1 million comprises an

operating budget of £344.1 million and a capital budget of £10 million.

48. The operating budget has increased by £20.8 million compared to the final budget for 2015/16. The Chief Executive has asked SPS directors to plan their activities on a target based budget in order to meet efficiency targets. To support the financial planning process for 2016/17 and beyond, SPS has introduced an initiative (HQ 2017) to reorganise the headquarters function with the aim of increasing effectiveness and deliver efficiencies.
49. The capital budget has decreased by £27.5 million compared to the final budget for 2015/16. The Scottish Government's Infrastructure Investment Plan recognises three significant capital projects relating to SPS, with total estimated capital investment and construction start dates as follows:
 - HMP Glasgow - £170 million (August 2018)
 - HMP Highland - £66 million (January 2018)
 - National facility for women offenders - £45 million (July 2018).
50. The SPS capital programme also identifies a requirement of £75 million for the replacement of HMP Greenock and £37 million for the five community custody units which will support the national facility for women offenders. The replacement of HMP Greenock is subject to the confirmation of capital funding from the Scottish Government. Expenditure on the five community custody units will be incurred from 2016/17. Further announcements on the future of the prison estate have the potential to significantly change capital requirements.

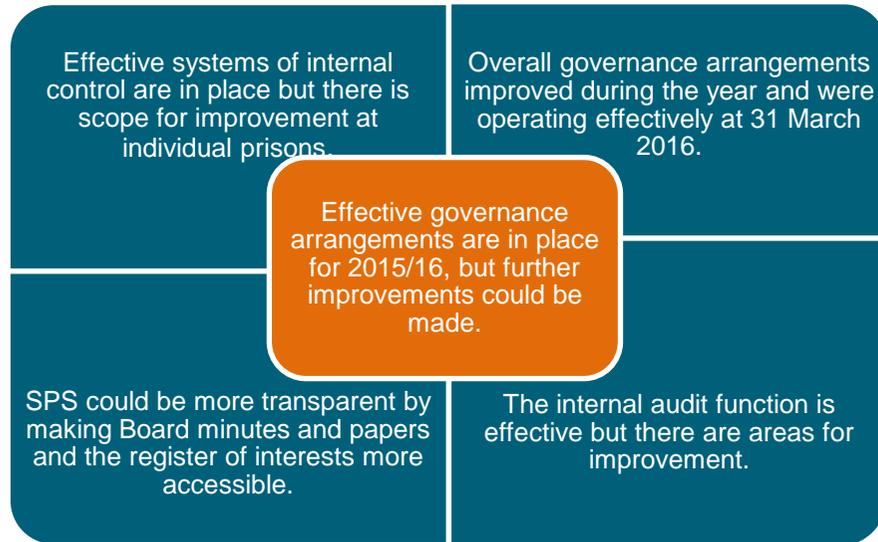
51. SPS would benefit from developing a long-term financial strategy that includes a clear understanding of its costs, scenario planning, savings options and demonstrate how it will meet demand and deliver services. It should clearly link to other strategies, including the SPS corporate plan, capital investment strategy and workforce plan.

Appendix IV – Action Plan No.1

Financial management

52. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Head of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - RMAC members provide a good level of challenge and question significant variances.
53. Based on our accumulated knowledge, our review of Board papers and through our attendance at the RMAC we conclude that SPS has satisfactory financial management arrangements in place.

Governance and transparency

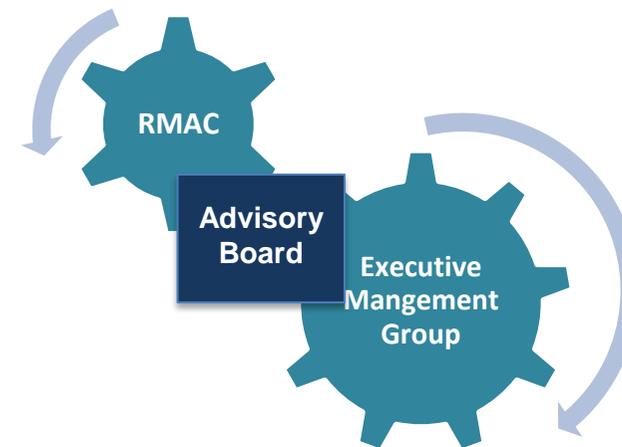


Corporate governance

54. SPS is headed by a Chief Executive who is responsible to Scottish Ministers, within the terms of the Agency’s framework document with the Scottish Government, for its management, performance and future development. The Chief Executive is responsible for all operational matters as delegated by the Director General for Learning and Justice.

55. The Chief Executive has a responsibility to ensure the Agency effectively delivers ministerial policies and he chairs an Advisory Board to support this role. The Advisory Board is supported by the Executive Management Group (EMG) and the RMAC as illustrated in Exhibit 2 below.

Exhibit 2: SPS Governance Structure 2015/16



56. During 2014/15, we reviewed SPS’s governance arrangements and reported our findings to the RMAC in March 2015. Our review considered the effectiveness of the SPS Advisory Board and RMAC and risk management arrangements. We reported that there was a need to implement a more formal governance structure in terms of processes and support systems.

