



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Justice Sub-Committee on Policing

**Thursday 16 March 2017**

**Session 5**



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**JUSTICE SUB-COMMITTEE ON POLICING**

**5<sup>th</sup> Meeting 2017, Session 5**

**CONVENER**

\*Mary Fee (West Scotland) (Lab)

**DEPUTY CONVENER**

\*Margaret Mitchell (Central Scotland) (Con)

**COMMITTEE MEMBERS**

\*John Finnie (Highlands and Islands) (Green)

\*Rona Mackay (Strathkelvin and Bearsden) (SNP)

\*Ben Macpherson (Edinburgh Northern and Leith) (SNP)

\*Liam McArthur (Orkney Islands) (LD)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Caroline Gardner (Auditor General for Scotland)

Mark Roberts (Audit Scotland)

Gillian Woolman (Audit Scotland)

**CLERK TO THE COMMITTEE**

Diane Barr

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Justice Sub-Committee on Policing

Thursday 16 March 2017

[The Convener opened the meeting at 13:00]

### “The 2015/16 audit of the Scottish Police Authority”

**The Convener (Mary Fee):** Good afternoon, everyone, and welcome to the fifth meeting in 2017 of the Justice Sub-Committee on Policing. No apologies have been received.

Agenda item 1 is an evidence-taking session on Audit Scotland’s report “The 2015/16 audit of the Scottish Police Authority”. I welcome to the meeting Caroline Gardner, the Auditor General for Scotland and, from Audit Scotland, Gillian Woolman, assistant director; Catherine Young, audit manager; and Mark Roberts, senior manager.

I refer members to paper 1, which is a note by the clerk, and paper 2, which is a private paper, and I invite the Auditor General to make a brief opening statement.

**Caroline Gardner (Auditor General for Scotland):** Thank you for the opportunity to brief the sub-committee on my report, “The 2015/16 audit of the Scottish Police Authority”. I produce such section 22 reports when I want to highlight to Parliament something that has come out of the annual audit process that is undertaken with every public body.

As the sub-committee will be aware, I have reported on the audit of the Scottish Police Authority during all three years of its existence, and will do so again before the end of this calendar year, following the audit of the 2016-17 accounts. I am conscious that we do not have a lot of time today, so I will briefly highlight two key issues.

First, I have repeatedly emphasised weak financial leadership in both the SPA and Police Scotland. It has been a continuing problem since both organisations were established, and it would be unacceptable in any public body—let alone in public bodies of the scale and importance of the SPA and Police Scotland. The appointment of a chief operating officer to Police Scotland during 2016-17 and the current recruitment of a chief financial officer have the potential to improve financial leadership and management across both organisations. That, in my view, must be a priority.

Secondly, we have estimated that the SPA and Police Scotland could face a cumulative funding gap of £188 million by the end of this parliamentary session. Since I published my report in December 2016, the policing 2026 strategy has been published for consultation. It recognises the scale of the future financial challenge and the need for investment to allow transformational change that will help to fill that funding gap. One element of that change will be increased use of technology to transform how police officers and staff do their jobs and to release efficiency savings. With regard to technology, I have, as you will know, recently published a report on the police’s failed i6 programme. I look forward to discussing that with the sub-committee later in the month or, if time allows it, today.

You have already named the colleagues who are accompanying me, convener. Between us we will do our very best to answer the sub-committee’s questions.

**The Convener:** Thank you very much. I appreciate that.

Perhaps I can start with a pointed question about financial expertise. As you have said, you have continually highlighted weak financial leadership in the SPA and Police Scotland as well as a shortage of capacity and competency. At a meeting of the Public Audit and Post-legislative Scrutiny Committee, the chair of the SPA acknowledged that achieving the necessary levels of financial expertise in policing is taking longer than expected, and he went on to say that, with recent appointments, he anticipated “far more rapid progress”. Do you think that that will be the case?

Before you answer that question, though, do you have any view on the comment that was made by John Foley, who is the chief executive of the SPA, that it has

“strengthened the financial team in Police Scotland, with the addition of more professionally qualified accountants. We had a complement of around 20 ... , which we are increasing. We are also improving the experience and skills mix.”—[*Official Report, Public Audit and Post-legislative Scrutiny Committee*, 2 March 2017; c 6.]?

Are 20 accountants sufficient or too many? Do you have any idea of the additional cost that that will incur?

The SPA is also in the process of recruiting a permanent chief financial officer who will, it hopes, be in situ for April. April is only two weeks away. Can you give any indication of whether that appointment has been made and a person is ready to take office? I appreciate that I have asked you a number of questions there.

**Caroline Gardner:** I will start, and then I will ask Gillian Woolman to pick up on the more detailed questions.

My understanding is that the chief financial officer has not yet been appointed, although the recruitment process is under way. It is worth making it clear that the concerns that I have stressed in my reports since November 2013 have been about financial leadership at the most senior levels of the authority and Police Scotland. Clearly there is a need to have enough qualified and competent staff to carry out the work, but leadership is the issue that I think has been of real concern, given the scale of transformation.

Gillian—can you give a quick update on the way in which capacity is being built up?

**Gillian Woolman (Audit Scotland):** I am happy to respond to that question.

As the appointed auditor, I have been involved in the work for the past three years. During that time, we have had the merger of the eight previous joint boards, but there has also been consideration of the structure of the finance function. At the beginning of the process of establishing the two new national bodies, there was protracted discussion about where responsibilities would lie, and it took some time for that to settle down.

