

**LETTER SENT BY E-MAIL**

Jenny Marra MSP  
Convener of Public Audit and Post-legislative Scrutiny Committee  
The Scottish Parliament  
EDINBURGH  
EH99 1SP

23 February 2017

Dear Miss Marra

**SPA written submission to PAPLS Committee – for 2 March 2017**

Thank you for your letter of 2 February 2017 offering an opportunity to provide a short written submission to the Committee in relation to a number of questions.

Before providing responses to the questions, as Accountable Officer I wish to provide the Committee with brief clarity on matters arising, and measures taken, from the Auditor's findings in relation to the previous financial report for the year ended 31 March 2015.

The previous 2014-15 audit was unqualified though the auditor expressed a modified conclusion based on matters which she is required to report upon by exception noting that "aspects of the accounting records and access to information and explanations in the area of property, plant and equipment were of poor quality"

The SPA and Police Scotland fully accepted the auditor's opinion and took measures to address all of her conclusions. We also self-acknowledged that improvements in our financial structure was required.

As we reported to your predecessor committee in February 2016, we appointed a highly experienced interim Chief Financial Officer within the Authority to oversee improvements. We also appointed Scott Moncrieff as internal auditors who are a well-respected Scottish firm of accountants. Amongst other measures, we subsequently, re-organised our finance function and created a single post of Chief Financial Officer within Police Scotland which now has a reporting line to the Deputy Chief Officer for Police Scotland and a dotted reporting line to the Accountable Officer within the SPA.

The previous year's issue around fixed assets has been resolved and the auditor has acknowledged that improvements have been made. Notwithstanding, despite all of these measures being applied a new and separate issue in relation to fixed asset accounting emerged in 2015/16. There was a technical change to an accounting standard (IFRS13) which was not picked up by any of our accountants or our internal auditors. This is unacceptable and, as accountable officer, I apologise for this matter arising. The matter has now been satisfactorily resolved and procedures implemented to ensure that it cannot recur. The auditors also highlighted that some assets had poor descriptors, most of the value associated with those can be traced back to entries made in 2009 by Lothian and Borders and will be revalued or written off. The scale of the values are in region of one tenth of one percent of the asset base.

Turning now to the requests for factual information set out in your letter, I can provide the attached response on behalf of the SPA.

### **Revenue overspend v. capital underspend**

The Scottish Police Authority (SPA) has a regular and ongoing dialogue with Scottish Government officials about the police budget. Throughout the 2015/16 reporting period officials were kept abreast of the financial position and on 15 October 2015 I wrote formally to inform Government of a projected a revenue forecast overspend of £25.313m. This was also reported to the public session of the [SPA Board on 27 October 2015](#).

At the same Board meeting on 27 October 2015, a [revised capital plan for 2015/16](#) was approved. This revised plan outlined an underspend in capital expenditure during 2015/16 attributed to unforeseen delays in building works or ICT projects which resulted in capital expenditure related to some projects slipping into the 2016/17 financial year. Specifically the following changes in capital spend were reported:

- ICT: A decrease in the ICT budget of £2.44m for the year as a result of revised procurement processes for some ICT communications projects where expenditure moved into the 2016/17 financial year.
- Building works: A £2.677m decrease in building work planned for the year which related to a custody project in Craigmillar, Edinburgh. This was as a result of unforeseen adverse structural conditions on the site.
- Custody suites: Improvements/adaptions to ensure Police Scotland custody suites comply with amendments to legislation which was initially allocated £4.728m. The project was subsequently split into three phases to reflect the assessment of operational importance. Delays occurred in the awarding of the third phase of the project resulting in a reduction of £1.032 in the 2015/16 requirement.

In late 2015, the SPA entered discussion with the Scottish Government regarding offsetting a projected overspend in revenue with an underspend in other sources (capital and reform). Permission was sought when the full year financial outturn became clear and the Board of the SPA approved a financial

recovery plan to address the forecast overspend. The plan set out actions to reduce the revenue overspend considering the three funding sources.

We are not aware of any significant capital projects being wholly delayed or cancelled in an attempt to mitigate the projected revenue overspend. The underspend in capital was largely as a result of unforeseen delays to various ICT or building projects as noted above.

### **Financial leadership**

The SPA launched a formal recruitment campaign for a [Chief Financial Officer](#) (CFO) in January 2017. As outlined above, this role merges the two existing Financial Director roles with one Chief Financial Officer who will sit within Police Scotland and have a more direct link to the SPA chief executive. This new structure will strengthen strategic oversight of financial matters and better reflects accountable officer responsibilities. We expect to appoint a successful candidate to this post following assessment and interviews in early April 2017.

While transitioning to the new structure, the SPA has secured the service of James Gray on secondment from PriceWaterhouseCooper (PWC). This temporary post is ensuring all financial obligations and responsibilities continue to be met and a smooth transition to the new arrangements take place until such point as a new Chief Financial Officer is in post. Between June 2016 and 20 December 2016, the costs of this secondment is: £131,100.00. We have also re-organised and strengthened the senior financial management resources which includes the appointment a new capital (fixed asset) accountant amongst others.

In respect of the 19 vacancies within Police Scotland's finance function during 2015/16, I can confirm that these were made up of new posts, unfilled posts and some vacancies arising due to maternity leave. Since 2015/16 the finance team has gone through some restructuring and a number of additional resources have been recruited to fill vacancies.

In addition to merging director roles, recruiting a CFO, restructuring and additional resources, there is also work underway to unify the numerous payroll and finance systems, which is anticipated to be completed within the next 12 - 24 months.

