

Meeting	Audit, Risk and Assurance Committee
Date	5 May 2021
Location	By video conference
Title of Paper	Internal Audit Annual Report
Presented By	Gary Devlin, Partner, Azets
Recommendation to Members	For Discussion
Appendix Attached	Internal Audit Annual Report

PURPOSE

The Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority, Police Scotland and Forensics during the year ended 31 March 2021, including our overall opinion on the internal control systems within Scottish Police Authority, Police Scotland and The Forensic Service.

The paper is presented for the Audit, Risk and Assurance Committee to consider the report, findings, and management responses.

The paper is submitted for discussion.

1. BACKGROUND

- 1.1 The Scottish Public Finance Manual requires internal audit to provide annual audit assurance to the Accountable Officer and Audit Committee on the adequacy and effectiveness of the internal control system and the extent to which it can be relied upon. That opinion is contained within our annual report.

The annual report forms part of the assurance required by the Accountable Officer to enable them to sign the Governance Statement to be provided alongside the accounts for which they are directly responsible.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 This Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority, Police Scotland and The Forensic Service during the year ended 31 March 2021, including our overall opinion on the internal control system within Scottish Police Authority, Police Scotland and The Forensic Service.
- 2.2 The report documents: the scope and responsibilities between management and internal audit; our planning process; the cover achieved in the year; confirmation of our independence; states our conformance with the Public Sector Internal Audit Standards; and our overall internal audit opinion for the audit year 2020/21.

3. FINANCIAL IMPLICATIONS

- 3.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

4. PERSONNEL IMPLICATIONS

- 4.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

5. LEGAL IMPLICATIONS

- 5.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

6. REPUTATIONAL IMPLICATIONS

- 6.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

7. SOCIAL IMPLICATIONS

- 7.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

8. COMMUNITY IMPACT

- 8.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

9. EQUALITIES IMPLICATIONS

- 9.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

10. ENVIRONMENT IMPLICATIONS

- 10.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

RECOMMENDATIONS

Members are requested to discuss the report.



The Scottish Police Authority

Internal Audit Annual Report 2020/21

May 2021



The Scottish Police Authority

Internal Audit Annual Report 2020/21

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Introduction

The Public Sector Internal Audit Standards (PSIAS) state that:

“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority (SPA), including Police Scotland, during the year ended 31 March 2021, including our overall opinion on SPA’s internal control system.

Acknowledgement

We would like to take this opportunity to thank all members of management and staff for the help, courtesy and co-operation extended to us during the year.

Overall internal audit opinion

Basis of opinion

As the Internal Auditor of the SPA, we are required to provide the Audit, Risk and Assurance Committee with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control.

In assessing the level of assurance to be given, we have taken into account:

- All reviews undertaken as part of the 2020/21 internal audit plan;
- Any scope limitations imposed by management;
- Matters arising from previous reviews and the extent of follow-up action taken including in year audits;
- Expectations of senior management, the Audit, Risk and Assurance Committee and other stakeholders;
- The extent to which internal controls address the client's risk management /control framework;
- The effect of any significant changes in SPA's objectives or systems; and
- The internal audit coverage achieved to date.

In my professional judgement as Head of Internal Audit, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the basis and the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The conclusions are only applicable for the entity examined. The evidence gathered meets professional audit standards and is sufficient to provide senior management with proof of the conclusions derived from the internal audit work.

Internal Audit Opinion

In our opinion the Scottish Police Authority, Police Scotland and Forensic Services have a framework of controls in place that provides reasonable assurance regarding the organisations' governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.

Azets

May 2021

Internal audit work performed

Scope and responsibilities

Management

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal auditor

The Internal Auditor assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, the Internal Auditor should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

Planning process

In order that we can provide an annual assurance statement supporting the Governance Statement, we include all of the SPA's activities and systems within the scope of our internal audit reviews.

Our strategic and annual internal audit plans are designed to provide the Audit, Risk and Assurance Committee with assurance that SPA's internal control system is effective in managing the key risks and best value is being achieved. The plans are therefore informed by SPA's risk management system and linked to the Corporate Risk Register.

The Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Audit, Risk and Assurance Committee.

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in SPA's risk profile.

We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

Cover achieved

Our Internal Audit Plan comprises 500 days per annum. We completed 500 days of core internal audit work in 2020/21, with the following changes to our plan during the year.

The majority of work was carried out by the core internal audit team, and included the use of specialist auditors from our Business Technology Consulting team. This comprised specialist IT auditors in relation to Home Working Security, and subject matter experts in GDPR governance and compliance in relation to Data Protection and Retention. We made use of Data Analytics specialists in our review of Performance Management, and in support of our review of Non-Pay Expenditure.

A comparison of actual coverage against the 2020/21 plan is attached at Appendix 1.

We confirm that there were no resource limitations that impinged on our ability to meet the full audit needs of the SPA and no restrictions were placed on our work by management.

We did not rely on the work performed by a third party during the period.

Audit	Change (days)	Comments
C.4 Corporate Governance	-32	This review was cancelled and replaced with a review covering Home Working Security.
I.1 Contingency	-50	
C.8 Management Response to COVID-19	+50	Additional review at the request of the Audit Risk and Assurance Committee, resourced from Contingency.
C.9 Home working Security	+32	This review was created in place of the Corporate Governance review, due to changing circumstances caused by Covid-19
NET CHANGE	0	

Reports

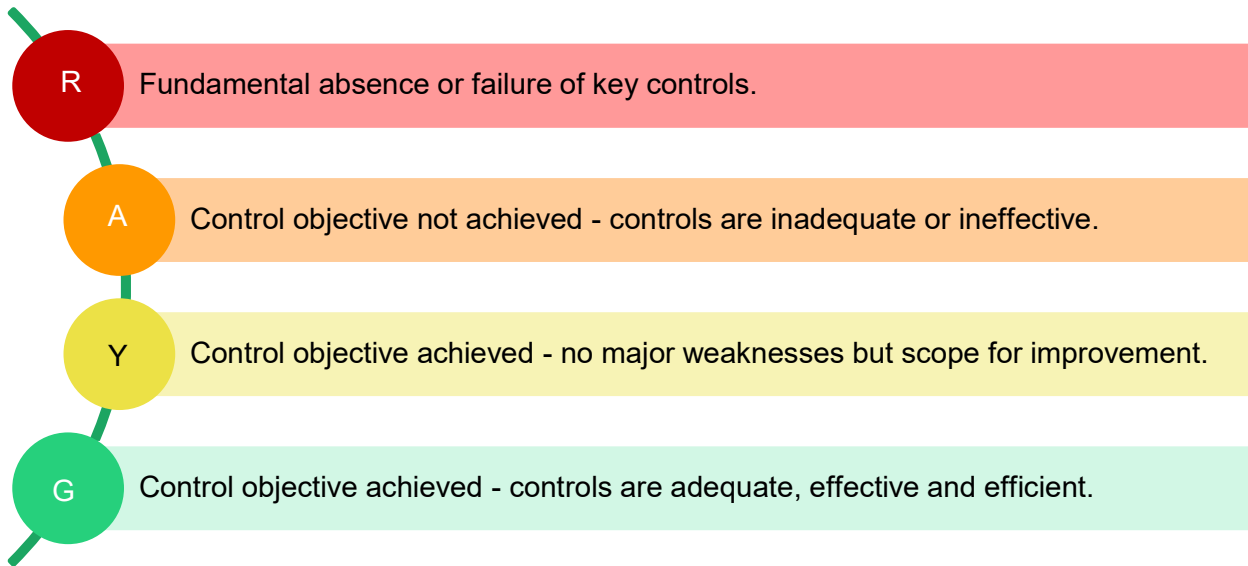
We prepared a report from each review and presented these reports to the Audit, Risk and Assurance Committee. The reports are summarised in the table below.

Where relevant, all reports contained action plans detailing responsible officers and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit, Risk and Assurance Committee. We made no significant recommendations that were not accepted by management.