As well as the assignation of where the function would sit, the structure within that had to be established. That, too, has taken time. Over the three years, there have been recruitment activities and a matching process for individuals coming from the joint boards into a centralised finance function, but I am also aware that there were vacancies during that time. When I was planning the 2015-16 audit, Police Scotland certainly drew to my attention a number of vacancies, in particular at more junior levels, in the Police Scotland finance function. In the course of that audit, a lack of strength in specific finance competencies—capital accounting, for example—became apparent.

The SPA and Police Scotland have clearly been on a journey, but they have not fulfilled the aims of that journey as they might have wished when they embarked on it to ensure that a good finance function was established for the national body.

**The Convener:** Before I bring in other panel members, will you say whether you get a sense that there has been recognition that there is a range of problems, and acknowledgement of how those problems need to be tackled? Are the bodies now in a far better place to provide financial leadership and direction?

**Gillian Woolman:** Weaknesses have certainly been acknowledged. We would identify from our

previous reporting that the bodies have previously acknowledged those weaknesses, but the actions that they have taken up to now have not been strong enough. Indeed, the chief executive of the Scottish Police Authority has recognised that more needs to be done, because the need has not yet been met.

**The Convener:** Do any of the other panel members wish to comment? I see that Stewart Stevenson is waiting to ask a supplementary.

**Mark Roberts (Audit Scotland):** I have nothing to add to what Gillian Woolman has said.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** Gillian Woolman has just referred to weaknesses in capital accounting, but I take it that there is an asset register that forms part of how that capital accounting is managed. I accept that it would have been difficult to integrate eight capital asset schemes, but how satisfied are you with the up-to-dateness, correctness and management of the register itself? What challenges remain in that respect?

**Gillian Woolman:** When we carried out the 2014-15 audit, we found a number of significant problems with the asset register, so a new system, called Asset4000, was brought in. I should say that members of the external audit team that I lead are very familiar with that system, because it is used in other public sector bodies.

During the 2015-16 audit, which is the most recent to have been concluded, the operation of Asset4000 was considerably better, and there had been much improvement. However, we found problems with valuations; in fact, categorisation of certain assets led to errors in valuation, which manifested as a problem in our reporting for the 2015-16 audit.

**Stewart Stevenson:** Is there a consistent categorisation and depreciation policy that applies to different categories, or is there a hangover in that respect from the variability that there is likely to have been from the eight previous forces?

**Gillian Woolman:** When we consider the accounting policies each year, those are precisely the areas that we look at. We have suggested that there is a tendency to amalgamate the previous accounting policies and to keep things rather wide, so there is definitely a need to tighten those accounting policies with regard to depreciation, asset lives and so on.

**Margaret Mitchell (Central Scotland) (Con):** My first question is for Gillian Woolman. I note that you say that during the period of transition when the amalgamation took place and we were creating a national force, a number of experienced individuals left. Could you give us some detail

about who they were, what they did and what the impact was of their leaving?

**Gillian Woolman:** I am afraid that I do not have the precise numbers to hand. However, I am conscious that, from the first year of the full audit—2013-14—there were significant cuts to staff numbers, and a number of those cuts affected corporate services—the finance function in particular. You can imagine that the voluntary early retirement scheme was the key to maintaining costs at a certain level. We raised questions about business cases for all the departures, at various times. However, there was certainly a loss of experience at the time of the establishment of the new national force and the new functions.

**Margaret Mitchell:** I would like to drill down further into that subject. With regard to things that operated fairly well under the previous forces, I take it that key financial expertise was lost during the move to a single police force. It would be good to learn from the past, to see what worked well and to look at what is now not working. It would be useful to examine what those people did, the point at which they did it and how they talked to each other—if, indeed, they talked to each other. Can that information be got? Do you think that it is relevant to look at that information to ensure that we get things right?

**Caroline Gardner:** I focus on the matters that I reported on in my November 2013 report. First of all, I addressed the disagreement about where responsibility for financial leadership should sit between the SPA and Police Scotland. I also addressed the issue of the time that it took to establish permanent financial leadership and a finance function across the organisations, once that initial disagreement had been resolved.

As we said in response to the convener's first question, the process of appointment of a chief financial officer is continuing, almost four years after the establishment of the single body. That lack of clarity about where the responsibility lies and the associated failure to put in place a structure and to recruit the right people to it has allowed the drift to happen. We have great sympathy with the staff who have been in post during the period; the challenge has been that lack of clarity about who is accountable at the top of the organisation.

**Margaret Mitchell:** My difficulty is that we are perhaps thinking about the appointment of a chief financial officer as something of a panacea, whereas if we had examined the arrangements that were in place before, we might have seen that it was the arrangements at ground level that were making financial accountability work. If we do not know how things worked before, what the impact was of people with experience leaving and what

people did as a result of that, we must ask whether we are getting the approach right now.

**Caroline Gardner:** We know that, previously, the expertise was located either in the local authorities that took responsibility for the unitary police forces or in the joint boards across most of Scotland. There was a process, to which Gillian Woolman alluded, for giving people the opportunity to move into the new organisation as it was formed. However, that was happening without leadership at the top to ask what needed to be put in place, although we have been dealing with a brand-new organisation that is spending more than £1 billion of public money a year and is providing policing across Scotland. It took a long time for that to happen and for a structure to be put in place.

**Margaret Mitchell:** On a related issue, the convener mentioned the recruitment of 20 professional accountants. What is the cost of employing those accountants, and what exactly are they doing? I presume that they are spread across the organisation.