57. SPS's Chief Executive initiated a review of corporate governance in May 2015. Polley Solutions Limited were appointed in August 2015 to support SPS staff with this review, and issued a report in February 2016.
58. We carried out a follow up of our governance review, during 2015/16, and reported our findings to the RMAC in May 2016. Our follow up report summarised the status of the 24 recommendations as follows:
- twelve recommendations have been fully implemented
 - ten recommendations were in progress (three have since been implemented)
 - two recommendations were incomplete.
59. The majority of the outstanding action points will be addressed by implementing the recommendations made by Polley Solutions Limited to further develop and improve on the action taken by SPS to date. Our recommendation that the duration of Board and RMAC appointments should comply with good practice has not been implemented. Our report also recommended that Board papers should be made more accessible. There has been no change in access to SPS Board papers.
60. We conclude that SPS has effective overarching governance arrangements, which provide an appropriate framework for organisational decision making.

Risk management

61. Our 2014/15 review of governance arrangements reported that there was no formalised approach to the Board's consideration of risk management arrangements. There was no risk management strategy for the organisation and the corporate risk register had not been subject to a formal review for almost two years.
62. Our follow up report confirmed that there has been a significant improvement in risk management arrangements during 2015/16. Progress during the period included:
- the publication of an SPS risk management strategy and guidance in October 2015
 - workshop sessions to improve risk awareness throughout the organisation
 - presentation of the revised corporate risk register to the RMAC in March 2016.
63. Three of the four action points relating to risk management were fully implemented during 2015/16. The only point that is outstanding relates to the line management arrangement for the Corporate Risk Manager who reports to the Head of the Audit and Assurance Unit (AAU). We view this line management arrangement as a risk to the independence of both roles.
64. We are satisfied that the risk management arrangements in place at 31 March 2016 were effective. These arrangements were not fully developed and implemented for the whole of 2015/16.

Transparency

65. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
- holding an annual open meeting
 - holding board meetings in public unless there is a good reason not to
 - publishing summary reports and/or minutes of meetings
 - inviting evidence from members of the public in relation to matters of public concern
 - consulting stakeholders and users on a wide range of issues
 - making corporate plans and the annual report widely available.
66. Our 2014/15 review of governance arrangements recommended that Board papers should be made more accessible. As noted above, there has been no change in access to SPS Board papers. There is also limited access to Board minutes. The Board members' register of interests is not available on the Agency's website or published in the annual report and accounts.
67. SPS should continue to improve its level of openness and transparency by making Board minutes and papers and the register of interests available to the public.

Appendix IV – Action Plan No. 2

68. Audit Scotland promotes transparency of financial reporting within the annual report and accounts including:
- a clear reconciliation between expenditure and the outturn against Scottish Government resource budgets
 - identification and explanation of any significant movements in budget during the year.
69. The 2015/16 annual report and accounts include a reconciliation between the net operating cost reported in the Statement of Comprehensive Net Expenditure and the outturn against budgets included in the performance report.

Internal control

70. Material weaknesses in the accounting and internal control systems could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data. This could result in a material misstatement in the financial statements. We did not identify any material weaknesses during the 2015/16 audit.
71. The Head of AAU's 2015/16 annual report provided an overall reasonable level of assurance for the financial year. We noted that 24 out of the 51 financial reviews (47%) were assessed as limited assurance. The AAU carry out a financial health check at four prisons annually. These health checks consider nine areas including creditors, cash and banking and travel and subsistence. Eighteen of the reviews assessed as limited assurance in 2015/16 relate to individual health check areas.

72. The AAU has issued a report to each of the four prisons subject to health check reviews during 2015/16. The AAU will revisit those areas where limited assurance was reported in accordance with agreed follow up arrangements, usually within six months of the original visit.

Internal audit

73. Internal audit provides the RMAC and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

74. The SPS internal audit service is carried out by the AAU. Our review of internal audit concluded that we were able to place reliance on the work of internal audit in terms of our wider code responsibilities.

75. Our internal audit reliance letter stated that the internal audit service does not fully operate in accordance with Public Sector Internal Audit Standards (PSIAS). A number of areas for improvement were identified from our review of the internal audit service. These are summarised in an action plan attached as an appendix to the letter and include:

- the Finance, Risk and Governance audit team has not been fully resourced during 2015/16

- the annual audit plan does not include a timetable for the phasing of audit work throughout the financial year
- the internal audit function does not have formal assessment arrangements in place.

76. The Head of AAU's 2015/16 annual report stated that three planned reviews in respect of operational audits were not completed during the year. As at May 2016, eight financial audits were incomplete, deferred or not carried out due to a lack of resources or the redeployment of resources to other areas.

77. To ensure that the AAU continues to operate in accordance with PSIAS, the Head of AAU should address the issues raised in our internal audit reliance letter. This includes ensuring that the AAU is adequately resourced to deliver the planned programme of work.

Appendix IV – Action Plan No.3

Information and Communications Technology (ICT) audit

78. As part of our 2015/16 audit we met with the interim Head of Information Systems and Strategy (ISS) to follow up the continuing and emerging challenges facing the ISS management team.