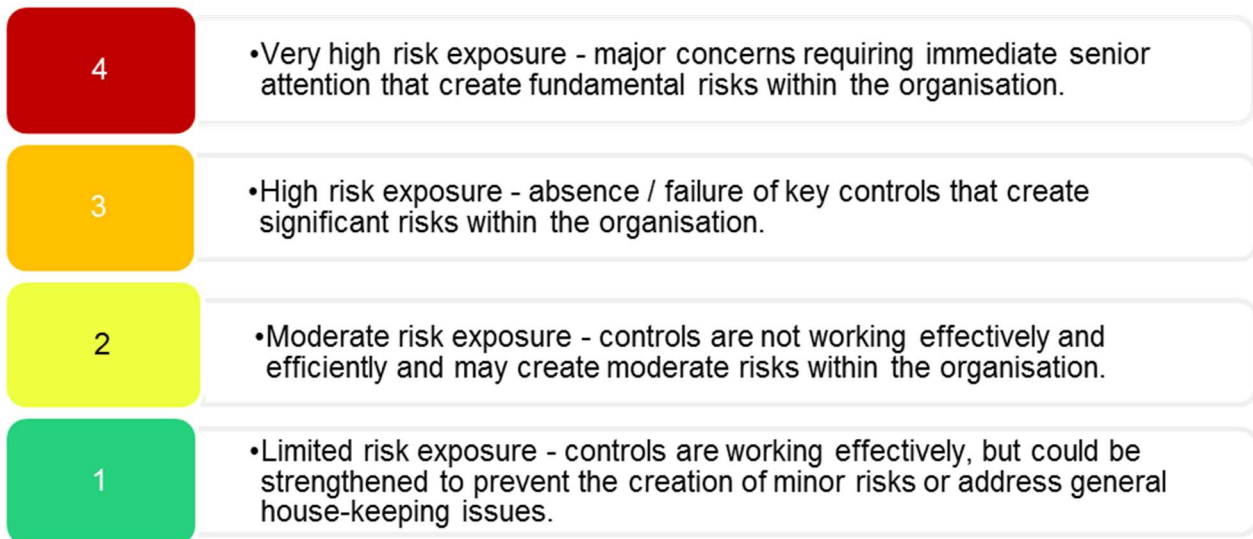
Summary of reports by control assessment and action grade

Review	Control objective assessment	No. of issues per grading			
		4	3	2	1
A1. Core Financial Systems		-	-	5	-
A.3 Benefits Realisation and Efficiency Targets		1	4	3	3
A.5 Payroll		-	-	2	-
A.6 Non-Pay Expenditure Follow Up		-	-	2	-
B.5 Staff Wellbeing		-	9	2	-
C.1 Performance Management		-	2	5	-
C.7 Forensics Case Management		-	-	3	-
C.8 COVID-19		-	-	3	-
C.9 Home Working Security		-	-	4	-
G.2 Data Protection and Retention (SPA)		-	5	4	-
G.2 Data Protection and Retention (PS)		-	1	7	-