**Gillian Woolman:** I do not have the actual cost of employment of the additional 20 accountants, but we certainly know that there were, at the planning stage, at least 16 vacancies. Those people are filling establishment posts. We are not aware that the size of the finance workforce is being changed; the issue relates to the vacancy factor that was being carried.

Further, there has been recognition of the competencies that are now required. Going from eight smaller bodies to one extremely large public sector body is a big step change; it takes quite a lot to gear up for that. There is also a need for rationalisation of finance systems: there are still numerous payroll and accounts payable systems and so on, and seeing through introduction and implementation of national financial systems requires a particular skill set. That must all be achieved.

**Margaret Mitchell:** I am sorry to press you, but do we know exactly what they are doing and what it will cost? Money has not been spent well so far and it sounds as though there might be quite a big bill for replacing the people who were there before with those 20 accountants. It would be good to quantify that and to pin down exactly what the 20 accountants are responsible for individually.

13:15

**Caroline Gardner:** At the SPA's appearance before the Public Audit and Post-legislative Scrutiny Committee a couple of weeks ago, the chief executive undertook to provide more information about what the SPA is doing around the finance function. We will have a look at that

and see if there is anything that we can add for the sub-committee, if that would be helpful.

**Margaret Mitchell:** That would be very helpful. You mentioned eight organisations but, in his oral evidence, Mr Flanagan referred to the

“amalgamation of the 10 organisations”

and the chief constable talked about

“eight—some might say 10—legacy arrangements”.—*[Official Report, Public Audit and Post-legislative Scrutiny Committee, 2 March 2017; c 10, 13.]*

For the avoidance of doubt, what are the two additional organisations?

**Gillian Woolman:** In addition to the eight police joint boards, the two other bodies were the Scottish Police Services Authority and the Scottish Crime and Drug Enforcement Agency, which were centralised functions to support the police across Scotland. There were eight constabulary organisations and two other bodies.

**Margaret Mitchell:** The witnesses at the Public Audit and Post-legislative Scrutiny Committee said that, at the beginning, they had “focused on operational policing” and not on the finances, but I would have thought that the two go hand in hand. It makes sense: you cannot have an operational function that works well without looking at the finances. Is the balance right now? What comfort do we have that it is right? I noticed that, even at this stage, they said that they need a corporate response, but that it is not there yet. That is a very big question mark.

**Caroline Gardner:** I absolutely agree that you cannot separate financial sustainability from operational considerations. I said in my November 2013 report that the police had focused their attention on maintaining policing on the ground around Scotland—they did that successfully—and that it is also critical that the new leadership of the SPA and Police Scotland understand the finances that they have inherited and the way that the situation will develop over the next five to 10 years. They must put in place plans to bring the finances into balance, and they must think about how to use the opportunity to transform policing to make it fit for the 21st century and ensure that it can be delivered within the budget that is likely to be available.

One of the things that I have reported again in my report on the 2015/16 audit is that although some progress has been made the financial strategy is still not fully up and running in a way that will help the police to close the funding gap. I forecast a funding gap of about £188 million by the end of the decade—a conservative estimate—and I note that the policing 2026 strategy, which has been published for consultation, recognises the scale of the financial challenge and sets out a

vision for how the gap will be filled. However, we have not yet seen the underpinning financial plans or the strategy for information technology, estates, vehicles and the workforce that will help to create that vision. It is critical that that is all in place.

**Margaret Mitchell:** Mr Flanagan said that there was too much focus on operational policing and that they had taken their eye off the ball with the finances, and the chief constable went on to say that they knew that they had not looked at the resources properly and that

“we have resource in those areas that we know we can redirect into operational policing.”—*[Official Report, Public Audit and Post-legislative Scrutiny Committee, 2 March 2017; c 13.]*

That made me wonder whether they have really got the message that finance must go hand in hand with operational policing.

**Caroline Gardner:** Progress has been made, but they are not there yet.

**The Convener:** Could you give us some further clarification on the point that you made about the £188 million deficit? You said that that is your conservative estimate. Do you have a figure in mind for what the deficit could potentially rise to?

**Caroline Gardner:** No. The £188 million figure is included in my December 2016 report. As always, judgment and estimation are included, and that is the figure that I focused on. However, it is fair to make the committee aware that it is a conservative and reasonable estimate. It is not at the top end of what could be happen.

**The Convener:** Is it perhaps at the midpoint?

**Caroline Gardner:** I would prefer not to be drawn on that.

**John Finnie (Highlands and Islands) (Green):** I do not dissent from Margaret Mitchell’s line of questioning. It is absolutely vital that we bore into the issue. However, I am not necessarily in favour of revisiting where we were before, not least because we may now have an opportunity to pick up on a piece of information that should have informed decision making for the new body.

It is right to say that 10 organisations were involved: the eight forces and the central services, which included the Scottish Police College and technical aspects of the Scottish Crime and Drug Enforcement Agency. However, in the run-up to the advent of Police Scotland, an assistant chief constable led a workstream that should have informed decision making. That might be a point of reference. I do not know how informative a look at that workstream would be, as it certainly does not seem to have delivered clarity on the finance function, but it may be a source of information.



**Caroline Gardner:** That is absolutely the case, in terms of the run-up to April 2013. In November of that year, I reported that the different interpretations of what the legislation said about the roles of the SPA and Police Scotland meant that much of that work was not being acted on. It took a while for that to be resolved, since when there has been a lot of catching up to do on investing in the corporate centre to ensure that it can do the job and on producing the plans that are needed to make policing sustainable for the rest of the century.

