

12 September 2024

Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener

The 2023/24 audit of the Scottish Prison Service (SPS)

I have received the audited annual report and accounts, the independent auditor's report, and the annual audit report for the Scottish Prison Service (SPS) for 2023/24. Following on from my section 22 report on the 2022/23 audit of SPS and the Committee's own report, I outline below a summary of the auditor's findings from this year on the main areas considered previously by the Committee.

The Scottish Courts Custody Prisoner Escorting Services (SCCPES) contract

- The auditor reported that the performance of the SCCPES contract saw improvements across all key service performance areas by quarter four of 2023/24. This followed SPS taking action to provide financial support to GEOAmev to aid staff recruitment and retention (as reported last year) while at the same time limiting the use of performance measures and financial penalties.
- Notable points of improvement were:
 - The total late custodies for court arrivals decreased by 10.51% in quarter three, from 5,384 to 4,818;
 - 85.2% of medical appointments were fulfilled in March 2024, up from 56.9% in September 2023; and
 - 94.5% of Video Identification Parade Electronic Recording (VIPER) appointments were fulfilled, up from 45.3% in September 2023.
- While performance has improved, there remains significant challenges due to the increasing prisoner population and ongoing work to address the courts backlog. SPS will need to continue its close engagement with GEOAmev to ensure that recent improvements in performance levels are sustained over the remainder of the contract. The auditor will continue to monitor the performance of the contract as part of the 2024/25 audit of SPS.

Scotland's prison population

- Between 2013/14 and 2022/23, the average population in Scotland's prisons was 7,653. SPS reported in their 2023/24 Annual Report and Accounts the average daily population

was 7,859 during the year. This is an average increase of 433, (5.83%) on the previous year. The daily average male population saw an increase of around 6 per cent during 2023/24 with the women's population increasing by almost 12 per cent.

- The Scottish Government is considering a range of measures to ease prisoner population pressures including 'Emergency Early Release' approved by the Scottish Parliament in June 2024. This will see some prisoners serving sentences of less than four years, who are due to be released within 180 days of the regulations coming into force, being considered for emergency release. Modelling undertaken by the Scottish Government estimated that around 550 prisoners could be released under these measures. The auditor will monitor the impact of this intervention on the prisoner population as part of the 2024/25 audit of SPS.

HMP Glasgow

- Plans for a replacement prison for HMP Barlinnie, HMP Glasgow, are being progressed but slower than anticipated due to design and costing delays. An Advance Works contract to commence ground works on HMP Glasgow was agreed in August 2023. SPS had hoped that the project would have moved to construction phase, however this has been impacted by budgeting delays.
- The estimated cost of HMP Glasgow increased from £100 million in 2014 to £387.6 million in October 2019. These initial estimates were based on other comparable projects and requirements at the time. The forecast costs are expected to be significantly higher once the design phase is complete. This is attributed to inflationary pressures, an updated design to reflect 'Net-Zero' commitments and changing requirements post-Covid to safely manage the prison population. SPS has reported that the price for the construction contract is expected later in 2024.

As I highlighted in my report last year, the number of risks and challenges facing the prisons system is considerable. This remains to be the case. However, considering recent improvements in the performance of the SCCPES contract and the ongoing measures taking place to manage and reduce the prisons' population, I do not intend to prepare a statutory report on the 2023/24 audit of the SPS. I will continue to monitor the progress made by SPS and its partners in these areas, as well as progress with HMP Glasgow, with a view to further public reporting in the future. This will include my consideration of the Committee's request for a value for money assessment on the current SCCPES contract once it ends in January 2027.

I hope that the Committee finds this information helpful.

Yours sincerely

Stephen Boyle
Auditor General for Scotland

Scottish Prison Service

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Prison Service and the Auditor General for Scotland

August 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified. This means that the auditor is content that the accounts show a true and fair view and have been properly prepared to follow relevant standards and guidance and that income and expenditure for the year is lawful.
- 2 The Ex-Gratia process is not fit for purpose with inconsistent approaches across establishments; limited evidence of clear approvals; instances of excessive working beyond working time regulations and breaches of SPS's own policy.
- 3 Limited progress has been made against our prior year recommendations.

Financial management

- 4 Effective and appropriate arrangements to secure sound financial management are in place.
- 5 SPS reported an overspend of £21.6 million against its revised budget in 2023/24.
- 6 Suitable financial control arrangements are in place, and standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.
- 7 SPS continues to manage significant risks in relation to its IT strategic planning and Cyber Security arrangements.

Financial sustainability

- 8 SPS needs to strengthen its arrangements for assessing its financial sustainability.
- 9 SPS's 2024/25 budget has increased to support rising costs linked to the increasing prison population and inflation, but is currently forecasting an overspend of £18.3 million.
- 10 Limited progress was made during 2023/24 to develop a medium-term financial strategy due to staffing pressures.

Vision, leadership, and governance

- 11 SPS has a clear vision and strategy as set out in its 2023-28 Corporate Plan.
- 12 Governance arrangements are effective and appropriate, however improvements should be made to the process of assuring the Accountable Officer on the effectiveness of internal controls and corporate governance
- 13 A number of key governance and policy documents are out of date and require review.

Use of resources to improve outcomes

- 14 SPS has arrangements in place to ensure Best Value and have developed an appropriate framework document to demonstrate this.
- 15 Key Performance Indicators (KPIs) have been updated to align with the strategic objectives set out in the Corporate Plan 2023-28.
- 16 Performance of the Scottish Courts Custody and Prisoner Escorting Services (SCCPES) contract saw improvements across all key service performance areas by quarter four of 2023/24.
- 17 The prison population continues to rise, putting additional pressure on the SPS estate.
- 18 The HMP Glasgow project is progressing but slower than anticipated due to design and costing delays.

Introduction

1. This report summarises the findings from the 2023/24 audit of the Scottish Prison Service (SPS). The scope of the audit was set out in an Annual Audit Plan presented to the March 2024 meeting of the Risk Monitoring and Audit Committee (RMAC). This Annual Audit Report comprises:

- significant matters arising from an audit of SPS’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the SPS Advisory Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. SPS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. SPS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

5. Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of SPS from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £117,020 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We would like to thank the Advisory Board members, Risk Management and Audit Committee (RMAC) members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance this year.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified. This means that the auditor is content that the accounts show a true and fair view and have been properly prepared to follow relevant standards and guidance and that income and expenditure for the year is lawful.

The Ex-Gratia process is not fit for purpose with inconsistent approaches across establishments; limited evidence of clear approvals; instances of excessive working beyond working time regulations and breaches of SPS's own policy.

Limited progress has been made against prior year recommendations.

Audit opinions on the annual report and accounts are unmodified

9. The Risk Monitoring and Audit Committee (RMAC) approved the annual report and accounts for the Scottish Prison Service for the year ended 31 March 2024 on 31 July 2024. As reported in the independent auditor's report, the audit opinions were that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were in accordance with applicable enactments and guidance,
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, and
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Overall materiality was assessed as £7.4 million

10. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£7.4 million
Performance materiality	£5.2 million
Reporting threshold	£370,000

12. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70 per cent of overall materiality, reflecting our assessment of the risk profile of the organisation and the number of recommendations and findings from our prior year audit.

14. It is our responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under ISA (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the Board's accounting practices.

16. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

17. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Ex Gratia</p> <p>During 2023/24, SPS made ex-gratia payments totalling £7.5 million to staff working in excess of their standard hours.</p> <p>We sampled ex-gratia claims for payments made during 2023/24 for twenty individual transactions plus the three employees that received the highest level of ex-gratia payments during the year.</p> <p>We were provided with limited evidence of approval of claims with arrangements varying between establishments.</p> <p>We identified two monetary errors, resulting from human error in the processing of payments.</p> <p>We found that the top three ex-gratia earning employees consistently worked excessive hours, with all three breaching the Working Time Regulations of a maximum of 48 hours worked per week over a 17-week period.</p> <p>We found instances of employees working ex-gratia shifts when on annual leave, and identified that the top ten recipients all received in excess of £20,000 in ex-gratia payments during the year. The highest paid received just under £33,000 the equivalent of 72 per cent of their annual salary.</p> <p>SPS policy is that the maximum scheduled hours, including additional shifts, should not exceed 48 hours in a working week. In addition, staff must not be on annual leave at the time of working an ex-gratia shift, and employees with banked hours should not be paid for additional hours until these are cleared.</p> <p>By regularly working beyond the hours permitted by the Working Time Regulations and SPS's own policy, there is a risk that employees are unable to provide the performance and level of care required at prison establishments across Scotland.</p>	<p>SPS review of the ex-gratia process, including the approval and monitoring of additional hours, should ensure that establishments follow all employment policies when utilising ex-gratia working.</p> <p>See Recommendations 1, 2, 3 and 4</p> <p>This was judged to be a key audit matter.</p>

Issue	Resolution
<p>2. Pension information</p> <p>MyCSP is the agency which administers the Civil Service pension schemes. For 2023/24 there has been an exceptional delay in MyCSP providing remuneration information relating to civil service pensions needed for the Remuneration and Staff Report.</p> <p>The issue has impacted organisations across the public sector.</p>	<p>SPS received confirmation that their 2023/24 Pension Disclosure figures would be provided on 31 August 2024.</p> <p>The Scottish Government advised that His Majesty's Treasury had agreed that departments who planned to publish their accounts before this date should not include 2023/24 pensions information in them.</p> <p>On 12 June 2024 the FReM was republished. The updated sections removed the requirement to disclose pension information where waiting for it could cause a delay in the planned laying of the accounts.</p> <p>The 2023/24 planning guidance notes that the target date for SPS accounts to be submitted is 31 August 2024. There is consequently a risk that waiting for the pension information would cause a delay.</p> <p>We are satisfied that pension disclosures included in SPS Remuneration and Staff Report are consistent with updated guidance and comply with the FReM.</p>