79. **Business continuity and disaster recovery:** A full disaster recovery exercise has not been carried out since SPS refreshed and relocated its primary data centre infrastructure during 2014. The interim head of ISS prepared a plan which outlines the steps required to complete a full test of disaster recovery capabilities

during September 2016. Regular reports to the Operations Directorate Programme Board indicate that this project is proceeding according to the agreed timetable.

80. **Digital strategy:** The SPS digital strategy has not been reviewed or updated since 2014. The latest revision predates the publication of the national Digital Strategy for Justice in Scotland. There is no detailed plan that supports delivery of the strategy.
81. **Cyber-resilience:** We considered the SPS approach to assessing and mitigating the risk of cyber-attacks e.g. a denial of service or inappropriate data access. We are satisfied that SPS is working with the Scottish Government and Scottish criminal justice partners to assess security and reduce the risk of a successful cyber-attack. We noted there is no plan in place that details how SPS would respond to a successful cyber-attack. SPS should agree a timetable for updating and preparing IT strategies and plans.

Appendix IV – Action Plan No.4

Digital procurement

82. We discussed arrangements for implementing digital procurement facilities with the Head of Procurement. There is a lack of overall ownership for the digital procurement project.
83. The e-procurement project was placed on hold following a Scottish Government Gateway Review. A mini-project to consider the findings from the Gateway Review was concluded in September 2015. The project is still on hold at the current time and a further options appraisal exercise has not yet commenced. SPS has not

complied with the European Commission's (EC) Strategy for e-procurement by the required date of May 2016. The Strategy is not compulsory but e-procurement is a step towards ensuring that SPS meets the November 2018 deadline for mandatory implementation of e-invoicing in accordance with an EC Directive.

84. SPS should prepare a detailed timeline to ensure that the EC deadline for the implementation of e-invoicing is met. In doing this, it should identify a senior responsible officer for this project.

Appendix IV – Action Plan No.5

Arrangements for the prevention and detection of fraud

85. SPS is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and reported on these arrangements which include a whistleblowing policy and a Fraud Response Group which was established in accordance with the SPS Fraud Response Plan. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

86. SPS participates in the National Fraud Initiative (NFI) in Scotland. The NFI is a counter-fraud exercise led by Audit Scotland which uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.

87. We have reviewed the progress that SPS has made in following up data matches identified for the purposes of the 2014/15 NFI exercise. We are satisfied that SPS has satisfactory arrangements in place for investigating and reporting data matches for the purposes of the 2014/15 exercise.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

88. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions.
89. We continued to monitor SPS progress in updating the employee code of conduct and were informed that delays have arisen due to ongoing negotiations with trade union partners. We understand that the updated code of conduct will be issued by the end of the 2016/17 financial year.
90. We conclude that appropriate arrangements for maintaining standards of conduct and the prevention and detection of corruption exist within SPS.

Value for money

Arrangements for securing best value

91. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
92. The Auditor General may require that we consider whether Accountable officers have put in place appropriate arrangements to satisfy their duty of best value. Where such requirements are not specified we may, in conjunction with SPS agree to undertake local work in this area. We did not undertake any specific work in this area during 2015/16.

Local performance audit reports

Review of capital investment programme

93. Following a recommendation in our 2014/15 annual audit report, the management responses to the action plan included in our report on the capital investment programme (March 2014) were revisited and updated. During 2015/16 we followed up progress in implementing the updated action plan agreed by management. Our recommendations included:

- SPS should develop and publish a strategy to set out the long-term needs and constraints for capital investment in the prison estate in Scotland
 - governance arrangements should be clearly outlined for the capital programme
 - SPS should improve the quality of information provided to the board on the capital programme
 - SPS should implement standard procedures for measuring, monitoring and reporting of the benefits for each major capital project.
94. The SPS response to our action plan stated that the Agency is working closely with Scottish Government Justice policy colleagues to produce a prison population management strategy. The response stated that this work would be formally launched in October 2015 with a view to producing a strategy by the end of March 2016. This would be followed by the preparation of an SPS capital investment programme available for discussion during the summer of 2016.
 95. The SPS does not have a long-term capital investment programme. A population management workshop was held in October 2015 but the focus of the workshop was on the spending review and the women's strategy. We have been informed that discussions are now taking place with Scottish Government to determine how to progress policy in respect of overall population management.

96. Formal governance arrangements for the programme to deliver the strategy for the management of women offenders were agreed in the latter part of the financial year. Board members were provided with updates on progress with the strategy on an ad-hoc basis throughout the year.
97. Staff have received training in benefits management and the completion of business cases. Guidance has been updated to ensure that benefits are clearly outlined in business cases.
98. Overall, we are satisfied that there has been good progress in implementing the recommendations included in our report on the capital investment programme.

