SCOTTISH POLICE
AUTHORITY

Agenda Item 3b

Meeting	Audit Risk and Assurance Committee
Date	16 July 2020
Location	Video- conference
Title of Paper	Non-Pay Expenditure Internal Audit Report
Presented By	Gary Devlin, Partner, Scott-Moncrieff
Recommendation to Members	Members are requested to discuss the report.
Appendix Attached	Non-Pay Expenditure Internal Audit Report

PURPOSE

This paper presents our final report on the review of Non-Pay Expenditure.

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

The paper is submitted for discussion.

1.   BACKGROUND

1.1   In order to ensure the economic, efficient and effective use of money it is important for the Scottish Police Authority (SPA) and Police Scotland to have robust processes and procedures in place that will facilitate the achievement of its objectives.

1.2   In its accounts for the year ended 31 March 2019 SPA reported net non-pay costs of £144.3m and a current trade payables balance of £7.2m. This spending relates to a wide range of goods and services, including policing equipment, transport, premises and uniforms.

1.3   It is therefore essential to ensure that controls over non-pay expenditure processes are adequate, reliable and effective, and that staff involved in purchasing activity are aware of their roles and responsibilities

2.   FURTHER DETAIL ON THE REPORT TOPIC

2.1   Our review of Non-Pay Expenditure found that the recommendations raised in our previous audit of 2016/17 remain outstanding. We have observed evidence of new processes introduced in the interim to manage the identified risks, however areas of legacy practice remain.

2.2   We understand that management intend to address identified control weaknesses predominantly through the proposed replacement Purchase to Pay system.

2.3   We have reviewed the plans in place and accompanying processes and confirmed that this project, if implemented as planned, should address the majority of control weaknesses identified.

3.   FINANCIAL IMPLICATIONS

3.1   The report identifies a number of issues which impact upon Police Scotland and SPA's ability to manage non-pay expenditure and deliver against budgets. Committee members should consider this aspect 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.
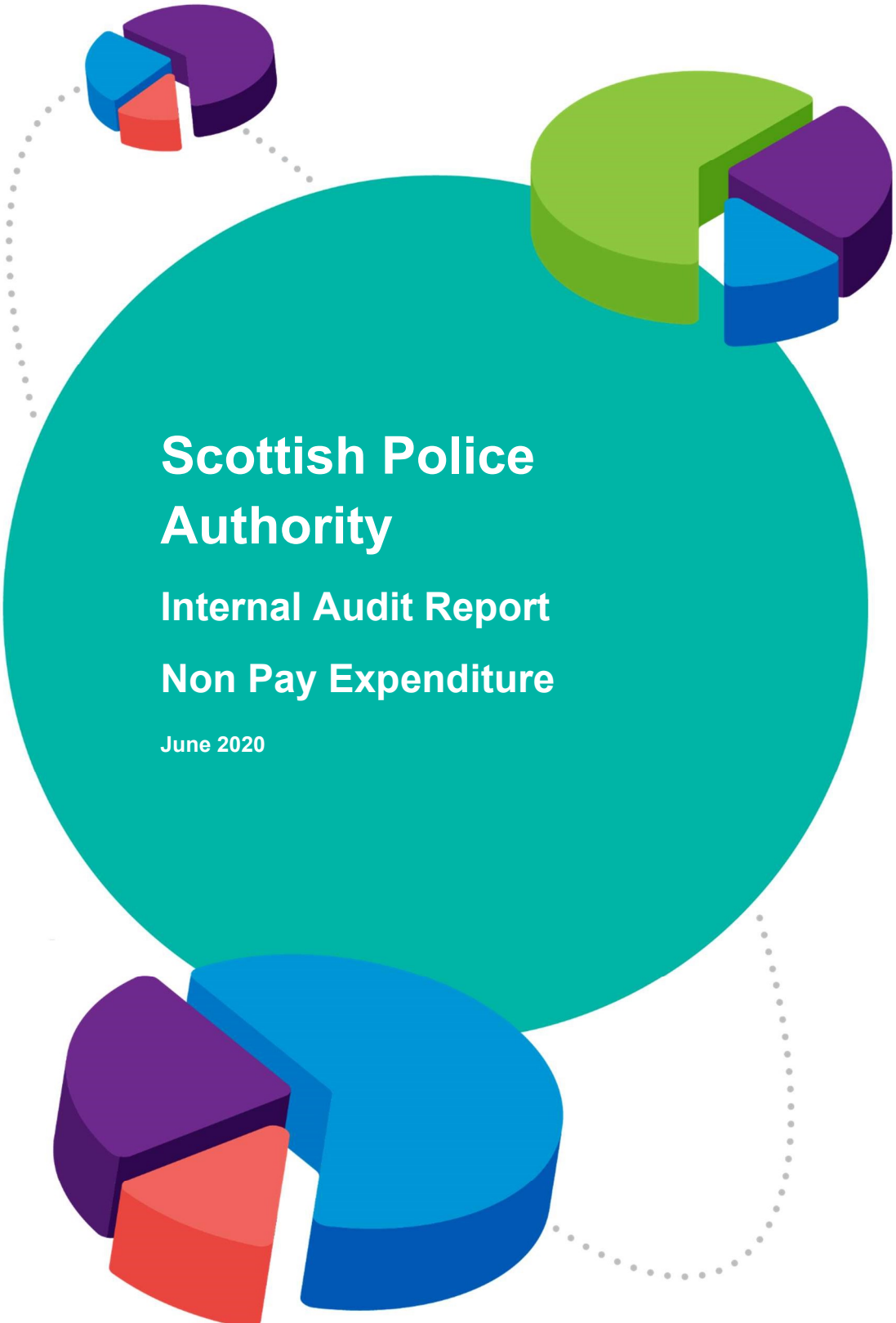