Audit work responded to the risks of material misstatement we identified in the annual report and accounts

18. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Detailed testing of journal entries. • Evaluate significant transactions outside the normal course of business. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>We undertook the assurance procedures and found:</p> <ul style="list-style-type: none"> • the design and implementation of controls over journal entry processing still requires improvement (see Appendix 1, prior year recommendation 5 for more detail), • management are not aware of any inappropriate or unusual activity, • the detailed testing of journal entries and unusual transactions did not identify any issues or errors, • no significant transactions outside the course of business were identified, • the detailed testing of income and expenditure around the year-end did not identify any issues or errors, and • detailed testing of accruals and prepayments identified no issues. <p>Conclusion: We did not identify any instances of management override of controls. We do however note that the policy for journal authorisation still needs to be updated to include a wider reaching remit.</p>
<p>2. Estimation in the valuation of land and buildings.</p> <p>At 31 March 2023, SPS held land, buildings and dwellings with a net book value of £1,183 million. There is a</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. 	<p>We undertook the assurance procedures and found:</p> <ul style="list-style-type: none"> • the information provided to external valuer was complete and accurate

Audit risk	Assurance procedure	Results and conclusions
<p>significant degree of subjectivity in the valuation of land, buildings and dwellings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. This level of estimation means there is a risk of material misstatement to the financial statements relating to asset valuations.</p>	<ul style="list-style-type: none"> • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Consider whether the valuation frequency is appropriate. • Critically assess the approach SPS has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Critically assess the adequacy of SPS disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<ul style="list-style-type: none"> • we consider the valuer to be competent, capable and objective • we are content with management's involvement in the valuation process and found that appropriate oversight occurred. • the frequency of valuation is appropriate • all buildings were valued in year • the disclosures, regarding the assumptions in relation to the valuation of land and buildings, are appropriate. <p>Conclusion: We did not identify any issues in relation to the valuation of land and buildings.</p>

19. In addition, we identified 'areas of audit focus' in our 2023/24 Annual Audit Plan, where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Estimation in the valuation of provisions**

At 31 March 2023, SPS had provisions totalling £14.3 million. There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

Results and conclusion: We carried out detailed testing on a sample of new and continuing cases, which involved agreeing back to source documentation (from Human Resources, Legal Services and the Civil Service Pension Scheme) and reviewing any communication from solicitors to confirm the amounts disclosed in the financial statements were correct. We did not identify any errors in relation to this work and concluded that the methodology applied to the provision estimates were reasonable.

- **Ex-gratia payments**

In 2022/23, ex-gratia payments totalled £6.3 million. As part of our audit work in 2022/23, we found that there were errors in five out of the 15 claims sampled. In addition, there was very limited evidence of authorisation or approval in any of the items sampled. There is consequently a risk that ex-gratia payments are not accurately recorded.

Results and conclusions: Our 2023/24 ex-gratia testing found significant issues in the authorisation and monitoring of claims. We sampled 20 individual claims and reviewed all claims made by three employees that were paid the most ex-gratia during the year. Please see [paragraph 21](#) for details of our testing of ex-gratia.

20. We also reported in our Annual Audit Plan that we would carry out a detailed review of the calculations and accounting treatment of the service concession arrangements liability. There was an update to the 2023/24 FReM, which required any service concession arrangement liability to be remeasured whenever there is a change in future lease payments. We reviewed both the HMP Addiewell liability and the Scottish Courts Custody and Prisoner Escorting Services (SCCPES) liability calculations. No issues were identified in our review and are content that the treatment is in line with the FReM 2023/24.

The Ex-Gratia process is not fit for purpose

21. Ex-gratia payments were introduced in 2004 in exchange for operational prison employees working over their contracted weekly hours to maintain service. In 2023/24, SPS spent £7.5 million (2022/23: £6.3 million) on ex-gratia payments, accounted for as part of its staff costs. A total of 2,263 employees claimed ex-gratia during the year, with 21,310 individual claims made. The average ex-gratia amount paid per employee was £3,321.

22. A total of 133 employees (six per cent of ex-gratia paid employees) each received ex-gratia payments greater than or equal to £10,000 during the year. Combined these employees received over £1.8 million in 2023/24, just under 25 per cent of total ex-gratia payments.

23. The highest paid ex-gratia employee received £32,822 in ex-gratia payments (the equivalent of 72% of their annual salary). HMP Edinburgh made the most ex-gratia payments (£1,097,204), closely followed by HMP Barlinnie (£1,085,535).

24. During 2023/24, SPS's internal operational audit team carried out a review of the ex-gratia process. This found inconsistent practices and documentation used across the SPS estate, and that a lack of oversight had led to establishments developing their own processes and not fully following SPS's 'Payment for Working Additional Hours Policy'.

25. The report identified that current processes and authorisation controls were inadequate or ineffective, and concluded that there was a need to review the ex-gratia process. We note that a review process is now underway.

26. Our audit testing was split into a sample of 20 individual ex-gratia claims plus the top three paid ex-gratia employees. For the 20 individual ex-gratia claims, we found limited evidence of authorisation as well as differences between the amounts logged on the ex-gratia submission documentation and the amount paid.

27. Our testing of the 20 individual ex-gratia claims also identified two errors. One resulted in an underpayment of £32 due to the incorrect rates being paid. The second resulted in an overpayment of £2,176. This was due to the ex-gratia information being copied across to the payroll upload file incorrectly, resulting in the same dates being paid three times. SPS advised this was due to human error.

28. We asked SPS to undertake a review to establish if there could be any other errors of a similar nature. SPS confirmed that there was only one other claim that had a similar error. This involved the claim being paid twice.

29. For completeness, SPS payroll undertook an additional exercise to review every batch error report submitted to SPS from their payroll provider CGI. This identified a small number of instances where there were indications of deviations from payroll process. This may have resulted in duplicate payments within one establishment's timesheet batch for one pay period within 2023/24. SPS should undertake a review of any potential errors and ensure that the payroll processes going forward are robust.

Recommendation 1

SPS should investigate all potential errors identified from their review of ex-gratia payments. In addition, SPS should review payroll processes for ex-gratia to ensure they are appropriate.

30. Documentation for the top three ex-gratia earners showed there was excessive working throughout the year. The reports we reviewed covered April 2023 to January 2024, a 44-week period. All three employees received ex-gratia for more than 70% of the weeks during a 44-week period between April 2023 and January 2024, with the highest receiving ex-gratia for 90% of the period (39 weeks).

31. The highest hours worked in any one week for these employees, was 71.35, 74.5 hours and 81.2 hours respectively, more than double the standard working week (37 hours) for SPS employees.

32. SPS's Payment for Working Additional Hours Policy states the maximum scheduled hours, including additional shifts, should not exceed 48 hours in a working week. Of the three employees sampled, all worked more than 48 hours

per week for a significant proportion of the period tested, with one employee working more than 48 hours per week for 31 weeks of the period (72%).

33. The Working Time Regulations require all workers to have a guaranteed limit to weekly working hours, and the average working time for each seven-day period must not exceed 48 hours, including overtime. This is averaged over a 17-week period. For the data obtained, there were numerous occasions where these employees breached this limit, with one employee breaching the limit throughout the period.

34. We also found instances of employees working ex-gratia hours while on annual leave. One employee worked ex-gratia hours on 25 of their 38 annual leave days. There are several risks associated with regularly working beyond the hours permitted by the Working Time Regulations including the impact on staff health and wellbeing, staff performance in discharging their responsibilities effectively and the impact on prisoners in their care and other staff members.

35. The process for claiming ex-gratia is cumbersome and inefficient. There is significant duplication, with ex-gratia being recorded on at least three different documents, all of which have manual input. This duplication and manual input, along with the limited evidence of review, increases the risk of errors.

36. Overall, the ex-gratia process is not fit for purpose. There is a need for a new and improved process which ensures compliance with working time regulations and SPS policy, and has well-designed and consistent procedures in place for working, claiming and paying ex-gratia. It should ensure a strong control environment that allows for efficient and accurate recording, authorisation and payment of ex-gratia. SPS should ensure this is achieved from its current review. More widely, SPS should review its policy for using ex-gratia payments as part of its wider workforce planning to improve its model of staff deployment where use of ex-gratia is extensive.

Recommendation 2

SPS's ongoing review of the ex-gratia process should ensure there is a new and improved process which ensures compliance with working time regulations and SPS policy, and has well-designed and consistent procedures in place for working, claiming and paying ex-gratia. It should ensure a strong control environment that allows for efficient and accurate recording, authorisation and payment of ex-gratia.

Recommendation 3

SPS should review all cases where individuals have breached Working Time Regulations and organisational policy, and ensure that effective controls are in place to prevent such cases happening again in the future.

Recommendation 4

SPS should review its policy for using ex-gratia payments as part of its wider workforce planning to improve its model of staff deployment where use of ex-gratia is extensive.

There was one misstatement identified within the financial statements relating to a prior year disclosure

37. One misstatement was identified relating to the HMP Kilmarnock Private Finance Initiative (PFI) lease liability. When the HMP Kilmarnock PFI accounting model was designed in 1997, the initial lease liability of £40.442m was set to be written down to zero by 2015/16. Therefore, the lease liability from 2016/17 onwards was zero, when it should not have been. As at 31st March 2023, the lease liability should have been £2.5 million. This represents a prior year misstatement and not current year, as HMP Kilmarnock came to SPS ownership from 17 March 2024. Therefore as at 31 March 2024, there is no PFI accounting for HMP Kilmarnock and no lease liability.