Review of workforce planning arrangements

99. We carried out a review of SPS's workforce planning arrangements in autumn 2015 and followed up the implementation of recommendations in February and May 2016. Discussions with key staff and review of supporting documentation confirmed that good progress has been made in improving workforce planning arrangements.
100. An update on workforce planning was provided to the EMG in March 2016. The revised terms of reference for the Workforce Planning and Monitoring Group propose that updates to the Board will be provided every six months. This arrangement is still to be confirmed.
101. A workshop was held in December 2015 which mapped the relationships between the three main SPS change programmes

(Purposeful Activity, People Strategy and Shaping our Future). The dependency map was then used to produce an integrated plan, which gives more detail in respect of timelines and sequencing of the programmes. A new business case template was issued and brought into use in February 2016. The updated template includes tools for modelling financial aspects and sensitivity analysis for each option identified.

102. Work has progressed in developing workforce strategies for both operational and non-operational staff. SPS does not yet have an overall workforce plan. We were informed that an annual workforce plan which considers the medium to long term workforce structure will be in place by 31 March 2017.
103. During 2015/16 auditors of all public bodies were asked to undertake audit work reviewing the workforce planning arrangements in place. Our local review of workforce planning arrangements and subsequent follow up work was sufficient to meet these requirements.
104. Implementation of the change programme arising from the organisational review is recognised as the most significant risk in the corporate risk register. Staff vacancies continued to be an issue during 2015/16. The 2015/16 statements of assurance report identifies staff shortages in the following headquarters areas:
- Information Systems and Strategy (ISS)
 - Financial Policy and Services (FP&S)
 - Estates

- Procurement Policy and Services Department (PPSD)
 - Corporate Change Unit (CCU).
- 105.** We reported concerns relating to the resourcing of ISS in our 2015/16 report on interim testing. The CCU has a key role in the transformation of the service. The response to an action point raised in our 2014/15 annual audit report stated that a permanent Head of CCU would be appointed by February 2016.
- 106.** The filling of vacancies and business cases for additional staff resources are on hold while work on HQ 2017 is taken forward. As a result, there has been no progress in filling the Head of CCU post on a permanent basis. SPS intends to reduce back office costs by reducing the number of posts within headquarters and reorganising the current structure.
- 107.** SPS needs to ensure that it has sufficient staff capacity and budget (see financial planning) to deliver business as usual activities and implement the change programme arising from the organisational review. SPS should continue to improve workforce planning arrangements. The development of annual and long term workforce plans would help to manage workforce challenges.

Appendix IV – Action Plan No.6

National performance audit reports

- 108.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to SPS, as outlined in [Appendix III](#). One of these reports was the review of the efficiency of prosecuting criminal cases through the sheriff courts. The key messages from this report are detailed below.
- ### **Efficiency of prosecuting criminal cases through the sheriff courts**
- 109.** The report, which was published in September 2015, identified that:
- fewer cases are concluding within the 26 week performance target, the average time for cases to conclude has risen and a greater proportion of cases are going to trial
 - since 2010/11, the budgets of the Crown Office and Procurator Fiscal Service and the Scottish Court Service have experienced a more significant reduction than the overall Scottish Government budget
 - almost half of court appearances did not proceed as planned in 2014/15, with an estimated £10 million spent on cases repeating stages unnecessarily.
- 110.** The report notes that establishment of the Scottish Government's Justice Board has improved joint working between key national bodies and management of the system as a whole. This helped manage a 10 per cent increase in the number of cases in 2013/14.
- 111.** SPS should continue to work with justice partners to ensure it can respond to changes in the flow of people through the criminal justice system.

Appendix I: Significant audit risks

The table below sets out the audit risks we identified in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Staff costs</p> <p>Weaknesses in the payroll system could result in material errors in the financial statements. The failure to implement effective policies and procedures in respect of temporary contracts could result in unauthorised payments being processed through the general ledger.</p>	<p>We carried out sample testing of those areas where weaknesses were identified in our 2014/15 report on interim testing.</p> <p>We also carried out sample testing of payments relating to temporary contracts.</p>	<p>Our 2015/16 sample testing of the payroll system confirmed that control procedures in respect of those areas where weaknesses were identified in 2014/15 had significantly improved.</p> <p>Our sample testing of payments relating to temporary contracts did not identify any issues.</p> <p>Checks carried out by SPS staff and subsequent checks by the payroll provider, CGI Logica, identified errors in the processing of certain types of payroll transactions during the year. We are satisfied that adjustments made to the unaudited financial statements reflect all known and estimated errors</p> <p>(Refer to the section on significant findings from the audit.)</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>HMP Aberdeen</p> <p>The surplus land at HMP Aberdeen is expected to transfer to the Scottish Government prior to 31 March 2016.</p> <p>There is a risk that the transfer is not accounted for in accordance with the FReM.</p>	<p>We reviewed correspondence relating to the transfer between SPS and the Scottish Government.</p> <p>We re-performed the accounting entries arising from the transfer to ensure compliance with the FReM.</p>	<p>SPS has complied with guidance from the Scottish Government and the nature of the transaction has been adequately disclosed in the financial statements.</p> <p>(Refer to the section on significant findings from the audit.)</p>
<p>Changes to the 2015/16 FReM</p> <p>The SPS annual report and accounts may not comply with revisions introduced in the 2015/16 FReM in relation to:</p> <ul style="list-style-type: none"> • adoption of International Financial Reporting Standard (IFRS)13 Fair value measurement • changes to the form and content of the annual report and accounts. 	<p>We carried out sample testing of the measurement and disclosure of assets held for sale and assets which are surplus to requirements.</p> <p>We reviewed the annual report sections of the annual report and accounts with reference to the FReM and completed the National Audit Office (NAO) 2015/16 disclosure checklists.</p>	<p>We are satisfied that SPS has valued relevant assets in accordance with IFRS 13 and adequate disclosures have been made.</p> <p>To ensure full compliance with the FReM further improvement in the content of the performance and accountability reports is required.</p> <p>(Refer to the section on compliance with the 2015/16 FReM.)</p>