RECOMMENDATIONS
Members are requested to discuss the report.

Scottish Police Authority

Internal Audit Report

Non Pay Expenditure

June 2020

Scottish Police Authority

Internal Audit Report 2019/20

Non Pay Expenditure

Audit Sponsor	Key Contacts	Audit team
James Gray, Chief Financial Officer	David Page, Deputy Chief Officer Iain McKie, Interim Head of Procurement and Stores Paul Colley, Finance Transactions Lead Stephen Baillie, Senior Manager, Purchasing/Receivables & Cash Services	Gary Devlin, Head of Internal Audit Elizabeth Young, Audit Director Andrew Diffin, Audit Assistant Manager Colin McNeil, Auditor Lewis McLachlan, Audit Assistant

Executive Summary

Conclusion

Our review of Non-Pay Expenditure found that the recommendations raised in our previous audit of 2016/17 remain outstanding. We have observed evidence of new processes introduced in the interim to manage the identified risks, however areas of legacy practice remain. We understand that management intend to address identified control weaknesses predominantly through the proposed replacement Purchase to Pay system. We have reviewed the plans in place and accompanying processes and confirmed that this project, if implemented as planned, should address the majority of control weaknesses identified.

Background and scope

In order to ensure the economic, efficient and effective use of money it is important for the Scottish Police Authority (SPA) and Police Scotland to have robust processes and procedures in place that will facilitate the achievement of its objectives.

In its accounts for the year ended 31 March 2019 SPA reported net non-pay costs of £144.3m and a current trade payables balance of £7.2m. This spending relates to a wide range of goods and services, including policing equipment, transport, premises and uniforms.