**John Finnie:** So there is no dubiety that the bun fight that took place at the advent of Police Scotland has been resolved and there is now clarity between Police Scotland and the SPA about where responsibility lies.

**Caroline Gardner:** There is now much more clarity than there was. The Scottish Government intervened and reached agreement with Police Scotland and the SPA about who would take responsibility for what. We are now seeing more clarity around the financial leadership arrangements, but those arrangements are still being completed, and recruitment to key posts is still under way.

**Stewart Stevenson:** I have been looking at the audit risks that are documented in the Audit Scotland report for members of the SPA. Number 4 is on "Preparation of financial statements". The report states, under "results and conclusions":

"No evidence initially of effective review by the SPA Senior Management Team and PSOS Executive Team prior to the draft accounts being submitted for audit.

By the end of the audit adjustments have been posted to the accounts and subject to audit."

At a mechanical level, I take it that the outcome was satisfactory, but I am left with the question whether the senior management team is undertaking processes regularly to keep track of what is going on in accounting. I do not get the sense from what is written in the report that you are satisfied that that is happening. In particular—you may not be able to answer this—I am unsure whether at their regular meetings the members of the senior management team always have before them a financial statement so that they can conclude whether they are on, ahead of or behind the targets that they, of necessity, must manage.

**Caroline Gardner:** I ask Gillian Woolman, as the external auditor, to answer your question.

**Gillian Woolman:** There is a finance and investment committee below the SPA board, and at every meeting it will receive high-level, summarised management information to assist it in monitoring the organisation's financial position throughout the year. Our focus is very much on the financial accounts at the year end, and we

invest a lot of time in that period. We do not invest a lot of time in looking more closely at the in-year management accounts, but we are assured that that process is there. From time to time, we have auditors observing those meetings, to see the discharge of those responsibilities.

**Stewart Stevenson:** My next question may be for others. How often does the finance sub-committee meet?

**Gillian Woolman:** I do not know exactly, but it meets at least six times per annum.

**Stewart Stevenson:** Are you satisfied that the sub-committee has not been established simply as a mechanism to allow the main board to tick the box and then disregard what is going on in finance?

**Gillian Woolman:** Yes. I am satisfied that that is not the case at all. There has been increasing rigour, certainly over the past 18 months, which has ensured the effectiveness of that committee's operations to support the board in the discharge of its duties.

**Rona Mackay (Strathkelvin and Bearsden) (SNP):** You mentioned the policing 2026 document, which states the intention to maintain police officer numbers. It also says that changes to the

"overall balance and profile of the workforce"

are expected by 2020. What changes do you envisage might be necessary? What is the document referring to there?

**Caroline Gardner:** I think that you would have to ask the SPA that question. However, it is worth noting that my estimate of a funding gap of £188 million, to which I referred in my exchange with the convener, is based on the existing ways of operating and the existing numbers of staff. Unless something changes—perhaps by providing policing in a different way, such as that suggested in the policing 2026 strategy suggests, or having a different funding arrangement with the Scottish Government—the gap will grow, so there is a need to look again at how best to use police officers, police staff and the money that is spent on policing to meet the rising and changing demands that are thoroughly covered in the draft strategy.

**Rona Mackay:** I want to ask about the backfilling of police staff posts when staff were lost. David Page of Police Scotland told the Public Audit and Post-legislative Scrutiny Committee:

"we did not deliver the corporate back-office transformation ... That has been more expensive than what should have been done."—[*Official Report, Public Audit and Post-legislative Scrutiny Committee*, 2 March 2017; c 39.]

Basically, that did not turn out how people thought that it would. How did that happen?

**Caroline Gardner:** I go back to my November 2013 report, on the way that Police Scotland and the SPA were formed. The outline business case that was put in place before the legislation was passed was at a very high level and did not contain very much detail. In moving towards the establishment of the SPA and Police Scotland, the business case was never fully refreshed and updated to reflect the circumstances in 2013. The SPA and Police Scotland knew that they had to reduce costs in order to fit within the budget that was available—that was one of the objectives of reform, although it was not the only one.

Against a backdrop of having no financial strategy or workforce strategy, the inability to make police officers redundant at all, and a no compulsory redundancy policy for other staff, there was always a risk that savings would be made in a piecemeal way rather than in a way that reflected where the SPA and Police Scotland wanted to get to for the longer term. I think that that was what Mr Page was referring to when he gave evidence to the Public Audit and Post-legislative Scrutiny Committee a couple of weeks ago.

**Liam McArthur (Orkney Islands) (LD):** I have questions on staffing, but I first want to take you back to the deficit. In response to earlier questions, you said that the figure of £188 million is “a conservative estimate”. Will you clarify the position with regard to that deficit in light of the Scottish Government’s agreement to put into the recent budget additional, albeit reduced, reform funding of £25 million?

**Caroline Gardner:** I ask Mark Roberts to concentrate on the absolutely up-to-date position as far as possible.

**Mark Roberts:** The published estimate of £188 million predated the announcement of the additional £25 million, so it does not reflect that, which is part of the budget for next year. It reflects the Scottish Government’s 2017-18 draft budget, which was introduced just before we published the estimate in December, and the Government’s commitment to maintain a real-terms increase in the police budget for the duration of this parliamentary session. At the time, it also reflected the continuing commitment to maintain police numbers at the time, and it is based on Office for Budget Responsibility projections for future rises in the cost of living and associated costs. Those are the factors that were included. There was also what we knew about the existing reform funding—the change fund—which we assumed would continue into the future. We thought that that was a conservative estimate and a prudent way of making a projection—hence the Auditor General’s comments about “a conservative estimate”.