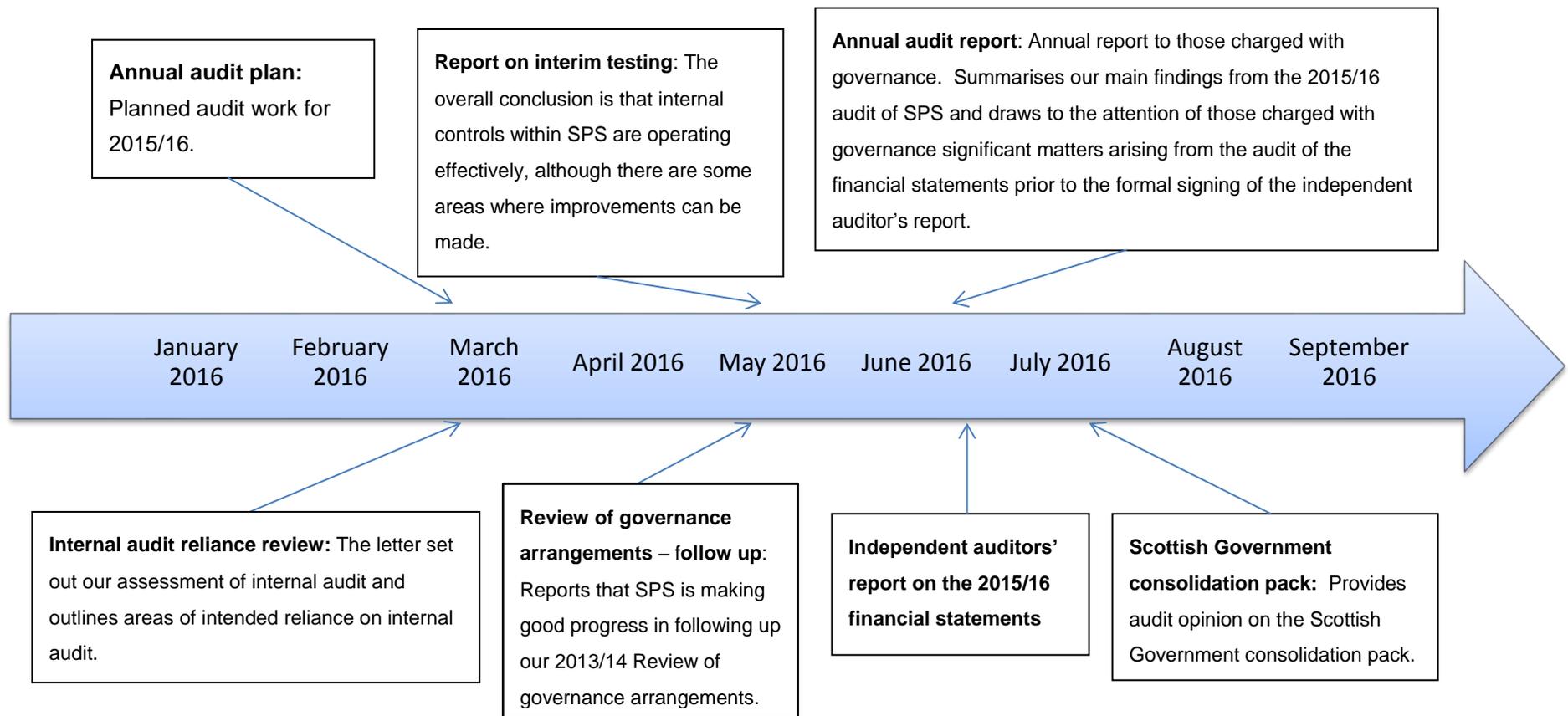
Audit Risk	Assurance procedure	Results and conclusions
<p>Internal audit</p> <p>There is a risk that financial and ICT audits are not sufficiently resourced. This could result in a delay in receiving the assurances required for completion of the governance statement. Assurances in respect of the operation of IT systems may not be adequate.</p>	<p>We were in regular contact with the Head of AAU throughout the course of our audit and reviewed AAU progress reports to the RMAC. We reviewed the statements of assurance process to ensure that it supports disclosures in the governance statement.</p>	<p>We concluded that we were able to place reliance on the work of internal audit but there is scope to improve the effectiveness of the service provided by the AAU. This includes ensuring that the AAU is adequately resourced. (Refer to the section on governance and transparency.)</p> <p>We are satisfied that the statements of assurance process supports disclosures in the governance statement.</p>
<p>Management override of controls</p> <p>There is a risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Our financial statements audit work included:</p> <ul style="list-style-type: none"> • testing of internal controls • sample testing of journal entries • review of accounting estimates • evaluation of significant transactions that are outside the normal course of business. 	<p>No issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Workforce planning</p> <p>Workforce planning for non-operational staff is not well developed. SPS have been relying on temporary contracts to address skill shortages in key HQ posts, including IT staff. There is a risk that overall workforce planning arrangements are not effective. This could impact on the effective delivery of the recommendations arising from the SPS Organisational Review.</p>	<p>We reviewed SPS’s progress in implementing the recommendations included in our review of workforce planning arrangements report.</p>	<p>We are satisfied that good progress has been made in improving workforce planning arrangements. Further improvements are required, including the development of annual and long term workforce plans.</p> <p>(Refer to comments in respect of our follow up work in the value for money section.)</p>
<p>Corporate governance</p> <p>During 2014 we carried out a review of SPS governance arrangements. This highlighted a number of areas for improvement. SPS is addressing the issues raised in this report but has not yet completed its review or reported on improvements made.</p> <p>There is a risk that the Advisory Board and RMAC may not be fully effective in their governance and scrutiny roles.</p>	<p>We issued a follow up report in May 2016, summarising SPS’s progress in implementing the recommendations raised in our review of governance arrangements report.</p>	<p>The organisation has made good progress in implementing the recommendations identified from our review of governance arrangements report. We are satisfied that overall governance arrangements are effective.</p> <p>(Refer to the findings from our follow up report in the governance and transparency section.)</p>