It is therefore essential to ensure that controls over non-pay expenditure processes are adequate, reliable and effective, and that staff involved in purchasing activity are aware of their roles and responsibilities.
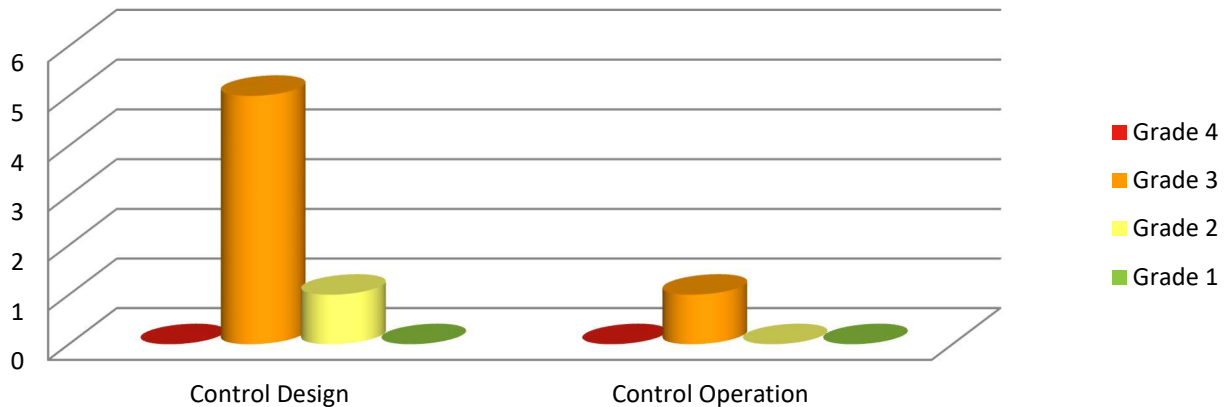
In accordance with the 2019/20 Internal Audit Plan, we reviewed the controls over non-pay expenditure for a sample of eight locations across Police Scotland. We sought to provide assurance that robust controls are in place to ensure that all orders are valid, accurate and properly coded prior to finance processing for payment.

Control assessment
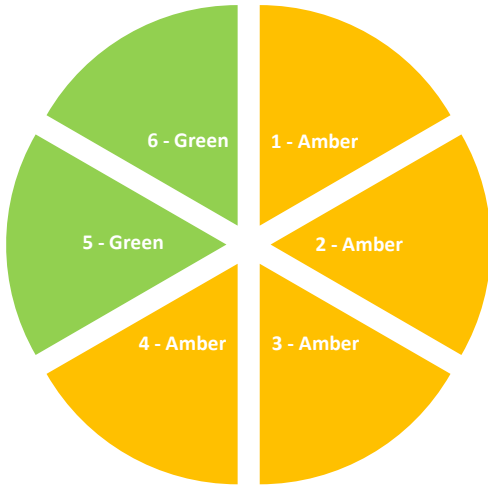
- 1. Policies and procedures are in place for non-pay expenditure which are aligned to best practice

- 2. There are clearly defined roles and responsibilities when procuring non-pay expenditure which includes a scheme of delegated approval and segregation of duties

- 3. Payments are made only in respect of valid and approved suppliers/creditors accounts for goods and services confirmed as received

- 4. Payments are checked to agreed contract rates for validity before processing where appropriate

- 5. Non-pay expenditure is accurately reflected in the financial ledger

- 6. Timely, relevant and accurate management information is in available and is reviewed on a regular basis by budget holders and an appropriate group/committee

Pie chart segments: 1 - Amber, 2 - Amber, 3 - Amber, 4 - Amber, 5 - Green, 6 - Green

Improvement actions by type and priority

Bar chart. Y-axis: 0 to 6. Categories: Control Design, Control Operation. Legend: Grade 4, Grade 3, Grade 2, Grade 1

Seven improvement actions have been identified from this review, one of which relates to compliance with existing procedures, rather than the design of controls themselves. Six of these findings relate to already outstanding actions from previous reviews. See Appendix A for definitions of colour coding.

Key findings

Good practice

Police Scotland's procedures reflect good practice in a number of areas:

- All expenditure is subject to approval according to an authorised signatory list, applicable across the whole organisation. The responsibility of invoice signatories to ensure that any invoice passed for payment is correct, valid, and authorised is set out in finance procedure documentation.

- Police Scotland has initiated a Purchase to Pay project, which aims to replace all current purchasing processes across Police Scotland with a single process and supporting IT system. We have reviewed the project plan and supporting information, including the maps of the proposed process design and confirmed that the project plan includes a detailed and SMART action plan to pilot and subsequently roll out the system across Police Scotland's full organisational structure.