**Liam McArthur:** I suppose that, if an organisation is carrying a debt of around £188

million—and that is a conservative estimate—the temptation is to use any additional funding to plug gaps rather than make the longer-term transformational and structural changes that will ultimately bring the budget down. What assurances do you have that the additional funding is not being used just to plug gaps?

**Mark Roberts:** We reported in the report—and this is based on Gillian Woolman’s annual audit report—that reform funding was being used to support recurring revenue expenditure. In previous years, it was not clear what the reform funding had been used for. There is now greater clarity in the accounts about what it has been used for, but that demonstrates that some of that money is supporting the revenue budget.

**Liam McArthur:** Right. So, in a sense, it is perhaps slowing the rate of the deficit’s growth, but you do not necessarily have complete confidence that it is being used in a way that will turn that deficit around over the medium term.

13:30

**Mark Roberts:** It is not wholly clear to us that the money is being used for what might be termed “reform activities” that might enable the transformation that the policing 2026 strategy foresees and therefore might help to plug the funding gap.

**Liam McArthur:** The strategy document refers to a

“service wide transformation to bring our budget into balance in a sustainable way by the end of 2019/20.”

Is that a realistic timeframe? I know that people want to tell us things to cheer us up, but given the history, I would rather be given a realistic timeframe than what Police Scotland thinks that we want to hear.

**Caroline Gardner:** That will certainly be challenging. I absolutely agree with Mark Roberts’s description of the use of the reform funding.

There is another dimension that I think is important. In 2015-16, the SPA’s budget was brought broadly into balance by offsetting a revenue overspend against a capital underspend. The figure was about £20 million on each side. That £20 million of capital is money that could have been used to invest in new estate, new vehicles and new IT equipment, which would all have helped to modernise and develop the way in which policing is delivered. That was not achieved in 2015-16, and we do not yet know what the outturn for 2016-17 will be. Progress in transforming policing has been slow across the four-year life of the SPA.

**Liam McArthur:** That gives rise to another concern. Rona Mackay raised the issue of staffing. A commitment has been given for 2017-18, but if the SPA is hung on the hook of delivering a balanced, sustainable budget by 2019-20, that boxes the organisation into a corner when it comes to staffing to deliver it, given the costs that you highlighted earlier. Is there not a risk that some more severe and wide-ranging decisions will be taken on staffing than would have been necessary if a more tapered trajectory towards achieving a balanced, sustainable budget had been identified? Is that a risk?

**Caroline Gardner:** In the absence of a fully worked-through financial strategy, that will always be a risk. Unless the organisation knows how its pattern of income from the Scottish Government and its expenditure are likely to change over the next few years and what measures will be taken to bring them into balance, it will be difficult for it to be sure that it is not making decisions now to balance this year's budget that make it harder to get to a sustainable balance for the longer term.

**Liam McArthur:** I presume that the risk is that the short-term target is hit, but that the organisation is left less sustainable and a bit more liable to have deficient resources in areas in which it needs to resource up, given the changing nature of the service that needs to be provided.

As auditors, are you concerned that, in order to hit that artificially set deadline, decisions on staffing levels will be taken by Police Scotland and the SPA that are needlessly severe?

**Caroline Gardner:** I am concerned that the organisation does not yet have a fully worked through financial strategy, because that is a safeguard that would help it to mitigate the risk of the wrong decisions being taken for short-term reasons that make things harder in the long term.

**The Convener:** I want to come back to a point that was made about the reform budget, which is to provide for a single transformation portfolio.

Mr Roberts, if I am correct, when you answered Liam McArthur's question, you said that it was not clear how the reform budget was being used. How confident are you that the reform budget will be used only for reform, that it will provide for a single transformation portfolio, that it will be clear and transparent and able to be monitored, and that it will not be possible for it to be pulled down into another budget?

**Mark Roberts:** Across the three years for which we have reported on the SPA's budget, we have seen greater progress towards transparency in how that reform money has been used. It became clear to us only during the course of the 2015-16 audit that there was evidence that reform money had been used to support "normal" revenue

budget and was therefore not being used for the sort of transformational change that you have described.

**The Convener:** Are the right checks and balances now in place to ensure that that will not happen again?

**Mark Roberts:** There are significantly more assurance systems in place. The fact that the Public Audit and Post-legislative Scrutiny Committee has asked these questions and you are asking these questions will put greater emphasis on the importance of transparency in how the reform budget is being used.

**Stewart Stevenson:** You say in audit risk 6 that there was

"An element amounting to £20m ... described simply as 'reform' with no further breakdown."

However, under "Results" you say:

"The first draft of the accounts contained limited information. This has now been amended."

Are you satisfied that at least the recording of what the reform money has been spent on is now in proper order, even if there might remain doubts about whether it has been allocated to the right expenditure?

**Gillian Woolman:** In our action plan, we have followed through the risk that you have identified in our audit report and made a recommendation on that. In the recommendations, we talk about

"a significant number of reform costs".

When made more transparent, it became evident that they formed

"part of the recurring revenue baseline expenditure."