38. This constitutes a prior year misstatement. In line with ISA 450, we are formally required to request that the error be corrected. SPS has, however, elected not to correct. As we do not consider the error to be material, we are content to accept this decision and are reporting it as an unadjusted error. This is in line with International Accounting Standard (IAS) 8. Further details of the uncorrected misstatement is included in [Appendix 2](#).

The unaudited Annual Report and Accounts were received in line with the agreed audit timetable

39. The unaudited annual report and accounts were received in line with the agreed audit timetable. The financial statements and supporting notes were received on 27 May 2024 and the complete Annual Report and Accounts being received on 5 June 2024.

Limited progress was made on prior year recommendations

40. SPS has made limited progress in implementing the agreed prior year audit recommendations. Actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#). Given there are 15 outstanding prior year recommendations, it is important for SPS to action and implement recommendations as soon as possible.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

SPS has effective and appropriate arrangements to secure sound financial management.

SPS reported an overspend of £21.6 million against its revised budget in 2023/24.

Suitable financial control arrangements are in place, and standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.

SPS continues to manage significant risks in relation to its IT strategic planning and Cyber Security arrangements.

SPS continues to manage significant risks in relation to its IT strategic planning and cyber security arrangements

41. [Exhibit 4](#) sets out the wider scope risks, relating to Financial Management, that we identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

Risks identified under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>IT strategic planning and cyber security</p> <p>As part of our 2022/23 audit, we identified that there is scope for SPS to strengthen its IT Strategic Planning and cyber security arrangements.</p>	<ul style="list-style-type: none"> Consider and assess actions SPS have and plan to take to strengthen their IT Strategic Planning and Cyber Security. 	<p>SPS elected not to reapply for Cyber Essentials in March 2024, instead focussing on developing its Cyber Security arrangements.</p> <p>This has included policy implementation for Office</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There continues to be a significant risk of cyber-attacks to public bodies. SPS should ensure they have appropriate independent cyber accreditation (i.e. cyber essentials).</p> <p>There is a risk for SPS, that a cyber-attack could significantly impact on both the finances and operation of SPS.</p>		<p>365; complex passwords; OneDrive; and the rollout of SharePoint online.</p> <p>Despite some progress, SPS continues to manage significant risks in relation to its IT strategic planning and cyber security arrangements.</p> <p>We will continue to monitor SPS progress going forward.</p>

SPS reported an overspend of £21.6 million in relation to their revised budget in 2023/24

42. The main financial objective for SPS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

43. SPS reported an outturn of £543.664 million against its overall budget for 2023/24 with an overspend of £21.611 million. The financial performance against fiscal resources is shown in [Exhibit 5](#).

Exhibit 5 Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	444.948	466.043	487.657	21.614
Capital	97.000	56.010	56.007	(0.003)
Total	541.948	522.053	543.664	21.611

Source: Budget (Scotland) Bill 2023/24; Spring Budget Revision 2023/24; SPS Annual Report and Accounts 2023/24

44. The majority of the £21.611 million overspend was in relation to a downward revaluation of HMP Stirling. This was due to HMP Stirling being capitalised in year, moving from Assets Under Construction to Property, Plant and Equipment. When capitalised, HMP Stirling was measured at cost in the Fixed Asset Register. Then, as at 31 March 2024, HMP Stirling was valued by SPS's external valuer. Since HMP Stirling was constructed during the Covid-19 pandemic, costs were higher than normal, meaning the cost measurement of HMP Stirling was therefore artificially high when compared to the fair value. Once it was revalued, the value of the asset was lower, resulting in a £19.355 million decrease in the fair value of HMP Stirling.

45. The SPS budget was increased as part of the Autumn Budget Revision and then decreased as part of the Spring Budget revision. The major changes were as follows:

- A net increase of £14,000 as a result of the Autumn Budget Revision. This consisted of a £600,000 decrease due to a forecasted underspend in general expenditure and a £614,000 increase for leased assets depreciation under IFRS 16.
- A net decrease of £19.909 million as a result of the Spring Budget Revision. This consisted of a £41 million decrease due to the re-phasing of the development of the prison estate; a £22.856 million increase primarily for the 2023/24 pay award increases; a £1.568 million increase for provisions, impairments and PFI depreciation adjustments; and a £3.343 million decrease for lower depreciation cost.

46. SPS initially had a Capital budget of £97 million in 2023/24. This included an increase of £25.3 million when compared to 2022/23. However, at the Spring Budget Revision, their Capital budget was reduced by £41 million. This reduction was due to the re-phasing of the development of the prison estate. Increased funding has been provided in the 2024/25 budget bill as detailed at [paragraph 57](#).

SPS has appropriate financial control arrangements in place

47. As part of our work, we reviewed the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and tested the operating effectiveness of specific controls. We did not identify any internal control weaknesses which could affect SPS's ability to record, process, summarise and report financial and other relevant data which would result in a material misstatement in the financial statements. We also did not identify any significant deficiencies when testing the operating effectiveness of specific controls.

48. As part of our 2022/23 audit, we identified control improvements that SPS should make in relation to payroll and journal authorisation. We considered the progress of SPS implementing these improvements as part of our 2023/24 review of the control environment. One that was implemented, namely the creation of a monthly payroll exception compilation report, was found to be well designed and operating effectively.

49. There are three outstanding improvements still to be made. The strengthening of journal authorisation, carrying out a year-end cumulative reconciliation between payroll and the general ledger and carrying out an employee verification exercise have yet to be implemented. Please see [Appendix 1](#), prior year recommendation 5 and 6 for the most recent SPS update in relation to these outstanding improvements.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

50. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

51. SPS has a Fraud Response Group (FRG) that reviews and reports on any identified frauds. The FRG prepare an Annual Report that is presented to the Risk Monitoring and Audit Committee (RMAC) each year. At the time of our audit, the 2023/24 FRG Annual Report was not yet available for review. However, an action log is maintained by the FRG that includes all ongoing cases and any actions that have been agreed upon. We reviewed the action log for 2023/24, alongside the Whistleblowing and Fraud Prevention policies. From this review we concluded that SPS has adequate arrangements in place to prevent and detect fraud or other irregularities.

The Financial Policy and Services department continues to operate under capacity

52. Since our 2022/23 audit, improvements have been made to the resourcing position of the Financial Policy and Services department. However, there is still work to be done to ensure the department can operate and function effectively and efficiently. As part of our 2023/24 audit, we have identified instances where the department has had to prioritise workload.

53. For example, in 2022/23, reconciliations were carried out monthly between the payroll system and the general ledger and the fixed asset register and the general ledger. For 2023/24, the monthly reconciliations were not undertaken timeously, instead being carried out at the year end. While this is not a control deficiency, it demonstrates that the department continues to rely on a small number of key members of staff. Our prior year recommendation regarding the department's resourcing position remains outstanding (see [Appendix 1](#), prior year recommendation 9).

National Fraud Initiative

54. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SPS participates in

this biennial exercise. The 2022/23 exercise concluded during 2023/24 financial year and the final report is due to be published in Summer 2024.

55. SPS identified no instances of fraud as part of their NFI exercise. We rated SPS's NFI arrangements as being Amber (on a Red, Amber and Green (RAG) rating). SPS should implement the following changes to their NFI arrangements:

- Incorporate NFI as an explicit part of SPS's Counter Fraud Strategy.
- Complete the NFI self-assessment checklist for each NFI exercise and present it to management and those charged with governance for consideration.
- Report NFI progress and outcomes to senior management and the Risk Monitoring and Audit Committee.

Recommendation 5

The SPS should implement the following as part of their NFI arrangements:

- Incorporate NFI as an explicit part of SPS's Counter Fraud Strategy
 - Complete the NFI self-assessment checklist for each NFI exercise and present it to management and those charged with governance for consideration.
 - Report NFI progress and outcomes to senior management and the RMAC.
-

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

SPS needs to strengthen its arrangements for assessing its financial sustainability.

SPS's 2024/25 budget has increased to support rising costs linked to the increasing prison population and inflation, but is currently forecasting an overspend of £18.3 million.

Limited progress was made during 2023/24 to develop a medium-term financial strategy due to staffing pressures.

SPS needs to strengthen its arrangements for assessing its financial sustainability.

56. [Exhibit 6](#) sets out the wider scope risks relating to Financial Sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 6

Risks identified under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>Financial Sustainability</p> <p>SPS faces a challenging financial position and this is likely to continue for the foreseeable future. Financial pressures arising from issues such as higher energy costs, inflationary pressures on contracts and pay awards, as</p>	<ul style="list-style-type: none"> Review SPS's arrangements in place to manage its financial position. Review any progress made in developing financially sustainable plans in the short to medium term. 	<p>We found:</p> <ul style="list-style-type: none"> That the budgetary controls around budget monitoring are well designed and operate effectively, providing a strong control environment.

Audit risk	Assurance procedure	Results and conclusions
<p>well as an anticipated flat cash allocation from the Scottish Government until 2026/27, represents a significant challenge for SPS.</p>	<ul style="list-style-type: none"> Review any forecasts/budgeting work for future years. 	<ul style="list-style-type: none"> Funding from the Scottish Government of £648.2 million has been included in the 2024/25 budget. This represents increased funding of 24.2 per cent (when compared to the 2023/24 Spring Budget Revision). The creation of a medium-term financial strategy is ongoing. <p>Conclusion: SPS needs to strengthen its arrangements for assessing its financial sustainability. The development of a Medium-Term Financial Strategy (MTFS) should be a priority for SPS.</p>

Increased funding has been made available through the 2024/25 Budget Bill, however SPS are forecasting an overspend of £18.3 million

57. The Scottish Government has confirmed that SPS's 2024/25 budget has increased, with £648.2 million allocated to deliver services. This compares to a final budget of £522.1 million in 2022/23.