- In the interim, a programme of initiatives led by the procurement function is underway which aims to harmonise the controls in place over legacy processes, where there are areas of expenditure which are not suitable for processing via manual or electronic purchase order.

- Approximately 45% of Police Scotland Expenditure is processed electronically, using a system which automates and enforces a number of controls, including authorisation, segregation of duties, and three-way matching.

- A consistent approach to the coding of expenditure has been adopted, with purchases coded at the point of purchase request, and verified at the point of invoice payment.

- Invoice information is recorded through an electronic system which is directly integrated with the financial ledger, minimising the need for manual manipulation and transfer of data.

Areas for improvement

We have identified a number of areas for improvement that, if addressed, would strengthen Police Scotland's control framework. The majority of these actions are carried forward from our previous report in 2016/17, and include:

- Developing, documenting, and communicating a consistent overall approach to purchasing, which replaces the various legacy systems, processes, and practices currently in operation across different areas of Police Scotland, and difference categories of expenditure.

- Defining, documenting, and communicating the roles and responsibilities of operational staff who request, administer, or authorise purchases, helping to ensure that purchasing practice is consistent across the organisation.

- Extending purchase to pay processes which enforce segregation of duties by design across all areas of the organisation, and all types of expenditure. This minimises the risk of unauthorised or inappropriate purchasing by ensuring that no one individual is able to control all elements of the purchasing process.

- Extending the application of three-way matching checks as far as is possible, including the retention of a suitable audit trail.

- Developing a listing of preferred and/or approved suppliers which encompasses most routine purchasing, and making this available to operational staff with responsibilities for requesting or authorising purchases. Minimising off contract and ad-hoc spend improves the ability of Police Scotland to deliver value for money.

- Introducing controls to ensure that contract rates or pricing agreed with suppliers are actually applied, helping to ensure that value for money is achieved, and budgets appropriately controlled.

These are further discussed in the Management Action Plan below. We have reviewed planning documentation relating to the implementation of a replacement Purchase to Pay system, and where applicable have commented on the extent to which this programme of work will address these matters, if implemented as designed.

Impact on risk register

The corporate risk register (dated January 2020 included the following risks relevant to this review:

- SR005: There are insufficient resources to deliver the Strategic Police Plan now and in the future (Risk score: 12

We have identified a number of issues which relate to the ability of the SPA and Police Scotland to manage non-pay expenditure and accordingly, deliver against its budgets. A number of these issues are known and recognised within the organisation, are currently being addressed, or are planned to be addressed through the implementation of a replacement Purchase to Pay system and supporting processes. In the absence of strong purchasing controls, SPA and Police Scotland will be less able to set or adhere to realistic non-pay expenditure budgets, potentially impacting upon the available funds and the delivery of an effective and efficient service.

The level of risk posed to the organisation appears commensurate with the risk scoring as set out in the Risk Register.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Management Action Plan

Control Objective 1: Policies and procedures are in place for non-pay expenditure that are aligned to best practice

Amber

There is no single consistent purchasing process in place across Police Scotland and accordingly, no overarching policy and procedure for expenditure in place.

During our previous review in 2016/17 we found that the processes in place comprised a mix of electronic and paper-based systems, using a number of different legacy processes. We surveyed eight areas across Police Scotland that carry out purchasing activity and obtained responses from seven of those areas. All areas which provided responses confirmed that local procedures had not significantly changed since our previous review, however we have observed the introduction of new national processes in relation to some types of expenditure.

We have reviewed the project plan and supporting documentation relating to the proposed replacement purchase to pay system and process, including the maps of the proposed process design, and confirmed that:

- The project plan includes a detailed and SMART action plan to pilot and subsequently roll out the system across Police Scotland's full organisational structure;

- The action plan includes provision for the development and delivery of training material to all relevant staff; and

- We have not identified any purchasing activities undertaken under existing processes that are not addressed by the proposed processes as designed.

We have noted that the process maps set out a number of process branches which depend on matters of policy, such as: whether it is appropriate for a purchasing card to be used, whether amendments to submitted orders are within agreed tolerances, and when purchase requests should be directed to a dedicated Purchasing team and/or a "Pit Stop" team for review ahead of approval.

