

Scottish Police Authority

Management report 2020/21



 AUDIT SCOTLAND

Prepared by Audit Scotland
July 2021

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at the Scottish Police Authority. This work included testing the key controls within the financial systems in Police Scotland, to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2020/21 financial statements audit.
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
3. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit which includes financial sustainability, financial management, governance and transparency, and value for money. Further work on these areas will be reported in our Annual Audit Report.

Conclusion

4. We undertook high level system evaluations to support our overall understanding of the financial systems at Police Scotland. This allowed us to identify and assess any controls that have been strengthened and that could provide assurance. We were also able to assess the impact of Covid-19 and the move to homeworking on the operation of the control environment.
5. We found that improvements have been made in the control environment during 2020/21 and that there was no significant impact on the operation of controls as a result of homeworking. We did identify some areas of weakness from our work and this is summarised in [Exhibit 1](#). We will carry out additional audit work in response to these findings. This enables us to take planned assurance for our audit of the 2020/21 financial statements.

6. Our wider dimension audit work focused on financial management. We note the continued progress that has been made and will report our overall conclusions in our 2020/21 annual audit report.

7. Any weaknesses identified represent those that have come to our attention during our normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to the Scottish Police Authority and Police Scotland.

8. The contents of this report have been discussed with officers to confirm its factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Work summary

9. Our 2020/21 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details, credit note authorisation, user access controls and budget monitoring arrangements.

10. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

Additional follow-up work

Payroll

11. Improvements continued to be made to the payroll system during 2020/21. There are effective controls in place for changes to master data and exception reporting. As part of our testing we found the controls to be working as intended. User access arrangements were generally satisfactory however a process for restricting user access for long-term absentees should be introduced to be consistent with the processes which have been introduced for eFinancials.

12. Controls which still require some improvement included the use of change forms and payroll validation checks as detailed in [Exhibit 1](#). Consistent use of forms and procedures is a key part of the harmonisation across payroll hubs. Monthly headcount checks take place between the HR system (SCOPE) and the payroll system (iTrent), but there is no system in place to verify the physical existence of individuals, therefore the risk of ghost employees remains.

Accounts payable

13. We carried out a detailed system review of the accounts payable system. Improvements to the functioning of controls have been made in the latter part of the year. However, in the period prior to October 2020 we could not confirm that verification of changes to supplier details was being consistently carried out. Evidence that changes to supplier details were verified prior to being processed could not be provided for 4 of the 15 items in the sample tested. These changes occurred between April and September 2020. We will perform increased expenditure testing and focus this towards the first half of the year.

General ledger

14. We carried out a detailed system review of the general ledger. We noted that there have been improvements in the segregation of duties in journal authorisations and changes to standing data. Accounts payable and receivable reconciliations are now being consistently completed on a timely basis. A more formal process for reviewing and evidencing reconciliations for non-current assets has also been introduced, although we note that the review for some capital reconciliations was introduced part way through the year as set out at [Exhibit 1](#)

Early financial statements testing

15. To support the delivery of the financial statements we completed early audit testing of income transactions and staff costs. Minor issues have been identified from this work and are documented below. Further sample testing will be carried out as part of our audit of the annual report and accounts.

Exhibit 1

Key findings and action plan 2020/21

Issue identified	Management response	Responsible officer/target date
<p>Reconciliations between Asset 4000 and the ledger</p> <p>From our review of reconciliations of the non-current assets system (Asset 4000) to the general ledger, we identified that 12 out of 17 reconciliations tested were not completed by the end of the following period. The process for review of the reconciliations for disposals, additions and enhancements was not implemented until July 2020. We recognise that the</p>	<p>We implemented the new consolidated control process in July 2020. The reports are now reconciled monthly, reviewed internally by Finance Quality Assurance and reported at Senior Management team level. Additionally, the processed formed part of our recent Internal Audit of Core Financial Systems in November 2020 and from this further strengthening of the controls have taken place.</p>	<p>Responsible officer: David Christie, Statutory Reporting Lead</p> <p>Target date: N/A</p>