58. The resource budget now totals £481.2 million (2023/24 - £466 million), with the increase supporting rising costs linked to the increasing prison population, inflation and pay increases.

59. A total of £167 million (2023/24 - £56 million) is also included to support capital projects, including planned work on HMP Highland and HMP Glasgow.

60. At the time of our audit, based on the information provided to us by SPS, there is a current cost pressure for 2024/25 of £18.3 million. This is the gap between what SPS have outlined they require for 2024/25 and what the Scottish Government funding has provided. The projected overspend is primarily made up of a projected £9.8 million overspend in pay costs and £9 million in non-pay running costs. An underspend of £0.5 million is projected for private contracts.

61. The £9.9 million overspend in pay costs is due to a number of factors, including an increase in the number of posts for HMP Kilmarnock, less staff vacancies, increased use of temporary staff and increased pension contributions costs.

62. The £8.95 million overspend in non-pay running costs is due to a number of factors, including significant increases in prisoner related expenditure areas of food, cleaning and social care costs and also costs associated with HMP Kilmarnock coming into public ownership.

Limited progress has been made in the development of a medium-term financial strategy

63. There is a prior year audit recommendation that SPS should develop a medium-term financial strategy. In 2022/23, SPS advised us that the development of a financial strategy was a key objective for SPS. However, capacity issues of the finance function severely impacted the progress toward developing a medium-term financial strategy.

64. During 2023/24, resource pressures continued to impact the finance function, which has led to further delays in developing the medium-term financial strategy. The development of a medium-term financial strategy should be a focus for SPS during 2024/25. Please see [Appendix 1](#), prior year recommendation 13 for an update of this recommendation.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

SPS has a clear vision and strategy as set out in its 2023-28 Corporate Plan.

Governance arrangements are effective and appropriate, however improvements should be made to the process of assuring the Accountable Officer on the effectiveness of internal controls and corporate governance

A number of key governance and policy documents remain out of date and require review.

SPS has a clear vision and strategy as set out in its 2023-28 Corporate Plan

65. SPS has published a Corporate Plan for years 2023 to 2028. The Plan highlights the changing environment SPS is managing in the form of changing prison demand and the challenges this brings. The 2023-28 Plan overview sets out SPS's strategic intent, its objectives and enablers of success. The five-year corporate plan is supported by the 2023/24 annual delivery plan, the first of five annual plans.

66. The arrangements in place demonstrate a clear plan to implement SPS's vision, strategy and priorities for the foreseeable future.

Governance arrangements are effective and appropriate

67. SPS's governance arrangements are set out in the Governance Statement in the annual accounts. We reviewed these arrangements and concluded that they are effective and appropriate.

68. SPS is governed by its Advisory Board, the Risk Monitoring and Audit Committee (RMAC) and the Executive Management Group (EMG). Minutes for Advisory Board meetings, including financial and performance information and details of decisions made, are available on the SPS website.

69. We recommended in our 2022/23 Annual Audit Report that SPS should make all approved RMAC minutes available online. SPS has yet to do this. Please see [Appendix 1](#), prior year recommendation 10 for more detail on the progress of this recommendation.

70. In 2023/24, we carried out a review of the Internal Control Checklists that are completed and accompany any Certificate of Assurance. Whilst we found the checklists covered all expected areas of the Scottish Public Finance Manual (SPFM), the responses provided could have been more comprehensive.

71. For example, one question *‘is there a Business Continuity Plan covering the critical functions of your business area, which has been reviewed in the last year’* had a response of *‘No’*, with no narrative to explain why there is not one or what process is in place to gain assurance instead. There were also instances where response sections were left blank, with no detail included.

72. We also found that the Certificate of Assurance used by SPS is not based on the most up-to-date model provided in the SPFM. While this does not represent a significant risk, some assurance statements did not fully reflect the required content. The Internal Control Checklist and resulting Certificates (Statement) of Assurance inform the Accountable Officer about the effectiveness of internal control and corporate governance. We would therefore recommend using the most up-to-date model.

Recommendation 6

SPS should ensure that Internal Control Checklists are comprehensively completed, and that all Certificate of Assurance reflect the required content of the SPFM template. This is important for assuring the Accountable Officer on the effectiveness of internal controls and corporate governance.

A number of key governance and policy documents remain are out of date and require review.

73. In 2022/23, we identified that the Framework Agreement between SPS and the Scottish Ministers was past the review date. The Framework document is required to be updated, in consultation with Scottish Ministers, at least every five years. As at the 31st March 2024, the version of the Agreement remained the one dated from 2016. In July 2024, SPS published their updated and signed Framework Document. We will consider this as part of our 2024/25 audit.

74. We also identified a number of key policy documents that were out of date and past review date. These include the Code of Conduct, the Fraud Prevention Policy, Gifts and Hospitality, Protecting Personal Data Policies, Record Management Plan and the Whistleblowing Policy.

75. We continue to recommend that SPS update key policy documents as soon as possible. Please see [Appendix 1](#), prior year recommendation 11 for more detail on the progress of this recommendation.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

SPS has arrangements in place to ensure Best Value and have developed an appropriate framework document to demonstrate this.

Key Performance Indicators (KPIs) have been updated to align with the strategic objectives set out in the Corporate Plan 2023-28.

Performance of the Scottish Courts Custody and Prisoner Escorting Services (SCCPES) contract saw improvements across all key service performance areas by quarter four of 2023/24.

The prison population continues to rise, putting additional pressure on the SPS estate.

The HMP Glasgow project is progressing but slower than anticipated due to design and costing delays.

SPS has developed an appropriate Best Value framework

76. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

77. In 2022/23, we recommended that SPS develop a Best Value framework document that sets out how the arrangements put in place by the Accountable Officer meets the Best Value obligations. SPS has implemented this

recommendation and has created the 'Delivering 'Best Value in Public Services' at SPS's' document.

78. The 'Delivering 'Best Value in Public Services' at SPS's' document demonstrates the way in which the Accountable Officer of the SPS meets their Best Value obligations. The document covers the five themes and two cross-cutting themes that are set out in the SPFM. Considerable evidence is included for each theme (and sub-theme) to demonstrate that Best Value is implemented and achieved.

Key Performance Indicators (KPIs) have been updated to align with the strategic objectives set out in the Corporate Plan 2023-28

79. SPS has updated their KPIs to align with the strategic objectives set out in their Corporate Plan 2023-28. This involved creating eight new KPIs and escalating six previously held operational measures to KPI level. There are 17 KPIs that continued from the previous suite, with eight of these being kept under review.

80. Prior year comparison is not available with the new KPIs or those that have been escalated from operational measures. Of the 17 that are continuing, two maintained performance, five were improved and six declined. Notable points highlighted include:

- instances of violence were up compared to 2022/23;
- total hours of purposeful activity were up against 2022/23. However, the average number of hours per week was down;
- the average cost per prison place was up against 2022/23;
- there was one escape from custody of a prisoner at other supervision level, which was the same as 2022/23; and
- vocational and employment related qualifications at SCQF level 5 or above were higher in 2023/24

Performance of the Scottish Courts Custody and Prisoner Escorting Services (SCCPES) contract saw improvements across all key service performance areas by quarter four of 2023/24

81. SPS manages the Scottish Courts Custody Prisoner Escorting Services contract on behalf of the Justice Multi Agency Liaison Group (MALG) which includes SPS, Scottish Courts and Tribunals Service, Crown Office and Procurator Fiscal Service and Police Scotland.

82. In our 2022/23 Annual Audit Report, and also the Auditor General for Scotland's Section 22 report, we reported that SPS took several actions aimed

at improving GEOAmeys performance as operator of the SCCPES contract. This included issuing Improvement Notices and applying financial penalties of around £4 million (to 2022/23) in line with the contract terms.

83. These actions had limited impact. SPS then took more direct action, including financial support to GEOAmeys to aid staff recruitment and retention, while at the same time limiting the use of performance measures and financial penalties.

84. By quarter four of 2023/24, improvements were seen across all key service performance areas. As part of our audit, we reviewed the GEOAmeys performance reports for 2023/24. Improvements were noticeable in quarter four of 2023/24 performance data. Notable points of improvement were:

- The total late custodies for court arrivals decreased by 10.51% in quarter three, from 5,384 to 4,818;
- 85.2% of medical appointments were fulfilled in March 2024, up from 56.9% in September 2023; and
- 94.5% of Video Identification Parade Electronic Recording (VIPER) appointments were fulfilled, up from 45.3% in September 2023.

85. While performance has improved, there remains significant challenges due to the increasing prisoner population and ongoing work to address the courts backlog. SPS will need to continue its close engagement with GEOAmeys to ensure that recent improvements in performance levels are sustained over the remainder of the contract.

The prison population continues to rise, putting additional pressure on the SPS estate

86. Between 2013/14 and 2022/23, the average population in Scotland's prisons was 7,653. The highest population during this period occurred in 2019/20 with an average population of 8,198 and a maximum of 8,336 being accommodated within the Scottish prison system. During the Covid-19 pandemic, the population declined, largely due to lower case numbers being processed by the courts. In 2022/23, the average population was 7,426 with a maximum at any one point during this period of 7,583.