The project plan includes provision for development of some supporting policy documentation, such as a purchase card policy, but does not explicitly include the production of an overarching policy document.

As such, for reference we have reproduced the relevant outstanding actions from our 2016/17 report below along with the latest update from management on the progress made.

1.1   Consistent purchasing process

2016/17 Numbering: 1.1

Recommendation

Arrangements should be made to adopt a consistent purchasing and invoicing process within the organisation. The process should be informed by existing arrangements and instances of good practice noted within individual divisions. Where possible, the SPA should look to identify opportunities where efficiencies can be achieved to support the ongoing management of the organisation's budget.

<div style="border: 2px solid #29ABE2; border-radius: 15px; padding: 20px;">

Management Action

<div style="background-color: #F7A700; padding: 5px;">Grade 3 (Design)</div>

The Procurement Improvement Team will complete a review of buying and payment channels for all expenditure. The team will develop and issue policy and guidance to ensure that these channels are properly defined and consistently used. Where manual processes are being utilised, we will migrate these to the electronic system, where possible. This will leverage existing system controls, ensuring appropriate segregation of duties and reducing reliance on manual signatures.

Action owner: Head of Procurement   **Due date:** December 2020

Further improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

</div>

1.2   Purchasing policies, procedures and training

2016/17 Numbering: 1.2

Recommendation

In developing the purchasing process, supporting policies and procedures should be developed to ensure a consistent process is adopted across the entire organisation. The documents should be made accessible to all staff across all locations.

Where appropriate, training on the new process should also be provided to existing staff and arrangements made to provide induction for relevant staff members joining the organisation.

Management Action

As per 1.1, the Procurement Improvement Team will implement a communication and training plan to ensure all relevant staff are aware of new policies and procedures, with access to those through the Procurement intranet site, and ensure any relevant training/induction needs are identified and delivered.

Action owner: Head of Procurement   **Due date:** December 2020

Further training will be planned under the P2P project for the additional functionality delivered through the project. Policy and procedure documents will be updated to reflect the enhanced system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

Control Objective 2: There are clearly defined roles and responsibilities when procuring non-pay expenditure which includes a scheme of delegated approval and segregation of duties

Amber

It is important for purchasing processes to include appropriate segregation of duties to minimise the risk of fraud. The process and controls in place should ensure that no single individual can control multiple aspects of the purchasing process, preventing expenditure being incurred that is not legitimate, is inappropriate or unauthorised.

We found, as with our previous review in 2016/17, that the approaches to applying segregation of duties controls are not consistent across Police Scotland. In particular, we noted a marked difference in controls depending on whether the electronic E-financials system (which accounts for approximately 25% of purchasing activity) is used, or the purchase is administered according to a manual process.

Manual Processes

We selected a sample of 24 invoices manually administered and paid according to a number of distinct processes. We requested evidence to support segregation of duties between purchase request, purchase authorisation, and invoice payment, and found:

- 9 invoices processed according to the manual purchase order process, applicable across Police Scotland. This is defined by the use of template purchase order documentation which records the requisitioner, purchase order approver, and goods receipter. We agreed each invoice to its supporting purchase order.

- 6 invoices related to uplift and transport of the deceased, subject to specific authorisation processes reflecting national contracts and legacy local arrangements. In all cases we were able to obtain correctly authorised documentation consistent with the process in place in the area concerned, and thus evidence segregation of duties.

- 5 invoices relating to the securing of property. At time of audit these transactions were considered exempt from the Purchase Order process due to their reactive nature, with a mix of locally applied controls in place. In all but one case we were able to obtain evidence of an audit trail confirming that segregation of duties had been applied. This process has now been replaced with a national process and a single contracted supplier. The design of the process is such that an audit trail is maintained of the request and its authorisation, with segregation of duties applied.

- 4 invoices related to legacy, local, or other non-PO processes currently under review as part of a programme of process improvement. Specifically: ferry travel bookings, which are dealt with through a corporate booking portal; and procurement of water coolers, which are subject to legacy contracts. These invoices accounted for 1.2% of the gross value of the expenditure sampled.