### **Reform funding**

As outlined in the SPA's 2015/16 accounts, the largest expenditure paid out of Reform Funding in 2015/16 related to VAT which was a cost to policing of circa £25m. We anticipate that in 2016/17 a similar amount will be paid out of reform funding.

Separately, the 2016/17 Police Change Fund will be used to fund some transformational activity, some of this expenditure will be recurring (for example where activities are carried out by staff and police officers working on projects who will then be redeployed on other duties once such tasks are complete).

Reform funding in 2016/17 will also support the anticipated cost of staff released through VR/VER estimated at £9m.

### **Internal audit**

The SPA initially appointed internal auditors following a robust procurement process on 1 April 2015. Unfortunately the award of the contract was never concluded with the successful tenderer due to differences over contractual interpretation. In late June the contract was awarded to the second ranked tender received. Following a mandatory 10-day standstill period, vetting of the Internal Auditors began. This was a protracted process, conducted in batches as staff were appointed by the contractor to the project. The vetting process is rigorous and not all individuals passed vetting which cannot be pre-determined. The process was also subject to resource challenges within the Police Scotland vetting function as a result of departmental reorganisation. This issue has now been successfully resolved.

### **Exit packages**

To clarify, there is only one VE/ER scheme offered to police staff. As outlined in our published accounts for 2015/16, a total of 127 individuals exited the organisation via this scheme during the period.

### **Governance Review**

The Chair of the SPA published his Review of Governance in Policing in March 2016 which made a total of 30 recommendations for improvement in the practice of governance arrangements for policing in Scotland.

As at December 2016 there were 12 recommendations complete. At its meeting on 25 January 2017, the "review of police governance implementation group" concluded that excluding the recommendation on SPA structure that all recommendations that were not of an ongoing nature were forecast to be complete by 31 March 2017.

A key deliverable from the Chair's review is a revised Corporate Governance Framework which came into effect in January 2017. This revised framework delivers on a number of recommendations from the Chair's review.

The new arrangements is underpinned by a refreshed approach to engagement with local authorities, staff associations and the trade unions. This new engagement approach coupled with a more streamlined governance framework will support stronger working relationships and improved flows of information, and considerably strengthen governance, assurance and accountability.

Under the new arrangements, all significant decisions that require the approval of the SPA are now be taken by the full Board of publically-appointed authority members. Board meetings are therefore more frequent and continue to be held in public and broadcast via livestream. In addition, the Board has delegated additional functions to the Chief Executive which will enhance the overall

efficiency and timeliness of decision-making. This will ensure that the holistic knowledge and experience of the full Board, supported by the CEO, is brought to bear when key strategic decisions are required.

As a result, the primary role of Committees has changed from delegated decision-making forums to primarily supporting the Board by undertaking assessments of matters, providing advice and assurance and making recommendations to assist the Board in its decision-making.

Committees continue to have a focus on people, finance, audit and the SPA's statutory functions such as complaints however the addition of a Policing Committee will enhance overall Board oversight of Police Scotland.

These new arrangements will be closely monitored and reviewed in 6 months to ensure they are meeting requirements. HMICS has also confirmed he will inspect the SPA later in the year in line with his statutory obligations.

### **Organogram**

I enclose at appendix A and appendix B the SPA and Police Scotland's senior management organograms. For ease of reference I have included the organogram covering the period 2015/16 and the current organogram for 2017 which reflects the decision taken in April 2016 to merge the SPA and Police Scotland's two financial director posts to establish one chief financial officer post. This post will sit within Police Scotland with clear lines of accountability to the SPA's Chief Executive, strengthening strategic oversight of financial matters and better reflecting the accountable officer's responsibilities.

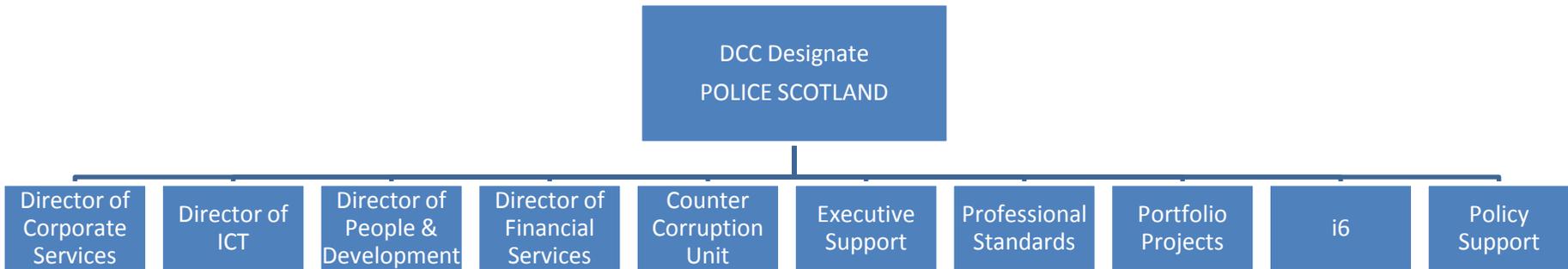
I trust that this information is helpful to Committee members and we look forward to expanding on these, and other points of interest, in the evidence session on 2 March 2017.

Yours sincerely

JOHN FOLEY  
Chief Executive Officer

Cc. Terry Shelvin, PAPLS Clerk  
Enc. Appendix A & Appendix B - Organograms

**APPENDIX A – SPA /PSOS Organograms 2015/16**



**APPENDIX B – SPA /PSOS Organograms 2016/17**