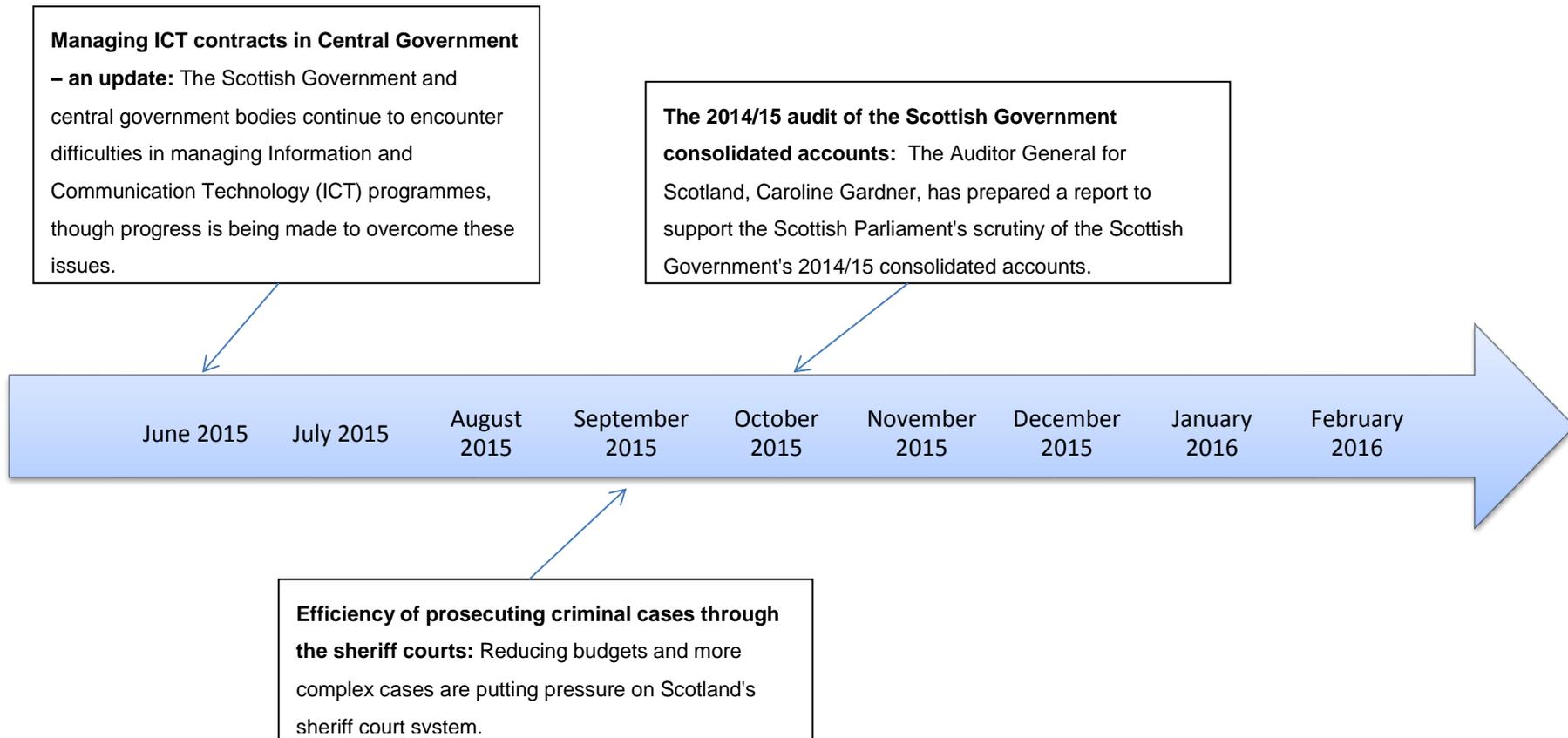
Audit Risk	Assurance procedure	Results and conclusions
<p>Risk management</p> <p>The implementation of a new approach to enterprise wide risk management is a continuing process which will require to be implemented over the longer term.</p> <p>Risk management procedures may not be fully developed and implemented during 2015/16.</p>	<p>We issued a follow up report in May 2016, summarising SPS's progress in implementing the recommendations raised in our review of governance arrangements report.</p> <p>We reviewed the SPS risk management strategy and related guidance which was issued in October 2015 and the revised corporate risk register made available to the RMAC in March 2016.</p> <p>We reviewed the process for preparing the corporate risk register and for ensuring it is regularly monitored and updated.</p>	<p>We are satisfied that the risk management arrangements in place at 31 March 2016 were effective. These arrangements were not in place for the whole of the financial year.</p> <p>(Refer to the findings from our follow up report in the governance and transparency section.)</p>
<p>IT strategies and systems</p> <p>Ongoing delays in the development of IT strategies and systems could impact on the effective delivery of services and compliance with European Community legislation.</p> <p>Business continuity could be compromised by a cyber-attack on SPS systems or a failure to adequately test disaster recovery procedures.</p>	<p>Our ICT Auditor met with the Interim Head of ISS on a number of occasions during the year.</p> <p>We reviewed security controls against cyber-attack including disaster recovery. We also reviewed Board and other minutes to monitor progress with ongoing strategy and system development.</p>	<p>There have been delays in updating the SPS digital strategy and the preparation of a plan to support implementation of the strategy. SPS does not have a plan in place that explains how SPS would respond to a cyber-attack.</p> <p>The digital procurement project, which is required to progress towards meeting the EC Directive on e-invoicing, is still on hold.</p> <p>(Refer to the section on governance and transparency.)</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Capital investment programme</p> <p>There is a risk that insufficient capital funding could lead to SPS being unable to deliver the capital programme. Failure to progress improvements to the prison estate could result in an estate that is not fit for purpose. The prison estate may not support the objectives of SPS and the Scottish Government.</p>	<p>We continued to follow up the implementation of recommendations in our report on the capital investment programme.</p> <p>We considered further announcements relating to the future of the prison estate and budget allocations from the Scottish Government. We also monitored updates to the Scottish Government’s Infrastructure Investment Plan.</p>	<p>Some progress has been made in implementing the recommendations included in our report. The SPS does not have a strategy that sets out the long-term needs and constraints for capital investment in the prison estate in Scotland.</p> <p>(Refer to comments in respect of our follow up work in the value for money section.)</p> <p>In February 2016 the Cabinet Secretary for Justice announced that the closure of HMP Cornton Vale would begin in summer 2016. This announcement had implications for the valuation of the women’s estate. We are satisfied that the accounting entries to reflect these changes are correct.</p> <p>(Refer to the section on significant findings from the audit.)</p> <p>We have reviewed the Scottish Government’s Infrastructure Investment Plan and noted that a significant increase in the capital budget will be required to fund the projects identified.</p> <p>(Refer to the section on financial planning.)</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