87. SPS report in their Annual Report and Accounts that for the reporting year 2023/24, the average daily population was 7,859. This is an average increase of 433, (5.83%) on the previous year. The daily average male population has seen an increase of around 6% during 2023/24 with the women's population increasing by almost 12%.

88. The nature of the prison population is also changing, with SPS managing a greater proportion of older prisoners and prisoners who are required to be accommodated separated. The increasing and changing nature of the population has an impact the SPS's ability to deliver high quality services. It is also putting stress on an ageing prison estate.

89. The Scottish Government is considering a range of measures to ease the pressure as a result of the increasing prisoner population. One measure is 'Emergency Early Release' approved by the Scottish Parliament in June 2024. This will see some prisoners serving sentences of less than four years, who are due to be released within 180 days of the regulations coming into force, being considered for emergency release.

90. Modelling undertaken by the Scottish Government estimated that around 550 prisoners could be released under these measures. We will monitor the impact of this intervention on the prisoner population as part of our 2024/25 audit of the SPS.

The new HMP Glasgow project is progressing but slower than anticipated due to design and costing delays

91. HMP Barlinnie has the largest occupancy of any prison operated by SPS. It has a design capacity of 987, but routinely holds over this amount. During 2023/24 the average population was 1,368 (1,235 in 2022/23). The maximum population of HMP Barlinnie during 2023/24 was 1,442 (1,301 in 2022/23). His Majesty's Inspectorate of Prisons in Scotland (HMIPS) reported in 2019 that HMP Barlinnie was 'physically no longer fit-for-purpose to manage the size and complexity of the population it routinely holds'.

92. Plans for a replacement prison for HMP Barlinnie, HMP Glasgow, are being progressed. As reported in the SPS Annual Accounts and Report, an Advance Works contract to commence ground works on HMP Glasgow was agreed in August 2023. SPS had hoped that HMP Glasgow would have moved to construction phase, however this has been impacted by budgeting delays.

93. The estimated cost of HMP Glasgow increased from £100 million in 2014 to £387.6 million in October 2019. These initial estimates were based on other comparable projects and requirements at the time. The forecast costs are expected to be significantly higher once the design phase is complete and a contract is awarded in Autumn 2024. This is attributed to inflationary pressures, an updated design to reflect 'Net-Zero' commitments and changing requirements post-Covid to safely manage the prison population.

94. SPS has reported that the price for the construction contract is expected at some point in 2024.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Ex-Gratia payroll review</p> <p>We identified two errors as part of our ex-gratia testing. This was found to be due to human error. SPS identified other claims which could have been affected by the same issue.</p> <p>Risk – Overpayments are made for ex-gratia that are not identified.</p>	<p>SPS should investigate all potential errors identified from their review of ex-gratia payments. In addition, SPS should review payroll processes for ex-gratia to ensure they are appropriate.</p>	<p>Accepted</p> <p>All potential errors from the payroll reports on Ex Gratia payments will be investigated fully with a managerial review to review reasons for errors.</p> <p>As part of the review looking at the SPS policy and Operation of the ex gratia process, the payroll process for ex gratia will be reviewed for appropriateness with the outcome disseminated to the Payroll Team members.</p> <p>Director of Organisational Development</p> <p>Quarter 3, 2024-25</p>
<p>2. Ex-Gratia Process Review</p> <p>The current ex-gratia process is not fit for purpose. There is an ongoing review of the process being carried out by SPS. This review should ensure that a new process is well designed and consistent with any SPS policy.</p> <p>Risk – Issues with the current ex-gratia process are not</p>	<p>SPS's ongoing review of the ex-gratia process should ensure there is a new and improved process which ensures compliance with working time regulations and SPS policy, and has well-designed and consistent procedures in place for working, claiming and paying ex-gratia. It should ensure a strong control environment that allows for efficient and accurate recording,</p>	<p>Accepted</p> <p>In recognition of a range of challenges with the ex-gratia policy and process, SPS is undertaking a review of ex-gratia to inform a project for a new ex-gratia policy, which will ensure compliance with working time regulation and improved consistency of its use, claim, approval and payment of ex-gratia across the estate.</p>

Issue/risk	Recommendation	Agreed management action/timing
addressed as part of the review.	<p>authorisation and payment of ex-gratia.</p> <p>Paragraph 36</p>	<p>The SPS ex-gratia process has two parts, both of which will require change. Namely:</p> <p>Part A - distributing ex-gratia shifts (Operations Directorate); and;</p> <p>Part B - ex-gratia claiming process (Organisational Development Directorate).</p> <p>In January 2024, the SPS operational audit team undertook a review of ex-gratia processes and management which concluded there is a need to replace/update operational procedure to better embed process at local/national level and for improvements to recording documentation and guidance. In addition, the internal audit team commenced an audit of ex-gratia in Quarter 2024-25.</p> <p>SPS will ensure the recommendations and conclusions of reviews by internal and external audit on ex-gratia will be used to inform our project for renewing the policy and operation of ex-gratia across the organisation. The project will report into our Major Projects and Management Board, and update to the Risk Management Audit Committee.</p> <p>It is also acknowledged that the future use of ex-gratia will be informed by medium to longer term reform prison operating models and staff structures.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>The introduction of a new integrated HR and Payroll system (MHR) in October this year presents an opportunity to make improvements to part B-ensuring consistency in claiming across the estate.</p> <p>SPS will also ensure all establishments are compliant with the working time regulations. and adhere to the correct use of the SPS policy on ex-gratia to ensure there is improved consistency in decision making and processes.</p> <p>Quarter 3, 2024-25</p> <p>Director of Operations Director of Organisational Development</p>
<p>3. Ex-Gratia Claims Review</p> <p>Our audit testing of ex-gratia identified that there are employees who have worked over 48 hours per week. This is in breach of Working Time Regulations and SPS policy.</p> <p>Risk – SPS employees are breaching Working Time Regulations and SPS policy.</p>	<p>SPS should review all cases where individuals have breached Working Time Regulations and organisational policy, and ensure that effective controls are in place to prevent such cases happening again in the future.</p> <p>Paragraph 36</p>	<p>Accepted</p> <p>Management Action is as Risk 1 noted above.</p> <p>Similar to above, the SPS operational Ex-Gratia Audit highlighted the same concerns about individuals working more than the 48 hours per week breaching the working time regulations. OD and HR will target immediate action to ensure that there is greater understanding and reinforce the implementation of this policy across establishments as we seek to renew the policy, it's</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>understanding and implementation.</p> <p>Director of Operations Director of Organisational Development Quarter 3, 2024-25</p>
<p>4. Workforce planning review of ex-gratia</p> <p>Ex-gratia payments have been increasing in recent years. There was an increase of £1.2 million, from 2022/23 to 2023/24. This is a 19% increase. Given the increased reliance on SPS staff working ex-gratia shifts, SPS should review the ex-gratia policy as part of its wider workforce planning.</p> <p>Risk – Ex-gratia payments continue to rise with no consideration of wider workforce planning.</p>	<p>SPS should review its policy for using ex-gratia payments as part of its wider workforce planning to improve its model of staff deployment where use of ex-gratia is extensive.</p> <p>Paragraph 36</p>	<p>Accepted</p> <p>As identified above, SPS will ensure to review its current policy is in line with wider workforce planning. In addition, further changes to the approval and claiming process will aim to mitigate against any potential future increases in costs. Future use of ex-gratia will be informed by wider reform of SPS operating model and staffing structures.</p> <p>Director of Operations Director of Organisational Development Quarter 3, 2024-25</p>
<p>5. National Fraud Initiative (NFI)</p> <p>We rated SPS's NFI arrangements as being Amber (on a Red, Amber and Green (RAG) rating). The reason for this rating was due to the NFI not</p>	<p>The SPS should implement the following as part of their NFI arrangements:</p> <ul style="list-style-type: none"> Incorporate NFI as an explicit part of SPS's Counter Fraud Strategy 	<p>Accepted</p> <p>A process shall be put in place for all establishments to complete the self-assessment checklist for NFI exercise. The results from the exercise shall be reported to the Fraud Response Group for deliberation with progress</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>being an explicit part of SPS's Counter Fraud Strategy, the NFI self-assessment checklist had not completed and NFI progress and outcomes are not reported to senior management.</p> <p>Improvement – SPS's NFI arrangements can be improved upon.</p>	<ul style="list-style-type: none"> Complete the NFI self-assessment checklist for each NFI exercise and present it to management and those charged with governance for consideration. Report NFI progress and outcomes to senior management and the RMAC. <p>Paragraph 55</p>	<p>reported to RMAC in due course.</p> <p>Chair of the Fraud Response Group</p> <p>March 2026</p>
<p>6. Certificates of Assurance and accompanying checklists</p> <p>From our review of the Certificates of Assurance and accompanying Internal Control Checklists, we found that some Certificates did not contain all required content of the SPFM and the checklists were not comprehensively completed.</p> <p>Risk – Incomplete assurance is provided to the Accountable Officer.</p>	<p>SPS should ensure that Internal Control Checklists are comprehensively completed, and that all Certificate of Assurance reflect the required content of the SPFM template. This is important for assuring the Accountable Officer on the effectiveness of internal controls and corporate governance.</p> <p>Paragraph 70</p>	<p>Accepted</p> <p>a) SPS will update the Certificate Template to reflect the SPFM.</p> <p>b) SPS will provide enhanced guidance, support and review of checklists for the next cycle of assurance statements (April-May 2025) to improve the quality of responses.</p> <p>Deputy Chief Executive</p> <p>June 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>1. PFI Model Corrections</p> <p>The PFI models for HMP Addiewell and HMP Kilmarnock were not updated</p>	<p>Recommendation – SPS should update the PFI model for HMP Addiewell annually. This will ensure that any</p>	<p>Implemented</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>in line with RPI, as set out in their contracts. This was corrected, which required a £67.056 million increase to the commitment for the service element due in future periods for 2022/23 and £70.437 million in 2021/22.</p> <p>Risk – There is a risk that the PFI commitment recognised in the notes to the financial statement is materially misstated.</p>	<p>future commitment is accurately reflected in the financial statements.</p> <p>Agreed Action – The PFI Model has been changed and simplified for the 2022-23 audit. The models going forward shall be reviewed on a regular basis to account for material changes in circumstances so that the commitments are appropriately accounted for.</p> <p>Director of Finance September 2023</p>	
<p>2. Ex-gratia Payments</p> <p>Our testing of ex-gratia claims identified errors in five out of 15 claims. There was very limited evidence of authorisation or approval in any of the items sampled.</p> <p>Risk – There is a risk that erroneous ex-gratia payments are being paid to employees working over their contracted hours.</p>	<p>Recommendation – SPS should undertake a full review of the authorisation, approval and submission process for ex-gratia claims by employees working over their contracted hours to ensure that appropriate controls are operating and can be evidenced.</p> <p>All under and over payments should also be paid or recovered as appropriate.</p> <p>Agreed Action – Policy Owners have confirmed that SPS will continue to use the current Ex Gratia payment process until such time as the new integrated HR transformation system is in place. This is scheduled to be 1st August 2024. In conjunction with Policy Owners, the Operations Directorate will reinforce mandatory assurance processes surrounding ex gratia claim process,</p>	<p>Superseded – see 2023/24 recommendations 1, 2, 3 and 4</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>improving upon guidance to Managers and seeking to standardise the approach to increase effectiveness. A Notice to Staff will be issued by Policy Owners in October 2023 re-affirming this position. The Operations Directorate will confirm further Internal Audit procedures to sample check claims over coming months to provide assurance to the Director and EMG that improvements are evidenced.</p> <p>Director of Operations 3rd Quarter 2023-24</p>	
<p>3. Indexed Assets</p> <p>The SPS does not review the changes in value as a result of indexation. Material changes should be reviewed and an official valuation should be carried out on any assets that have material changes to their value.</p> <p>Risk – There is a risk that the carrying amount of indexed assets differ materially from the current value.</p>	<p>Recommendation – SPS should update their accounting policy for Property Plant and Equipment to establish a working definition of what constitutes a material difference between the carrying amount and current value of an asset. Any asset value changes from indexation that breach the material difference should then be subject to an official revaluation carried out by their valuer.</p> <p>Agreed Action – The accounting policy has been updated for a change in approach in the valuation of assets. This will include a detailed desktop review each year of specialised assets that are not being valued as part of the quinquennial cycle of asset valuations.</p> <p>Director of Finance September 2023</p>	<p>Implemented</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>4. Annual Report Compilation Process</p> <p>A number of disclosures in the Performance Report, Directors' Report, Governance Statement and Remuneration Report were found not to be in compliance with the FReM. Management have now included all relevant disclosures but should review arrangements for preparing the annual report in future years.</p> <p>Risk – There is a risk that the audited sections of the Annual Report are not FReM or SPFM compliant.</p>	<p>Recommendation – SPS should implement a process to support the preparation and review of the annual report to ensure full compliance with applicable sectoral requirements prior to submitting for external audit.</p> <p>Agreed Action – Additional key senior finance resources have been recruited to address the issue. Various components of the annual reports going forward shall be reviewed to comply in full with the FReM.</p> <p>Director of Finance December 2023</p>	<p>Implemented</p>
<p>5. Journal Authorisation</p> <p>The current policy for authorisation of journals in the Finance Policy and Guidance Manual is too limited.</p> <p>Risk – Without journal authorisation, there is a risk that inappropriate or incorrect journals are entered into the general ledger.</p>	<p>Recommendation – When SPS are updating their Finance Policy and Guidance Manual, the journal authorisation policy should be updated and expanded to ensure that the requirements for authorisation cover a wider range of situations.</p> <p>Agreed Action – SPS is planning to move to a cloud version of the finance system in 2024. Chapter 19 of the finance policy and guidance manual "Journal Entries", will be reviewed with feasible changes to the authorisation process to be consistent with the cloud system processes. In the meantime, the Finance team will review the material journals processed throughout the Service on a quarterly basis from Quarter 3 2023-24.</p>	<p>Work in progress</p> <p>Due to ongoing resource constraints the finance manual review has not yet taken place. Due to the scale of this task and with limited resources, a process of focusing on specific areas with an ongoing change management process is viewed as the most effective way of targeting this. The new finance structure which is being worked on will provide more senior finance resource which should help address progress with this in 2024-25. The absence of an efficient and effective system for authorising journals has also impacted this- the adoption of an upgraded version of the financial system with cloud functionality should also help</p>