Electronic Process

The E-financials purchasing system retains an audit trail of individuals requesting, authorising and receipting goods. The system can be configured to automatically enforce segregation of duties by preventing the same individual, or groups of users, from completing multiple stages of the process.

We reviewed the configuration of user roles within Efinancials and confirmed that these prohibit self authorisation of purchase orders, with the exception of a user role allocated to two individuals within the Scottish Police Authority. A specific exception is made for these individuals as a consequence of the small size of the SPA administration team.

We reviewed an extract from the Efinancials system, consisting of 1146 transaction lines (1057 unique orders), and confirmed that there were no instances where the same individual had requested and authorised a purchase, other than the exceptions noted above.

Replacement Purchase to Pay System

We reviewed the available information on the replacement Purchase to Pay system to confirm that appropriate segregation of duties is incorporated into its design. Our understanding from conversations with key staff is that segregation of duties will be enforced, as for EFinancials, through the configuration of user roles. The project plan includes provision to identify and map these user roles in the course of delivering the pilot implementation and subsequent roll out. This work was in progress at the time of audit.

Our previous review in 2016/17 found issues with authorisation of purchase orders, and the enforcement of segregation of duties across both manual and electronic purchase processes, and these recommendations remain outstanding in relation to manual processes. As such, for reference we have reproduced the relevant outstanding actions from our 2016/17 report below along with the latest update from management on the progress made.

2.1 Purchase Orders

2016/17 Numbering: 3.1

Recommendation

The development of an electronic purchase to pay system would enhance controls by enforcing authorisation and segregation of duty controls.

Prior to the introduction of the new P2P system, we recommend that any manual invoices passed for payment without appropriate evidence of authorisation should be rejected.

<div style="border:1px solid #29ABE2; border-radius:20px; padding:20px;">

Management Action

As noted in the findings a significant portion and value of transactions are already handled electronically through the eFinancials system, enforcing segregation of duties and carrying out three way matching electronically. As per action 1.1 above, existing manual processes will be migrated to electronic processes where possible for the remaining expenditure categories.

Action owner: Head of Procurement   **Due date:** December 2020

Further improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

</div>

Our survey of staff across different locations across Police Scotland found that there is no consistent approach to responsibility for purchasing at the operational level. Each area was generally able to articulate the division of responsibilities in terms of individuals able to raise, approve, and receipt orders, however these were not documented and did not align across different divisions.

As a practical matter, some definition of roles is in place as a consequence of user permissions configured within E-financials (where this is in use) and the existence of an authorised invoice signatory list.

As outlined above, the replacement purchase to pay system will require the explicit definition of user roles and access rights for all aspects of the purchasing process. We have reviewed the project plan and observed that this is reflected in the actions required for the pilot and subsequent roll out of the revised system.

We have previously raised a recommendation in this regard in our 2016/17 review, which remains outstanding. That recommendation, along with the most recent management update, is reproduced below.

2.2 Staff Roles and Responsibilities

2016/17 Numbering: 2.1

Recommendation

The roles and responsibilities of all staff involved in the purchasing and invoicing process should be documented, with clear lines of accountability to the Procurement and Accounts Payable teams.

Both documented roles and responsibilities and staff job profiles should be made accessible to staff on an ongoing basis.

<mark>Grade 2 (Design)</mark>

Management Action

Following the review at 1.1, documentation will be published on the procurement intranet site which makes roles and responsibilities clear, including the responsibilities of invoice authorisers and the need for appropriate segregation of duties.

Action owner: Head of Procurement   **Due date:** December 2020

Further work will be carried out under the P2P project to ensure that job profiles reflect the new processes. Depending on the outcome of this review, consultation may be required to align job profiles to the new system/processes.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

Control Objective 3: Payments are made only in respect of valid and approved suppliers/creditors accounts for goods and services confirmed as received

Amber

Police Scotland, through the Procurement department, has contracts with an agreed list of suppliers. Staff carrying out purchasing are able to use any supplier whose details are held in the E-Financials purchasing system. This list contains a mixture of the contract list, legacy suppliers, and suppliers added in order to raise payment for ad hoc purchases. We asked purchasing staff across the organisation if there was a clear distinction between each group, the consensus is that it is generally unclear.