1.	51	<p>Financial sustainability</p> <p>Financial planning is restricted to the period covered by the Scottish Government spending review. Planning to this timeframe, which can be as short as one year, is not sufficient to ensure long-term financial sustainability. Financial planning is not linked with workforce planning or the capital investment programme.</p> <p>Risk</p> <p>There is a risk that SPS cannot demonstrate that it is financial sustainable in the longer term.</p> <p>Recommendation</p> <p>SPS should prepare a long-term financial strategy. The strategy should include:</p> <ul style="list-style-type: none"> • the cost of providing individual services • details of one-off and recurring savings • scenario planning • funding shortfalls and how to deal with these • clear links to other relevant strategies including workforce plans and the capital investment programme. 	<p>The SPS as an Executive Agency of Scottish Government (SG) works closely with core SG in terms of spending reviews and the number of years covered by a spending review is not within the gift of SPS. SPS's Corporate Plan is a three year plan which sets out the organisation's strategic priorities. The corporate plan for 2017/20 will set out our strategic intentions for that period and it will be derived from SG policy; firmly rooted in the SPS Organisational Review and will set out how SPS will deliver on our vision and mission. It will set out what resources SPS will deploy to deliver the strategic priorities for 2017/20.</p> <p>In terms of capital investment SPS does plan across more than one spending review period because of the timescales involved in building a prison which, from planning through to opening can take around 6 years. These major projects are reported through the SG Infrastructure Investment Board. In</p>	<p>Responsible: Chief Executive</p> <p>Corporate Plan for 2017/20 scheduled for publication March 2017.</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
			<p>terms of workforce planning the Executive Management Group and SPS Advisory Board receive regular workforce planning updates which take account of trends and known variables such as opening a new prison. In addition an annual funding analysis of payroll is undertaken by Corporate Services which in turn is linked to the SPS budget.</p>	
2.	67	<p>Transparency There is restricted access to Board minutes and papers and the Board members' register of interests.</p> <p>Risk There is a risk that SPS is not sufficiently open and transparent.</p> <p>Recommendation SPS should improve its level of openness and transparency by making Board minutes and papers and the register of interests available to the public.</p>	<p>Board minutes are already published on the SPS website. In terms of the Board papers the Chief Executive will discuss the audit recommendation with the newly appointed independent chair of the Board. The balance between transparency and the need to provide the Chief Executive as Agency Accountable Officer with clear, candid advice via the Board and the papers it considers will be fundamental to these discussions.</p> <p>Board members' register of interests will be published on the SPS website.</p>	<p>Responsible: Chief Executive & Independent Chair of SPS Board</p> <p>31 October 2016</p> <p>September 2016</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
3.	77	<p>Internal audit</p> <p>Although we are able to place reliance on the work of internal audit, it does not fully operate in accordance with Public Sector Internal Audit Standards (PSIAS). A number of planned audits particularly on finance, risk and governance were not completed during 2015/16.</p> <p>Risk</p> <p>There is a risk that the internal audit service does not comply with PSIAS or deliver all of the work necessary to provide adequate assurance to SPS management.</p> <p>Recommendation</p> <p>The internal audit service provided by the AAU should comply with the requirements of the PSIAS. The AAU should have adequate resources to deliver the planned programme of work, which is based on an annual risk assessment.</p>	<p>As previously documented, the Finance, Risk & Governance area of AAU was hit by a significant loss of experience when both Finance, Risk & Governance Auditors left AAU early in the course of 2015-16. Since then, a qualified accountant has been recruited at F Band and a part-qualified accountant has joined the Section at E Band. A further qualified accountant resource has since been added to AAU and the recruitment process for this post is now underway. Other areas of non-compliance with PSIAS have been identified in the review of Adequacy of Internal Audit for the period to 31 March 2016 and are currently being addressed within the timetable supplied.</p>	<p>Head of Audit & Assurance September 2016</p>