Issue/risk	Recommendation and Agreed Action	Progress
	Director of Finance 3 rd Quarter 2023-24	this process once it is implemented. Director of Finance Quarter 4 2024-25
<p>6. Strengthening of Payroll Controls</p> <p>As part of our testing, we identified a number of improvements that should be made to the payroll control environment. These covered exception report, employee verification and a cumulative ledger to payroll reconciliation.</p> <p>Improvement – In making these improvements, SPS will strengthen their payroll controls to better prevent and detect material misstatements.</p>	<p>Recommendation – SPS should strengthen controls in relation to payroll by:</p> <ul style="list-style-type: none"> • Creating an exception report that compiles all variances and reasons. This should be reviewing on a monthly basis. • Implementing an employee verification exercise to provide assurance that the payroll listing is complete and accurate. • Undertaking a cumulative general ledger to payroll system reconciliation at the year end. <p>Agreed Action –</p> <p>1) With effect June 2023 (2023/24, period 03), a master exception report is in use for each pay period and reasons are recorded against variances that are +/- 20% from previous month's net pay. From period 07 (October 2023) we will introduce a further step to enhance the controls in place. The master exception report will be reviewed by Pay Team Leaders or the Payroll Manager, who will record their satisfaction that all exceptions have an acceptable reason recorded against them. New digital tools have improved the ability of the Pay Team to</p>	<p>Partially Complete</p> <p>A master exception report, whereby reasons are recorded against variances that are +/- 20% from previous month's net pay, now forms part of our standard monthly Payroll activity.</p> <p>Additionally, a monthly assurance of the payroll checks conducted is completed and held against each relevant Pay Month. This assurance records that the master exception report has been reviewed by Pay Team Leaders / Payroll Manager, and that they are satisfied that all exceptions have an acceptable reason recorded against them.</p> <p>Action 2 - A report of New Starts and Leavers for each month is produced from the HR system and reconciled against the Pay system each month prior to main run being completed; assurance that the reconciliation has been completed is recorded on the Monthly Payroll check assurance.</p> <p>Cumulative general ledger to payroll system reconciliation</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>work collaboratively, negating the need to use anything other than a master document, which should only ever be held in a shared workspace.</p> <p>Head of Human Resource October 2023</p> <p>2) Pay Team will run a 'leavers' report from our HR system prior to the processing of each monthly pay run. The detail of any 'leavers' from the last date of the previous month will be reconciled against pay data to ensure no payments are being made to 'leavers' that are unnecessary.</p> <p>Head of Human Resource October 2023</p> <p>3) Pay Team will be working in collaboration with Finance colleagues to develop appropriate mechanisms in which to assure the data on an ongoing basis, resulting in a year end cumulative reconciliation. This may require the assistance of our Payroll provider to determine what reports from the Pay System would best support this aim.</p> <p>Head of Human Resource Target date to be confirmed following collaboration with Finance Team.</p>	<p>shall be put in place during 2024-25.</p> <p>Director of Finance</p> <p>Quarter 4 2024-25</p>
<p>7. Cyber Essentials</p> <p>SPS does not have cyber essentials and is currently not meeting the requirements set</p>	<p>Recommendation – SPS should ensure that they are demonstrating strong cyber security. This involves ensuring they are complying</p>	<p>Work in progress</p> <p>SPS is currently working through its remediation plan completed in January 2024 prior to applying for Cyber</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>out by the Public Sector Cyber Resilience Framework.</p> <p>Risk – SPS is not sufficiently protected against common online threats.</p>	<p>with the Public Sector Cyber Resilience Framework by obtaining Cyber Essentials.</p> <p>Agreed Action – SPS reports quarterly on the Cyber Resilience Framework and updated the SPS EMG in July 2023 on status. Cyber Essentials accreditation is part of the SPS Digital Services 2023-24 Annual Delivery Plan which is reviewed quarterly.</p> <p>SPS is working through the remediation plan from the 2022 Penetration Test to meet Cyber Essentials accreditation. This requires key changes to infrastructure and user policy applications across SPS' IT infrastructure. Progress is monitored through the Technical Assurance Group and the Cyber Security Forum.</p> <p>Head of Digital Services 4th Quarter 2023-24</p>	<p>Essential accreditation during 2024/25.</p> <p>Head of Digital Services Quarter 2 2024-25</p> <p>Digital Services has a daily triage review of SC3 threat assessment and weekly cyber forum. Utilising MS Defender and Sentinel plus Smoothwall firewall tools.</p> <p>Digital Services is working on our remediation plan from the Pentest undertaken in Jan 2024 prior to applying for accreditation in Q2 2024.</p> <p>Head of Digital Services Quarter 2 2024-25</p>
<p>8. IT Strategic Planning</p> <p>SPS does not have a central Disaster Recovery Plan and Business Continuity Plan. In addition to this, they do not regularly verify and test the back-ups of files.</p> <p>Risk – In the face of an event that stops day to day operations, SPS risks data loss, additional expenses and reputational damage due to not having these plans in place.</p>	<p>Recommendation – The SPS needs to strengthen its IT strategic planning. This includes:</p> <ul style="list-style-type: none"> • Creating a corporate Business Continuity Plan and Disaster Recovery Plan that is approved by Senior Management and tested regularly to ensure that they remain fit for purpose. • Undertaking a periodic inventory to verify the maintenance and testing of backup files. Testing of data regeneration should 	<p>Work in progress</p> <p>Digital Services have completed a Disaster Recovery Plan to review scenario and response planning. This includes Incident response support from Resillion for cyber workshop and tabletop exercises.</p> <p>Digital Services undertook a board workshop on 31/1/24 and identified responsibilities for Disaster Recovery planning. Digital Services also identified Business Continuity requirement for</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>also be carried out on a regular basis.</p> <p>Agreed Action – A Disaster Recovery (DR) Planning workshop is scheduled for October 2023. Digital Services has commissioned a formal DR plan and policy review to follow. A Critical Incident Response (CIR) business case is pending approval to support SPS Digital Services response to a cyber incident. A board workshop on disaster recovery/cyber incident will follow the DR workshop.</p> <p>Head of Digital Services 4th Quarter 2023-24</p>	<p>wider business departments to complete, which are still in progress.</p> <p>This was reported to SPS RMAC on 28/6/24.</p> <p>Head of Digital Services Q4 2024-25</p>
<p>9. Finance Capacity</p> <p>The Finance Policy and Services Department is currently operating under capacity, with an over-reliance on key members of staff. The additional work carried out by the Department to keep the Department operating is not maintainable.</p> <p>Risk – The Finance Policy and Services Department is under-resourced and cannot operate properly or effectively.</p>	<p>Recommendation – SPS should review resourcing within the Financial Policy and Services (FP&S) department to ensure that it can function properly and effectively.</p> <p>Agreed Action – Additional key senior finance resources have been recruited to better equip the department to deal with the operating requirements of the service. A new FP&S structure is being prepared and will be presented to the EMG in November 2023 for approval.</p> <p>Director of Finance November 2023</p>	<p>Work in progress.</p> <p>Certain key positions within the current finance structure have been filled in the year, however, there remains vacancies and the adoption of a new finance structure will lead to further roles which will help SPS align their finance capacity with requirements and help address capacity issues.</p> <p>Director of Finance Q4 2024-25</p>
<p>10. Improving Openness and Transparency</p> <p>RMAC minutes are not published online. In addition</p>	<p>Recommendation – The SPS should increase the openness and transparency of its governance by:</p>	<p>Partly Implemented.</p> <p>During April 2024, the RMAC minutes from the meeting held on 27 March were</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>to this, no minutes are taken for the EMG meetings.</p> <p>Risk – The SPS is not being fully open and transparent.</p>	<ul style="list-style-type: none"> • Making the approved minutes of all RMAC meetings available online • Ensuring that minutes are taken for all meetings of the Executive Management Group. <p>Agreed Action – An action log is taken at EMG meetings and we will take forward discussions regarding possible dissemination of a fuller minute.</p> <p>SPS Advisory Board minutes are routinely published on the SPS website and contain a summary update of RMAC activity from the Chair.</p> <p>We will actively consider the publication of RMAC minutes in conjunction with the RMAC Chair.</p> <p>CEO Office</p> <p>4th Quarter 2023-24</p>	<p>published on the SPS website.</p> <p>A note of all actions continue to be minuted at all Executive Management Group meetings.</p> <p>Decisions reached at the Executive Management Group are either discussed at the SPS Advisory Board or RMAC and thereafter the minutes for these meetings are published on SPS' website. It is therefore not intended to change this current practice meantime.</p> <p>Head of the Office of the Chief Executive</p>
<p>11. Policy Review, including Framework Document</p> <p>A number of key policy documents are overdue for review.</p> <p>Risk – Key policy documents may be out of date and no longer relevant.</p>	<p>Recommendation – SPS should review and update all key policy documents, including its Framework Document with Scottish Ministers, to confirm that they remain relevant.</p> <p>Agreed Action – An update to the SG/SPS Framework Document is in development consistent with the template provided by the Scottish Government public bodies unit. It will be sent to SPS Directorates for internal consultation imminently.</p> <p>CEO Office</p>	<p>Partly Implemented - Framework Document has been revised and published on the SPS website in July 2024.</p> <p>In July 2023, SPS agreed in partnership to a differing approach to policy review and removed the fixed triennial policy review period. This is on the basis that HR policy priorities are reviewed annually in partnership as part of SPS' continuous review process that considers legislative changes, emerging business needs, continued</p>