Management responded that it accepted that. It also accepted the recommendation that it was now timely to carry out a review to determine the amount of reform that had been achieved by the moneys invested in that fashion to date. Management acknowledges the weaknesses in the monitoring of those special additional reform moneys. As external audit auditors, we will be following through to see the improvement in the recording of that information going forward.

**John Finnie:** I go back to the review of governance that was briefly touched on and the fact that, at its meeting, the SPA adopted 12 of the 30 recommendations. In paragraph 24 of the SPA audit, you say that

"the process must not continue indefinitely."

What do you mean by that? Do you have specific concerns about the 18 recommendations that have not been picked up?

**Caroline Gardner:** The reference is to ensuring that all of the recommendations that have been

accepted are in place and are operating. The chair of the SPA has set out his intention to review the new governance arrangements after they have been in place for a period. Her Majesty's Inspectorate of Constabulary is committed to reviewing externally and we will contribute to that. However, we are concerned to see that the recommendations are all implemented so that it will then be possible to review how well they are working in practice.

**John Finnie:** Of course, it was the new chair that did the review of governance.

**Caroline Gardner:** Indeed. It was agreed on the basis that it would be implemented and then reviewed after a period of operation to see if it needed fine tuning or if anything needed to change. It is important that all the recommendations are implemented so that the review looks at the full picture.

**John Finnie:** Are you able to say, in general terms, which of the recommendations have not been implemented? What are the implications of that?

**Mark Roberts:** The chair's review contained recommendations for the Scottish Government, the Scottish Police Authority and Police Scotland. As the process of implementing the review has gone on, some of those recommendations have been combined and some have been tweaked to reflect further consideration. As the Auditor General says, there is a commitment to review governance arrangements in the round later this year.

I could not, off the top of my head, provide specific details of the recommendations that had not been implemented by December 2016. We are connected with HMIC's review of an inspection of the SPA and the governance elements to that and will be happy to support the HMIC in that work.

**John Finnie:** Is there any link between that and your comment about greater transparency in what Police Scotland is funded and expected to deliver?

**Mark Roberts:** The reference to transparency was a reflection of the fact that when the budget for 2015-16 was set, the publicly available information that was provided to the Scottish Police Authority consisted of one line, which was supposed to cover the transfer of £972 million to Police Scotland. Our experience of other public bodies suggests that, in most other cases, there is significantly more detail about what the budget will deliver. That is an important element of transparency.

**John Finnie:** Does that in any way take us back to the bun fights from the early days? I know that the issue is not about who is doing what; rather, it is about what they are doing.

**Mark Roberts:** I cannot speculate on whether that was a reflection of that history. Our observation is that, relative to what we see elsewhere in the public sector, that is not a good example of transparent reporting or decision making.

**John Finnie:** Can you comment at all on personnel or human resource matters? I use those terms, but what I really want to ask about is relationships and the openness and the transparency of those relationships in the authority.

**Caroline Gardner:** If you ask the question, I will answer it as far as I am able to and I will tell you what aspects of it I cannot answer.

**John Finnie:** Do you have any concerns about the openness and transparency of the Scottish Police Authority and the relationships that its members have with some of the management?

**Caroline Gardner:** I do not have anything to say at this point about relationships between members of the board and management. It is clear from matters that are and have been in the public domain over the past few weeks that there are tensions among board members about issues of the openness and transparency with which the board conducts its business and how those differences have—or have not—been resolved. Given the importance of the public services that it oversees and the scale of the budget that it manages, that is not a good position for the board to be in. It is clear that the two particular individuals have expressly different views.

The Public Audit and Post-legislative Scrutiny Committee will investigate what is behind that further and I am sure that it will be an important part of Her Majesty's chief inspector of constabulary's governance review, but the tensions are an indication that good governance is not happening in that area.

**John Finnie:** I appreciate that the report refers to a timeframe. Those concerns were not evident during that timeframe. Is that correct?

**Gillian Woolman:** The developments are very new and were not evident at the time of carrying out the 2015-16 audit. On the example given of transparency and how it relates to the budget documents, at the time of the 2016 March board meeting, the absence of detailed, robust information to enable members to come to an informed conclusion on the budget was more indicative of a lack of financial leadership in both parties at that time.

**John Finnie:** You believe that that specific concern will be picked up by the appointment of people taking leadership in the area of finance.

**Gillian Woolman:** Yes. There is a structural change, with a new chief operating officer post in Police Scotland. The new chief finance officer that has been referred to will sit under that post. That individual, while sitting in Police Scotland, will also have line of accountability to the chief executive of the Scottish Police Authority, who is the accountable officer for the full sum of money that is spent on those two bodies. We welcome that structural change, and we see the potential for it being successful.

**Margaret Mitchell:** It is absolutely staggering to have a one-line budget for more than £970 million of funding. What has been put in place to itemise what has been spent and why and what the outcome was? Who is responsible for that? Those are fundamental matters, but it is unclear—even at this stage—whether that will be delivered.

**Caroline Gardner:** I will hand over to Gillian Woolman in a moment. Our concern expressed in the report was about the lack of transparency. Clearly, more information behind the £972 million was available to Police Scotland and management to understand what was in the budget. As Gill has said, the budget has been monitored. However, it is unusual—and, in my view, unacceptable—for any public body to approve a one-line budget. For the amount to be nearly £1 billion is remarkable.

**Gillian Woolman:** That is the case: supplementary papers with far greater detail and a breakdown of that figure were available. The matter will have been discussed in detail at the finance and investment committee. Our point was about the paper that came forward at the board's public meeting to approve the budget—that is what lacked the detail.