We understand that current plans are for the replacement Purchase to Pay system to incorporate specific controls around the suppliers to be used for routine purchasing. The processes we have reviewed are designed around a catalogue model as opposed to a supplier model – that is, individuals carrying out routine purchasing will select particular items for purchase as opposed to preparing a purchase order for submission to a particular supplier. Processes are included in the design to allow for off-catalogue purchasing. The ability to add suppliers to the system will be constrained and require appropriate authorisation.

Our previous report in 2016/17 identified the lack of a clearly defined supplier listing for the use of staff raising purchase requests, and this remains outstanding. For reference, we have reproduced the original recommendation along with the most recent management update below.

3.1 Approved Supplier Listing

2016/17 Numbering: 4.1

Recommendation

The SPA should make arrangements to:

- Develop and share a preferred supplier listing with all staff involved in the purchasing process across the organisation

- Document a process for obtaining authorisation for the use of a supplier out with the agreed listing. Adequate explanations to justify the use of such suppliers must be sought and authorisation must be obtained prior to a purchase orders being raised

- Develop a supplier approval process to confirm the checks to be perform over suppliers before they are added to E-Financials

Management Action

We will take the following actions to ensure only approved suppliers are available on our e-Financials electronic system. These will all allow us to work towards a virtual "supplier list" on e-Financials, where only approved suppliers will be held:

(i)   Deactivation of circa 8000 legacy suppliers

(ii)   New supplier authorisation process implemented

Action owner: Head of Procurement   **Due date:** August 2020

(iii)   Introduce a "Pit-Stop" process which will review non-catalogue/non-contract POs before these are issued to suppliers.

Action owner: Head of Procurement   **Due date:** December 2020

(iv)   As part of the procurement improvement programme (PIP) initiatives, work is already underway to address opportunities we have identified to introduce new contractual arrangements with approved suppliers, which will further improve compliance and remove the majority of non-approved suppliers from the system. Additional resources to create a capability to address this work have been agreed and are currently being recruited and will be operational in Q3 of FY 2020. This will lead to a further rationalisation of approved suppliers within the system progressively, over a 12 – 18 month time period. Progress on PIP initiatives are already tracked and regularly reported to our Audit Committee.

Action owner: Head of Procurement   **Due date:** December 2020

Further improvements to the purchasing process will be implemented through the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

All invoices received should be matched with the details of the original order and confirmation that goods or services have been received prior to payment, to ensure that payments are only made for valid orders once goods have been received. Due to the diversity of processes adopted across different locations, and for different categories of expenditure, we found a variety of approaches to performing and evidencing this check.

For manually processed orders for which purchase orders have been raised, the template purchase order form is designed such that it can separately record both the approval of the purchase order and the receipt of goods. This document can then be matched with the invoice once received. Where manual purchases do not rely on purchase orders, the record of authorisation produced depends upon the process applied, with some legacy and local processes producing a limited formal audit trail.

Where purchases are requested and authorised according to a manual process, the resulting invoice is subject to sign off by an appropriately authorised individual as defined by an authorised signatory list. The Police Scotland Procurement Manual requires that this authorisation should only be provided where:

- Goods or services have been received; and

- The invoice details match those of the original request.

We selected a sample of 24 purchases administered through manual processes, and were able to confirm that authorisation had been obtained in all but one instance, where the purchase documentation could not be located.

For our sample, we requested documentation to validate the authorisation step by confirming the details of the original request against the invoice, and that the goods and services had been received. We were not able to do so for seven of 24 invoices: in 3 cases this was a consequence of the fact that the relevant paperwork could not be located, and in 4 cases this was a consequence of the fact that legacy or local processes do not generate a formal audit trail. Accordingly, though we were able to evidence that the invoice signatory had confirmed that these checks were performed at the point of invoice authorisation, we were not able to validate this.