Control objective assessment definitions

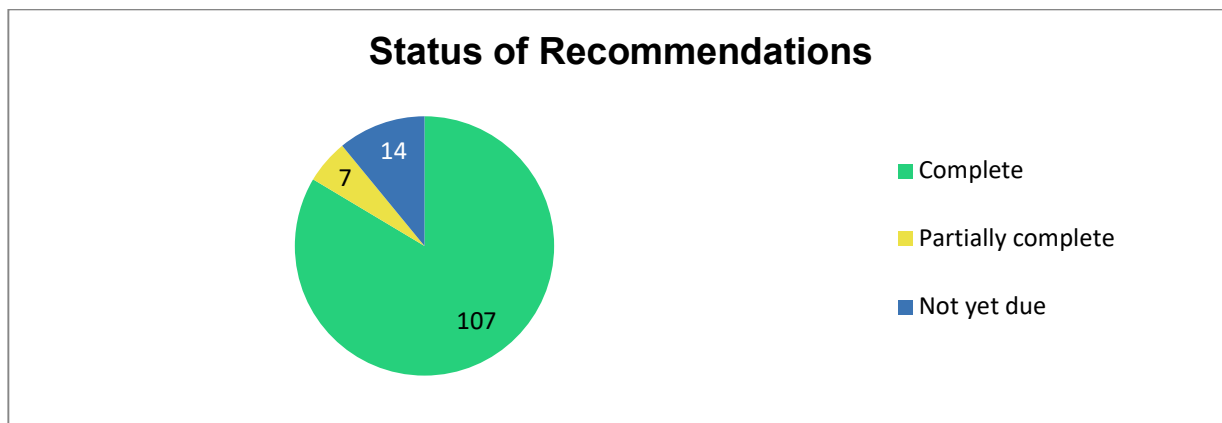


Management action prioritisation definitions



Progress in implementing previous internal audit actions

Management have made excellent progress in implementing agreed actions from internal audit reports. We completed quarterly follow up reviews during the year to validate management’s progress in implementing agreed audit actions. In total we reviewed management’s progress in implementing 128 actions. As at our Q4 follow up in May 2021, we confirmed 103 (80%) actions had been completed, with 4 (3%) closed with no further action. Of the 21 remaining outstanding actions, 7 (36%) were partially complete and in progress, and 14 (64%) not yet due for completion.



Key themes from audit work in 2020/21

Overall, though we have raised a similar number of findings this year relative to the prior year (2019/20: 73, 2020/21: 65) the proportion of findings that are higher risk (grade 3 or 4) has decreased from 42 (58%) to 22 (34%). This reflects the progress that SPA and Police Scotland have made in establishing enhanced systems of control, and the completion of a number of significant strategic initiatives.

We have considered the higher risk findings arising from our audit work, in the context of major developments in SPA's operating environment throughout the period.

Significant findings

Throughout 2020/21, Police Scotland did not have an effective structure in place to oversee the reinvestment of productivity or efficiency gains realised through the implementation of transformation initiatives. A proposed governance structure, chaired by the Chief Constable, is planned to be implemented in the first quarter of 2021.

Other themes emerging from audit findings

Police Scotland has a number of strategic initiatives underway in relation to its handling and ability to make best use of data, including a new Data Strategy. This, and a number of supporting projects, will shape the organisation's approach to planning, deployment of resource, and demand and performance analysis. Throughout 2020/21 we found across a number of our reviews, including Benefits Realisation and Performance Management, that the arrangements to effectively manage and make use of data was a key area of organisational development. Business cases for the four core projects underpinning SPA's data initiatives were presented to the Authority meeting in November 2020.

Police Scotland implemented a Wellbeing framework during 2020/21, to underpin a transition from the implementation of standalone initiatives to a more strategic approach. Work has been ongoing throughout the year to convert the ambitions and objectives of the Wellbeing Framework into clear action aligned with the People and Development Annual Delivery Plan.

Developments throughout the year

In March 2020, the UK implemented the first lockdown measures in response to the COVID-19 pandemic. This presented significant challenges to SPA and Police Scotland, both in terms of the Policing response and the ability to function as corporate organisations. We undertook two targeted reviews in relation to the pandemic, relating to the management response to COVID-19 in corporate areas, particularly procurement, and relating to the robustness of arrangements around the security of information in a remote working context. Though these reviews

led to a number of recommendations, we found that the response from SPA and Police Scotland management was generally robust and effective.

Reflection on findings from prior years

In 2020/21, we followed up previous work over Key Financial Systems, including Payroll and Non-Pay Expenditure. We have previously raised moderate to high risk findings in both of these areas, and as a consequence they have seen the implementation of revised systems and processes throughout the period. While some revised processes are still in the process of being fully implemented, we found that the new arrangements effectively address the areas of highest risk.

Independence

PSIAS require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We can confirm that the staff members involved in each 2020/21 internal audit review were independent of SPA and their objectivity was not compromised in any way.