Issue identified	Management response	Responsible officer/target date
<p>control has improved within the year, however we will focus some of our testing of additions and disposals on the first quarter of the financial year.</p> <p>There is a risk that reconciling items are not identified or investigated in a timely manner, increasing the risk of fraud or errors.</p>		
<p>Employee validation checks</p> <p>Employees paid using the iTrent payroll system are subject to monthly checks against staff records held on the SCOPE HR system and variances between the systems are investigated and resolved.</p> <p>Regular existence testing of employees between SCOPE and the establishment listing used as part of budget monitoring would provide additional assurance that ghost employees could not have been added to both SCOPE and iTrent.</p> <p>There is a risk of ghost employees on both the iTrent and SCOPE systems, increasing the risk of fraud over staff costs.</p>	<p>Per the audit finding, headcount reconciliations controls are in place and carried out monthly,</p> <p>In addition, the Finance Business Partners & Business Intelligence Teams operate robust Financial Management processes:</p> <ol style="list-style-type: none"> 1. Budgets and forecasts are based on granular detail from our HR system (SCOPE) and costs from payroll (iTrent) of individual posts, including grades, FTEs, salaries and on-costs. 2. Budget holders are provided with an overview of performance against their staff budgets showing total actual costs and FTE against gross and net budgeted costs and FTE. 3. Every month Business Intelligence perform reconciliations between payroll, SCOPE and budget and highlight any variances. These can then be escalated to the budget holder if there are any concerns. <p>Given the above processes are in place, it is suggested that no further action is required to address this recommendation.</p>	<p>Responsible officer: Paul Colley, Finance Transactions Lead</p> <p>Target date: N/A</p>
<p>Payroll user access for long-term absentees</p> <p>In the course of our user access testing, we identified a member of payroll staff</p>	<p>Payroll have systems access controls which review usage of MHR by payroll staff.</p> <p>As per audit recommendations Payroll will follow the protocol of e-Financials</p>	<p>Responsible officer: Paul Colley, Finance Transactions Lead</p>

Issue identified	Management response	Responsible officer/target date
<p>who is on long-term leave, but who still has a high level of access to iTrent. We confirmed that it is not standard practice to revoke iTrent access during periods of long-term absence.</p> <p>As iTrent users are not reviewed for long-term absence, there is a risk that users have enhanced access than is necessary which increases the risk of fraud over staff costs.</p>	<p>and remove access from any member of payroll staff who has not used the system for three months.</p>	<p>Target date: July 2021 (implemented)</p>
<p>Processing of payroll changes</p> <p>Our early financial statements testing of staff costs identified the late processing of changes to salary resulting from promotions. From a sample of 40 changes we identified one case where a temporary promotion was not ended timeously resulting in a three month overpayment. In two other cases salary increases were not made until two months after the effective date of promotion. In all of these instances the delays in implementing changes were due to late notification by HR to payroll.</p> <p>There is a risk that changes to staff costs are not timeously processed resulting in incorrect amounts disclosed in the financial statements.</p>	<p>We recognise the points raised and will look into them in greater detail and review for other exceptions. Depending on the outcomes of those investigations, we will seek to correct any over/under payments and take whatever action is necessary to ensure the controls around temporary promotions are transparent and effective.</p>	<p>Responsible officer Susan Beaton, Head of People Services</p> <p>Target date: 31 August 2021</p>
<p>Approval of expense claims</p>	<p>A preliminary investigation has taken place, which has identified inconsistencies in advice provided and some ambiguity in the procedure.</p>	<p>Responsible officer: Nicky Page, Head of ER and Reward</p>

Issue identified	Management response	Responsible officer/target date
<p>Our early financial statements testing of staff expenses identified a claim for travel expenses which had been paid for a longer period than that permitted in the expenses policy. The error had not been picked up during the approval process.</p> <p>There is a risk that expenses which are not in accordance with agreed policy are paid and not corrected during the approval process.</p>	<p>Limited remedial action has been taken, however, this will require further work to determine whether there are other similar issues and to determine effective remedies.</p>	<p>Target date: 31 August 2021</p>
<p>Changes to supplier details</p> <p>We could not confirm that verification of changes to supplier details was consistently performed prior to October 2020. Evidence could not be provided for 4 of the 15 items in the sample tested. All of these were between April and September 2020.</p> <p>There is a risk that during the first part of the year incorrect changes to supplier details may have been made.</p>	<p>We note that within the sample taken by Audit Scotland to assess the robustness of controls pertaining to supplier data changes, four changes made in the period April-September 2020 could not be supported by control documentation.</p> <p>During this period the Accounts Payable Team were transitioning between being office-based and working from home. The process for evidencing controls for supplier data changes were paper based and involved “hard copies” of change instructions being kept in a folder within the Dalmarnock office. It would be reasonable to assume that due to the manual nature of evidence recording and the absence of staff in the office, weaknesses in these controls have appeared during this period.</p> <p>Whilst gathering the sample documentation, the AP Manager upon being unable to find the evidence for the four changes, contacted the relevant suppliers, and was able to confirm that the changes made had been requested by them, and that those changes recorded in the Financial Management System were correct.</p> <p>In light of these weaknesses being reported by Audit Scotland, a full review</p>	<p>Responsible officer: Paul Colley, Finance Transactions Lead</p> <p>Target date: N/A</p>

Issue identified	Management response	Responsible officer/target date
	of all supplier changes made during the period will be undertaken. If further instances of weakness in the change management controls are found, suppliers will be contracted to provide detail of changes requested and these will be reconciled with changes made to the Financial Management System.	

Source: Audit Scotland

16. As part of our 2021/22 audit we will assess whether the proposed actions detailed above have been implemented and adequately address the weaknesses in the control environment.

17. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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