**Margaret Mitchell:** Does Audit Scotland have an example that it could usefully cite of another public body that uses good practice to show a clear link between where the money is spent and what was purchased or achieved?

13:45

**Caroline Gardner:** Our experience is that most public bodies provide much more detail about the way in which money will be spent; what it will be spent on—staff, for example, and other budget lines; and what they are looking to achieve. As you will know, the Parliament is looking at the information that it wants from the Scottish Government's draft budget in future. What we are looking for, therefore, is nothing unusual or challenging, but it is critical to a budget of such a size and such an important public service.

**Liam McArthur:** You talked earlier about what you see as an improved relationship—or perhaps I should say a clarifying of roles—between Police Scotland and the SPA. Going back to your

responses to John Finnie's earlier questions about the recent controversy involving SPA members, is it your view that some of the adverse publicity that the SPA and Police Scotland have had in the past has led to a bit of a tendency to be wary of transparency, for fear of what exposure to the public glare might bring in the form of scrutiny, media coverage or public attention? Is that a legitimate concern for us?

**Caroline Gardner:** My sense is that there is probably still an element of that, which is not terribly surprising. Given the history of the past four years, it will take a while for people to reach a settled way of working and a shared understanding of what level of openness and transparency is required. However, the information that has been aired in the past few weeks makes it clear that the board itself does not have that shared view of what constitutes an appropriate level of transparency and openness and how it balances that with the need for space in which to do its business and to have private discussions before it reaches significant decisions about future directions.

**Liam McArthur:** Would you or your colleagues be able to advise the board on how it might strike that balance? As you have said, there will be occasions when full and frank discussions need to take place, but that can happen only if there is a degree of buy-in from the public and if they feel that information is being made available to the extent that it can be ahead of time and as appropriate.

**Caroline Gardner:** In general terms, yes. We always aim to be helpful to the bodies that we audit, but we try to avoid getting too involved in providing specific advice, because we need to step back and reach our own conclusion about the quality and effectiveness of governance arrangements. I mentioned earlier that we will be contributing to Her Majesty's chief inspector's review of governance, which he has announced will happen this year. In fact, Mark Roberts is meeting the chief inspector and his team later to talk about what they will be looking at and what contribution we can make. I think that that is probably a more effective way in which we can help to develop a shared view of what is appropriate with regard to scrutinising governance, which is important, and to building public confidence in policing.

**Ben Macpherson (Edinburgh Northern and Leith) (SNP):** Much of what I wanted to cover has already been touched on by Rona Mackay and Liam McArthur, but perhaps there is still some more information to be provided on certain matters.

Auditor General, you have highlighted weak financial leadership and a need to think

strategically about deficit reduction. With regard to taking action and looking to the future, you have pointed to the importance of having a long-term financial strategy that is underpinned by a wider policing strategy, and you have identified the policing 2026 strategy as having the potential for making transformational change—or, I should say, the document envisages that sort of change with regard to technology, efficiency, corporate services and productivity. Given the challenges that are being faced, does the consultation on the policing 2026 strategy provide the necessary foundations for an effective financial strategy, or is a further initiative required in order to meet those challenges?

**Caroline Gardner:** The strategy that has been published for consultation provides a very clear vision of policing in 10 years' time and the ways in which it will be different from the situation that Police Scotland inherited. However, what I do not think exists at the moment is a series of plans for how we get from where we are to what that vision sets out. As an auditor, I think that a financial strategy is a really important part of that, because such a strategy will draw together things like a workforce plan, an estates plan, an information and communications technology plan, a fleet plan and so on—indeed, a whole range of things that set out how each of the elements of policing need to change over that period, how that will be afforded and what needs to happen in what sequence to make it work effectively. That is what needs to be put in place next—and, I think, very quickly—if the funding gap is to be managed over the period in question.

**Ben Macpherson:** A lot of that concerns operational strategising. The appointment of the chief financial officer will, obviously, be a key element of that. Will there be on-going dialogue and collaboration between your office and Police Scotland on the issue, or will you simply address progress on the matter when you conduct your next audit?

**Caroline Gardner:** The starting point for all my reports to Parliament is the annual audit work that goes on in every public body, including the SPA and Police Scotland. Obviously, we are just coming to the end of the financial year, and Gillian Woolman's successor as the auditor of the SPA is currently carrying out the planning that you see reflected in last year's audit report. The audit work will be concluded over the next six months or so. There is continuing engagement with the SPA and Police Scotland, but we are looking for evidence of what they are doing to respond to the recommendations that I have made in my reports to Parliament and that Gillian Woolman has made in her reports as the auditor over the past four years.

**The Convener:** Before I bring in Margaret Mitchell, I want to follow up on Ben Macpherson's question.

That there is a link between the long-term financial strategy and the policing 2026 consultation is acknowledged. Since November 2013, Audit Scotland has been recommending the development of a long-term financial strategy, and we have touched on a lot of the elements that will make up part of that. I am looking for assurances from you that there is enough of a sense of urgency about, and a full understanding of, the need to have a proper long-term financial strategy. It could take another year or 18 months for the consultation exercise to be completed, and there are then a number of other elements that need to be tied into the work. Do you have any idea of when we might get sight of that long-term financial strategy?