Conformance with Public Sector Internal Audit Standards

We confirm that our internal audit service conforms to the Public Sector Internal Audit Standards, which are based on the International Standards for the Professional Practice of Internal Auditing. This is confirmed through our quality assurance and improvement programme, which includes cyclical internal and external assessments of our methodology and practice against the standards.

A summary of the results of our most recent internal assessment is provided at Appendix 2.

Key performance indicators

We use a suite of Key Performance Indicators (KPIs) to monitor the quality of the internal audit service. Appendix 3 includes a summary of performance against the KPIs.

Appendix 1 – Planned v actual days 2020/21

Ref and Name of report	Planned Days	Actual Days
A.1 Core Financial Systems	30	30
A.3 Benefits Realisation and efficiency targets	75	75
A.5 Payroll	30	30
A.6 Non-Pay Expenditure Follow Up	30	30
B.5 Staff Well being	30	30
C.1 Performance Management	75	75
C.4 Corporate Governance	35	3
C.7 Forensic Case Management	25	25
C.8 Management Response to COVID-19	-	50
C.9 Home working Security	-	32
G.2 Data Protection and Retention	35	35
G.4 Follow Up	20	20
H.1 Audit & Risk Committee planning and attendance	20	20
H.2 liaison meetings	18	18
H.3 Reporting, ad-hoc meetings and other liaison	6	6
H.4 Liaison with external audit and HMICS	4	4
H.5 Audit needs analysis – strategic and operational IA planning	15	15
H.6 Annual Internal audit report	2	2
I.1 Contingency	50	-
Total	500	500

Appendix 2 – Summary of Internal Quality Assurance Assessment

We are pleased to disclose the outcome of our regular internal and external quality assessments with our clients to provide you with assurance that the service you receive is of high quality and fully compliant with internal audit standards.

The table below summarises the outcome of our most recent internal quality assessment (completed August 2020), in which we have assessed the extent to which our internal audit methodology conforms to the standards. Compliance with the methodology is monitored through an annual review of a sample of audit files and we review our compliance with the IPPF/PSIAS through a wider review of our methodology. In addition, every five years we commission a full External Quality Assessment, the most recent of which was completed in July 2018.

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Definition of Internal Auditing	✓			
Code of Ethics				
Integrity	✓			
Objectivity	✓			
Confidentiality	✓			
Competence	✓			We are working on a skills matrix for the team that is aligned to the IIA's Global Internal Audit Competency Framework.
Attribute Standards				
Purpose, Authority and Responsibility	✓			
Recognising Mandatory Guidance in the Internal Audit Charter	✓			
Independence and Objectivity	✓			

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	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Organisational Independence	✓			
Direct Interaction with the Board	✓			
Chief Audit Executive Roles Beyond Internal Auditing	✓			
Individual Objectivity	✓			
Impairments to Independence or Objectivity	✓			
Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)	✓			
Proficiency	✓			
Due Professional Care	✓			
Continuing Professional Development	✓			
Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)		✓		We are in the process of consolidating our quality and continuous improvement processes within a single Quality Assurance and Improvement Plan.
Requirements of the Quality Assurance and Improvement Programme	✓			
Internal Assessments	✓			
External Assessments	✓			
Reporting on the Quality Assurance and Improvement Programme	✓			
Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓			
Disclosure of Non-conformance	✓			

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	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Performance Standards				
Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	✓			
Planning	✓			
Communication and Approval	✓			
Resource Management	✓			
Policies and Procedures	✓			
Coordination and Reliance		✓		<p>Ensuring full co-ordination with other assurance providers remains challenging for all internal audit functions. We have developed a robust methodology for assurance mapping that enables us to support our clients in this important area. We have good working arrangements with HMICS and Audit Scotland and we coordinate effectively with the SPA and Police Scotland's key regulators. Our internal audit plans are shared with these key regulators to minimise any duplication in the scope of our work plans.</p> <p>In addition, we recently refreshed the risk maturity checklist that we use during strategic audit planning to ensure we place an appropriate level of reliance on the risk management process.</p>
Reporting to Senior Management and the Board	✓			
External Service Provider and Organisational Responsibility for Internal Audit	✓			
Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	✓			
Governance	✓			