Issue/risk	Recommendation and Agreed Action	Progress
	4 th Quarter 2023-24	<p>relevancy, the time since the last review and based on stakeholder feedback from managers, staff and trade unions. Therefore, where necessary and in partnership with unions, policy changes are agreed and actioned as required.</p> <p>In the last three reporting years, SPS has undertaken and published 19 HR policy reviews (16 constituted reviews of existing policies and 3 implemented as new policies). Of the 65 related HR policies, all but five still require to be updated to reflect SPS' revised approach.</p> <p>Director of Organisational Development</p> <p>Ongoing</p>
<p>12. Best Value Document</p> <p>SPS do not currently have a document that consolidates the evidence that the Accountable Officer is fulfilling its obligations in relation to Best Value</p> <p>Risk – The Accountable Officer cannot demonstrate they are fulfilling their Best Value obligations.</p>	<p>Recommendation – SPS should create a Best Value document that sets out how the arrangements put in place by the Accountable Officer meets the Best Value obligations.</p> <p>Agreed Action – Recommendation accepted. SPS will develop a Best Value document, describing arrangements for meeting the relevant obligations.</p> <p>Deputy Chief Executive</p> <p>4th Quarter 2023-24</p>	<p>Implemented</p> <p>A SPS best value document has been developed and implemented.</p>
<p>13. Financial Sustainability</p> <p>COVID-19 has continued to have a significant impact on</p>	<p>Recommendation – SPS should prioritise the development of realistic</p>	<p>Work in progress.</p> <p>Resourcing issues severely impacted the development of</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>both capital and revenue expenditure of SPS and, as reported in 2020/21, work is still ongoing to quantify the potential impact on medium and long-term financial plans. The most recent Spending Review published by the Scottish Government allocates SPS with a flat cash position of £370 million per annum for the next five years and until 2026/27. This will offer both challenge and opportunity to SPS and will require a good quality medium term financial plan. SPS's ability to address those issues and to be financially sustainable is dependent on additional financial support and efficient use of the resources. Management continue to liaise with Scottish Government to ensure SPS can respond to these operational challenges in a sustainable way.</p> <p>Risk – There is a risk that will not be able to deliver and finance its services.</p>	<p>medium term financial strategy.</p> <p>Agreed Action – The development of a financial strategy is a key objective for SPS. Progress in developing a medium-term financial strategy (MTFS) during 2022-23 was severely impacted with the resignation of a number of senior financial resources. This significantly reduced the capacity of the finance function.</p> <p>The development of a MTFS will be a priority during 2023-24 to ensure that SPS is able to identify an operational and strategic financial approach to best respond to the challenges outlined in the Resource Spending Review.</p> <p>Director of Finance 4th Quarter 2023-24</p>	<p>the MTFS in 23-24 but a full detailed budget exercise has been carried out and seen as the key input to the MTFS and will detail the current budget and funding pressures facing SPS. A realistic Medium Term Financial Strategy is one of the top priorities for 2024-25 with this planned to be put in place in 2024-25.</p> <p>Director of Finance Q4 2024-25</p>
<p>14. Kilmarnock PFI Contract</p> <p>We note that Kilmarnock Prison will be the first PFI contract asset to return to the public sector in 2024 alongside the workforce currently employed by SERCO and associated facilities management services</p> <p>Risk – There is a risk that upon the transfer of PFI ownership the prison</p>	<p>Recommendation – In the context of an overall flat cash settlement for the Prison Service, more needs to be done to establish and plan for the financial, operational and strategic risks associated by this transfer.</p> <p>Agreed Action – The project to return the operation of HMP Kilmarnock to SPS is on target to meet the planned delivery dates.</p>	<p>Phase 1 complete March 2024</p> <p>Phase 2 to complete Q4 2024/2025</p> <p>The current known funds required for Kilmarnock operation has been factored in the current year budget request and ongoing work with SG to address the overall SPS funding gap.</p> <p>Director of Finance Q3 2024-25</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>operations and services at Kilmarnock will become disrupted.</p>	<p>Funding for the project in 2023-24 is secured and the required funding for 2024-25 will be included in the SPS financial planning discussions with the Scottish Government in the autumn of 2023.</p> <p>Director of Finance December 2023</p>	
<p>15. Capital Programme</p> <p>The impact of COVID has contributed to capital underspends in recent years. Improving the efficiency and effectiveness of the current estate remains a strategic priority. However, with limited capacity and restraint of resources requiring prioritisation of projects, including consideration of older facilities repairs value for money aspect, it is not currently clear that the SPS is capable of delivering the capital investment required to adequately maintain the existing estate.</p> <p>Risk – There is a risk that the capital investment and maintenance programmes are not delivered impacting negatively on SPS operations.</p>	<p>Recommendation – SPS should develop a capital and maintenance plan to address the needs of the estate and assess capability to deliver their capital plan.</p> <p>Agreed Action – The underspends in recent years have largely been a result of the construction industry being affected by the pandemic and the transition of the UK’s withdrawal from the European Union.</p> <p>The effects of these issues are expected to be less severe in the future with the construction industry and SPS learning to operate more effectively in this challenging environment.</p> <p>SPS is working closely with the Scottish Government to ensure that an appropriate medium-term plan and funding is in place to maintain the current estate and have a programme to replace the ageing establishments.</p> <p>The proposed recruitment of a capital accountant will provide a resource to improve budget scrutiny and planning. This resource will also work with the departments and</p>	<p>Work in progress.</p> <p>Through the detailed budget process for 2024-25, capital project spend is broken out across areas and for estates through projects. This is then monitored on a regular basis and reported through our normal reporting. There has been an increased focus on phasing of budget spends in this to ensure more consistent spend profiles throughout the year. This should allow for a more planned and proactive approach to managing capital particularly on the more routine capital projects. Major capital programs have separate project teams to specifically deal with progress. Finance resource has now been secured to help the ongoing budget scrutiny and reporting of the capital programme with the Capital Accountant due to start in Q2 2024-25.</p> <p>Director of Finance Q4 2024-25</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>establishments in SPS to develop an asset maintenance and replacement strategy.</p> <p>The attempt to recruit a capital accountant, however, was unsuccessful. The role is now being reevaluated to enhance the grade of the role being advertised.</p> <p>Challenges around the recruitment of Professional & Technical staff remain an impediment to meeting the demands of the capital programme. The demands of the replacement prison programme are also impacting on the availability of resources (both estates personnel & funding) to deliver the existing estates capital programme.</p> <p>To improve the efficiency and effectiveness of capital expenditure, budgets were issued prior to the commencement of the financial year. The development of an estates strategy is a key goal in the corporate plan.</p> <p>Director of Finance March 2024</p>	
<p>16. Workforce Planning</p> <p>Sickness absence, ageing workforce, the levels of ex-gratia payments and compensations for dismissals on ill health grounds are interlinked and should be looked at together to establish an effective workforce strategy going</p>	<p>Recommendation – To produce an effective workforce strategy. To consider value for money of the Civil Service and other compensation schemes – exit packages. To strengthen the governance arrangements around Civil Service and</p>	<p>Partially Implemented</p> <p>Efficiency Compensation</p> <p>During 2022/23, SPS took forward work to better understand the root cause of the considerable number of dismissals on efficiency grounds and the associated costs. Work was undertaken</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>forward. This is going to be done within the latest Resource Spending Review allocating SPS with the flat cash position over the next 5 years and will provide a serious challenge to manage.</p> <p>We would also encourage SPS to review its current policy on Civil Service and other compensation schemes – exit packages to ensure this provides value for money and is supported by appropriate governance arrangements.</p> <p>Risk – There is a risk that operations of SPS are adversely impacted by the lack of highly motivated workforce. There is a risk that value for money is not achieved in relation to compensation payments and that the governance arrangements are not appropriate.</p>	<p>other compensation schemes – exit packages.</p> <p>Agreed Action – During 2024 SPS will develop a workforce strategy which considers the current and future needs of the organisation and the steps we need to take to ensure our staffing profile and skill set meet those needs.</p> <p>Head of Human Resource September 2024</p> <p>SPS has carried out a review of the use of the civil service compensation scheme. As a result of this review a new panel will be established to consider cases.</p> <p>Head of Human Resource January 2024</p>	<p>to review current practice, wider & cultural drivers behind dismissals, and SPS' alignment to applicable civil service and cabinet office guidance.</p> <p>This work produced a number of recommendations that SPS is continuing to implement in consultation with key stakeholders, including trade union partners.</p> <p>Work and changes to date have delivered a substantial reduction in the volume and cost of dismissals during 2023/24.</p> <p>Workforce Strategy</p> <p>Throughout 23/24, work to baseline and reconcile the SPS workforce to fully understand the current position from a capacity, skills and financial perspective commenced, and this will inform the next stage of SPS' work in developing an effective workforce strategy, taking account of future needs and aspirations.</p> <p>SPS has been progressing, supporting, and aligning various organisational workstreams, including HR Transformation, Leadership Development, Prison Officer Professionalisation, Efficiency Compensation Dismissal Review and budget planning. SPS recognise that we have been restricted in our capacity to progress this work due to the volume of other</p>