**Caroline Gardner:** One of my professional frustrations is that, as you say, I have been recommending the development of such a strategy for nearly four years now and, although some progress has been made, we are still some way from having a detailed strategy in place. The new chief constable, chair of the board and chief executive have given assurances to the Public Audit and Post-legislative Scrutiny Committee that they recognise the need for such a strategy, and that work is under way. The only assurance that I can give you is that we will continue to monitor progress and report on it to the Parliament through the statutory powers that are available to me.

Mark, do you want to add anything to that?

**Mark Roberts:** I do not think so. As the Auditor General said, we have been recommending the development of a long-term financial strategy since November 2013. Work has been going on, and that has now been rolled into the wider development work around the policing 2026 consultation. Clearly, the police are not starting from scratch, but the vision that the policing 2026 strategy outlines alters some of the parameters in which the police are thinking about their finances, and, of course, new information is always available. The work is in progress, but I cannot say for sure exactly how long it will take.

**Margaret Mitchell:** The chief constable is clear that he must have a corporate approach and that certain systems need to be addressed—I think that you dealt with that issue in response to Ben Macpherson. However, is it not the case that if the long-term financial strategy is not in place it will be impossible to achieve the corporate approach that is necessary to deliver what the chief constable says must be done to ensure that we have an effective police force?

**Caroline Gardner:** We see the approach as being iterative. There is an acknowledgment that the £188 million that we have identified is a reasonable estimate. The policing 2026 strategy sets out what policing might look like in 10 years' time, and there is then the job of matching what that would cost with the funding that is available in each year until then, looking at where there might be a shortfall or, indeed, room to invest and looking at what investment plans would be needed to change the shape of the workforce overall or to invest in different IT or estates to make it possible. That will feed back into the financial strategy. One does not come before the other; they need to be developed in parallel and account must be taken of the picture that evolves as the detail of each process emerges.

**Margaret Mitchell:** If Police Scotland does not have one element on-going just now, the other element will fall. If a long-term financial plan is not in place, the corporate approach will not work.

**Caroline Gardner:** I would say that if there is a vision of what the workforce might look like as the 2026 strategy develops, the next step is to look at how affordable that would be, given the likely level of revenue from the Scottish Government and the costs of employing police officers and staff. It is about looking at what the shape of the workforce will be over time and how change could be made by finding money to invest or making savings. All those questions need to follow having the broad picture, so that is the next stage of the work that is required.

**Margaret Mitchell:** How is that being communicated? How is any holistic approach, or corporate identity or function that Police Scotland wants to achieve being communicated? Good lines of communication are fundamental. How confident are you that they are in place?

**Caroline Gardner:** The public communication of the draft strategy has started well over the past couple weeks. I know that communication with the various staff in Police Scotland and with police staff bodies has been an area of concern for this Justice Sub-Committee on Policing and its predecessor. I think that you would need to ask the staff and staff bodies about how the communication looks from their point of view. I am not sure that we are in a position to give you any assurance about that.

**Stewart Stevenson:** I have just a wee technical point, since we are operating under international financial reporting standards. Has the SPA got any contingent assets? If so, how is it dealing with that? Are they part of the fixed assets system? Or are they dealt with otherwise, or do we just not know? Or are there none, as might be the case?

**Gillian Woolman:** Any items of significance would be in the annual audit report, which you have had the opportunity to have sight of. My recollection is that there are no significant contingent assets associated with the audit. We spend a significant amount of time, as you can imagine, with contingent liabilities and all sorts of liabilities, but contingent assets are not a significant element of this particular audit.

**Stewart Stevenson:** Are there no private finance initiative contracts on the horizon that will crystallise and transfer assets from a PFI contractor to Police Scotland?

**Gillian Woolman:** If there were any significant PFI elements, they would sit within liabilities and crystallise in the balance sheet. However, unlike other public sector audits, no significant PFI assets are associated with this audit.

**Stewart Stevenson:** That is fine, although I might return to the subject.

**The Convener:** The papers for the SPA board meeting on 24 February included a report on actions to address the key findings of Audit Scotland's 2015-16 report. Does that report contain anything that we have not covered today and that you would like to comment on?

**Caroline Gardner:** I do not think so. As Gillian Woolman said, we are pleased that the SPA board accepted the recommendations in the action plan in her report and, with the Public Audit and Post-legislative Scrutiny Committee, the conclusions in my section 22 report. Our interest now is in the implementation of those actions and we will follow that up through the 2016-17 audit.

**The Convener:** Do you have any concerns about the SPA board's decision to meet in private?

**Caroline Gardner:** I preface my remarks on that by saying that we have not yet reviewed the governance arrangements that are now in place, but we will do that along with HMICS. We have obviously kept a close eye on the governance review and the events around it in the past few weeks. The guidance in "On Board - A guide for Board Members of Public Bodies in Scotland" is clear about the expectations around openness and transparency. The guidance does not go as far as requiring boards to meet in public, but that is increasingly common for boards that provide public services and is seen as good practice. Equally, it is important that each board strikes the right balance on what happens in public and that it is genuinely accountable to the public in that way and builds confidence. It is important for boards to have space for full and frank discussions about difficult issues where there will be preliminary views that need to be worked through.

I therefore do not want to prejudge the outcome of the review of the governance arrangements, but I think that what you asked about is quite a nuanced question.

**The Convener:** As there are no further questions for the witness panel, I thank you all for attending and for your evidence.

The next meeting of the sub-committee will be on Thursday 30 March, when we will hear from the Auditor General for Scotland on Audit Scotland's recent review of the i6 programme.

*Meeting closed at 13:59.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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