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	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Risk Management	✓			
Control	✓			
Engagement Planning (Sum of <i>Standards</i> 2201-2240)	✓			We identified the need to provide refresher training to staff on the appropriate conduct of and attendance at audit scoping and opening meetings.
Planning Considerations	✓			
Engagement Objectives	✓			
Engagement Scope	✓			
Engagement Resource Allocation	✓			
Engagement Work Programme	✓			
Performing the Engagement (The sum of <i>Standards</i> 2300-2340)	✓			<p>We have included a focus in this year's training on the use of sample testing. This is being rolled out across all levels of staff within our team to cover both planning, execution and review.</p> <p>We also identified the need to provide refresher training for auditors covering the appropriate documentation of control assessments.</p>
Identifying Information	✓			
Analysis and Evaluation	✓			
Documenting Information	✓			We recently updated our IA Methodology in relation to the Azets Professional Record Retention Policy to ensure that we continue to retain only essential information on audit files and securely destroy confidential info.

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	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Engagement Supervision	✓			Timely sign-off of file completion remains a pervasive challenge; we have reminded all staff of the importance of this and included more detailed training on expectations in our annual training plan.
Communicating Results (Sum of <i>Standards</i> 2410-2440)	✓			We identified the need to provide refresher training to staff on the appropriate conduct of and attendance at audit close out meetings.
Criteria for Communicating	✓			
Quality of Communications	✓			
Errors and Omissions	✓			
Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			
Engagement Disclosure of Non-conformance	✓			
Disseminating Results	✓			
Overall Opinions	✓			
Monitoring Progress	✓			
Resolution of Senior Management s Acceptance of Risks	✓			

Overall, our service conforms to the requirements of the PSIAS. Our assessment is based on the overall service that is delivered to each client. We are happy to provide Audit and Risk and Assurance Committee members with further details of the information set out above and the assessment process, if required.

Appendix 3 – Progress against KPIs

The table below sets out performance against the KPIs set by management and the Audit, Risk and Assurance Committee.

Service	Performance Standard	Status
1. The Annual and Strategic Internal Audit plans are presented to and approved by the Audit Risk and Assurance Committee prior to the start of the audit year.	The 2020/21 Internal Audit Plan was approved by the SPA Board at the March 2020 meeting.	GREEN
2. 90% of audit input is provided by the core team and continuity of staff is maintained year on year.		GREEN
3. Draft reports are issued within 15 working days of completing fieldwork.	Draft reports have been issued, on average, within 13 days of fieldwork completion.	GREEN
4. Management responses are received within 15 working days and final report issued within 10 working days.	<p>Management responses for Benefits Realisation, Staff Wellbeing, Management Response to Covid-19, and Forensics Case Management were received late.</p> <p>On average, Management responses were received 26 working days from the issue of draft reports, and final reports issued in an average of 4 days from receipt of management responses.</p>	RED
5. At least 90% of the audit recommendations we make are agreed with and accepted by management.	All recommendations have been accepted to date.	GREEN
6. At least 75% of Audit Risk and Assurance Committee meetings are attended by an Internal Audit Partner.	The IA Partner has attended all ARAC meetings this year.	GREEN
7. The annual internal audit plan is fully delivered within agreed cost and time parameters.	All changes to the plan have been agreed with the Audit, Risk and Assurance Committee.	GREEN
8. The annual internal audit report and opinion is presented to and approved by the Audit Risk and Assurance Committee at the first meeting after the year-end each year.	This 20/21 Annual Report is presented to the May 21 ARAC meeting.	N/A

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Service	Performance Standard	Status
9. All internal audit outputs are finalised and submitted to the Committee Secretary at least 10 working days before the Audit Risk and Assurance Committee meeting to allow time for senior management review.	All papers submitted in line with agreed timescales.	GREEN
10. Members of senior management and the Audit Risk and Assurance Committee are invited to participate in the firm's client satisfaction survey arrangements.	Not yet due	N/A

Key

RED	More than 15% away from target
AMBER	Within 15% of target
GREEN	Achieved

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