Issue/risk	Recommendation and Agreed Action	Progress
		<p>essential workforce planning activity, such as the transition of HMP Kilmarnock and high-volume prison officer recruitment during 23/24, which has continued into this financial year.</p> <p>Director of Organisational Development</p> <p>March 2025</p>
<p>16. IT Controls</p> <p>The following control weaknesses were identified and not addressed at the previous reporting date:</p> <ul style="list-style-type: none"> • SPS is not fully aware of the personal information held. Risk – Risk of non-compliance with GDPR; • Unsupported systems are more vulnerable to cyber-attacks; and • Risk to loss of information if systems were to become corrupt and a viable back up is not available. 	<p>Recommendation – A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold.</p> <p>Agreed Action – SPS Digital Services has backup of on-premise systems with offsite storage through its data centres. Cloud backup of its O365 operating platform has a 30 day-limit.</p> <p>Digital Services has drafted a business case for cloud backup pending approval.</p> <p>Digital Services will implement a quarterly backup review programme for implementation and an annual data restore.</p> <p>Head of Digital Services</p> <p>4th Quarter 2023-24</p>	<p>Work in Progress</p> <p>SCCMServiceNow have been appointed to manage SPS information assets and the Cloud Backup system is now in place.</p> <p>The wider Information Asset register review and implementation of a quarterly back up review programme are key deliverables and form part the Digital Services' Annual Delivery Plan (ADP) for this year.</p> <p>Head of Digital Services</p> <p>Quarter 4 2024-25.</p>
<p>17. Financial Management</p> <p>SPS's 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</p>	<p>Recommendation – 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</p>	<p>Work is ongoing within the current HQ finance team to restructure the team to more closely align the team with the objectives and goals of the organisation through developing a finance business partnering approach, the development of</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>reviews were identified by internal audit in 2016/17.</p>	<p>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>Agreed Action – 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"> 1. A series of pre-audit support visits were instigated and undertaken by a member of the Audit and Assurance Unit. 2. A quarterly finance managers' meeting has been formalised. 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. A corporate job description has also been introduced. This outlines the need for a minimum of an HND Accountancy or equivalent qualification. 4. The CEO has instructed a Finance Structure Review (FSR) be undertaken, led by a member of the CEO's 	<p>financial reporting and financial governance.</p> <p>Q4 2024-25</p> <p>Director of Finance</p> <p>No further decision or update on the accountability structure of the Establishment Finance Managers has been made in 2023-24.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>Office. This action is underway with a project plan being devised and critical dates identified.</p> <p>As part of a planned review of support service functions, an integrated unified finance structure is being considered.</p> <p>Director of Finance</p> <p>March 2025</p>	
<p>18. Value for Money</p> <p>Scottish Government KPIs reported in the annual performance report do not feed into the strategic priorities of SPS's 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>Recommendation – 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>Agreed Action – SPS has recently published its Corporate Plan for 2023- 28. An exercise is underway to review the current KPIs in light of the strategic direction described in that plan.</p> <p>SPS will develop and agree an initial set of KPIs with the Scottish Government as part of the update of the Framework Agreement and will then continue to review and refine these over the life of the Corporate Plan.</p> <p>Deputy Chief Executive</p> <p>December 2023</p>	<p>Work in progress</p> <p>SPS will complete its review of organisational KPIs agreeing the initial set of KPIs.</p> <p>Deputy Chief Executive</p> <p>March 2025</p>
<p>19. SPS Finance Policy and Manual</p> <p>There is risk that the SPS Finance Manual does not reflect up to date practices, which could result in inconsistent and/or</p>	<p>Recommendation – 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>Due to ongoing resource constraints the finance manual review has not yet taken place. Due to the scale of this task and with limited resources, a process of focusing on specific areas</p>

Issue/risk	Recommendation and Agreed Action	Progress
inappropriate procedures and controls being operated.	<p>Agreed Action – Financial Policy and Services will continue the work undertaken to date in updating and reviewing the SPS Finance Manual. This will include the establishment of an annual review meeting to identify areas of the finance manual to be reviewed in the next financial period.</p> <p>Director of Finance February 2024</p>	<p>with an ongoing change management process is viewed as the most effective way of targeting this. The new finance structure which is being worked on will provide more senior finance resource which should help address progress with this in 2024-25.</p> <p>Director of Finance Q4 2024-25</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than the reporting threshold of £370,000.

The table below summarises the uncorrected misstatement that was noted during audit testing and was not corrected in the financial statements. This error is below the performance materiality level as explained in [Exhibit 1](#). We are satisfied that this error does not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£000	£000	£000	£000
1. Prior Year HMP Kilmarnock PFI Liability	Trade and other payables (current) - PFI/PPP and other service concession arrangements <1 year				2,500
	General Fund			2,500	

Narrative Disclosure Misstatements

1. SPS identified that the initial lease liability of £40.442m for HMP Kilmarnock PFI was written down to zero by 2015-16. This means that there has been no lease liability (obligation) disclosed since 2015/16. Please note this is a prior year misstatement as HMP Kilmarnock was brought under SPS ownership on 17th March 2024. Therefore as at 31 March 2024 there is no PFI arrangement in place for HMP Kilmarnock. The impact has only been calculated for the prior year closing balance.

Scottish Prison Service

2023/24 Annual Audit Report

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