4.	81	<p>Digital strategy and cyber security</p> <p>The SPS digital strategy has not been reviewed or updated since 2014. There is no cyber-attack response plan for the organisation.</p> <p>Risk</p> <p>There is a risk that SPS digital services do not support the</p>	<p>SPS have engaged with Scottish Government's Digital Directorate to review and update the Digital Strategy. A Statement of Works has been prepared for delivery of the Digital Strategy pending on-going discussions with Scottish Government.</p>	<p>Head of ISS December 2016</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		<p>delivery of the corporate plan and the national Digital Strategy for Justice.</p> <p>In the event of a successful cyber-attack there may be a lack of clarity how SPS staff should deal with the incident.</p> <p>Recommendation</p> <p>Management should ensure that the digital strategy is reviewed and updated. SPS should develop a cyber-attack response plan. A detailed timetable is required to monitor progress in developing IT strategies and plans.</p>	<p>A cyber-response workshop is included in the ISS Business plan and includes a review of the provision of Cyber Security readiness through assessment of security arrangements and contingency planning</p>	<p>Head of ISS March 2017</p>
5.	84	<p>Digital procurement</p> <p>There is a lack of overall ownership for the digital procurement project which is required to implement e-invoicing. The project remains on hold as at June 2016.</p> <p>Risk</p> <p>There is a risk that if SPS does not implement an e-procurement solution this will impact on fulfilling the requirements of the EC Directive on e-invoicing by 2018.</p> <p>Recommendation</p> <p>SPS should identify a clear lead for the implementation of e-procurement. A timeline should be prepared which ensures that e-procurement is achieved. This will support the implementation of e-invoicing by November 2018.</p>	<p>SPS is aware of the EU Directive 2014/55/EU and the need to be able to accept e-invoices in the correct format by 27 Nov 2018.</p> <p>SPS has recently commissioned a system health check on its Agresso Finance System. Following this, e-Procurement will be considered alongside other competing IT priorities. This is with a view to establishing a plan for implementing electronic Purchase to Pay (Electronic P2P systems automate the full purchase-to-payment process) including the facility to accept electronic invoices in the future.</p>	<p>Director of Corporate Services/Director of Operational Support Services</p> <p>31 October 2016 - to identify a lead.</p> <p>30 April 2017 - for the completed time line to address the EU Directive plan.</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
6.	106	<p>Workforce planning</p> <p>Capacity concerns were raised by SPS management in the 2015/16 annual statements of assurance process. These concerns related to a number of headquarters functions, including the CCU.</p> <p>Risk</p> <p>There is a risk that insufficient staff capacity could impact on SPS's ability to deliver the services outlined in corporate and annual plans.</p> <p>Recommendation</p> <p>SPS should continue to improve workforce planning arrangements, including the development of annual and long term workforce plans which align with financial strategies and plans.</p>	<p>Accepted. Detailed annual workforce planning and strategy will be aligned to the outcomes of the Shaping Our Future Project and any budget saving implications identified as part of the HQ2017 work, and be undertaken in consultation and partnership with our Trade Union Side.</p>	<p>Director of Corporate Services</p> <p>31 March 2018</p>