As per our comments under control objective 2, we understand that legacy processes are subject to a programme of process harmonisation, but that those reflected in our sample (ferry travel bookings, procurement of water coolers) have been assessed as low risk.

We understand that management intends to address these weaknesses through strengthened controls within the new P2P system. We have reviewed the proposed design and confirmed that if implemented as currently designed, the system will perform automated three-way matching based on the order information entered at the time of purchase request. The system is designed to integrate electronic supplier catalogues and electronic invoicing, meaning that receipting can be performed for each line item within a given purchase.

In addition, the system is designed to operate as a single repository for all purchasing information, addressing the present issue whereby the areas performing purchasing and processing invoices hold local records which represent portions of the full audit trail.

3.2 Three Way Matching

2016/17 Numbering: 6.1

Recommendation

A consistent process should be put in place for performing and recording the three-way matching process (including a consistent process for receipting goods and services), which should be documented and communicated to all staff involved in the purchasing process.

Management Action

Grade 3 (Design)

As noted in the findings a significant portion and value of transactions are already handled electronically through the eFinancials system, enforcing segregation of duties and carrying out three way matching electronically. As per action 1.1 above, existing manual processes will be migrated to electronic processes where possible for the remaining expenditure categories.

Action owner: Head of Procurement   **Due date:** December 2020

Further improvements to the purchasing process workflow will be implemented during the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

Control Objective 4: Payments are checked to agreed contract rates for validity before processing where appropriate

Amber

4.1 Contracted rates

Police Scotland has contracts in place covering a number of the key goods and services provided by its suppliers, many of which involve agreed contract pricing/rates. It is therefore important that Police Scotland ensure these rates are used to maximise the savings that can be made on key goods/services.

We have however been unable to confirm that there is a consistent, general process in place to:

- Review invoices received to confirm the appropriate contract rates have been applied prior to invoices being approved for payment; or

- Retrospectively review payments made to contracted suppliers to confirm that contract rates are adhered to.

Responsibility for confirming that contract rates have been adhered to is a responsibility of invoice authorisers, relying on information provided by the procurement function. However, there is no single approach to ensuring that these checks are carried out.

We have reviewed the proposed design of the replacement purchase to pay system and noted that it incorporates catalogue pricing, such that individuals requesting purchases do so by selecting individual line items whose details have been previously populated (including contracted prices). This primarily relates to the provision of goods, however depending on the nature of the service provided and the contract, this approach may also be applicable to services. If this approach can be applied, then automated matching of purchase orders to invoices included in the design of the replacement purchase to pay system will ensure that exceptions where rates charged vary from those authorised are flagged for investigation and authorisation prior to payment being made.

Risk

There is a risk that Police Scotland does not receive agreed rates from contracted suppliers, meaning that value for money is not achieved, resulting in overspends.

Recommendation

Police Scotland should ensure that all invoices received are confirmed to contract rates or the relevant order prices prior to being authorised for payment. This could be accomplished by:

- Introducing catalogue ordering systems where contracts specifying standard pricing are in place;

- Making the details of contracted suppliers, and agreed rates, available to AP staff and invoice authorisers; and/or

- Requiring the retrospective review of purchasing activity relating to contracted suppliers into existing contract management processes.

Management Action

Grade 3 (Design)

As 1.1 above, the review of buying channels will aim to shift manual processes to electronic processes where possible to leverage existing system controls before the new P2P system functionality is available. This includes the expansion of catalogues where possible,

We also currently issue and make new suppliers details and rates available to the relevant staff. This will be re-enforced by additional communications and the guidance produced will reinforce the responsibility for invoice authorisers to ensure that invoices are correct before certification for payment where alternative contractual invoicing/payment procedures are utilised. We will introduce sample invoice checking on a 6 monthly basis.

Action owner: Head of Procurement   **Due date:** December 2020

Further improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.

Action owner: Head of Procurement   **Due date:** December 2020

Control Objective 5: Non-pay expenditure is accurately reflected in the financial ledger

Green

No reportable weaknesses identified

E-Financials integrates the financial ledger and purchasing system, meaning that purchasing data is reflected in the ledger without manual transfer of information. Invoice information, whether it relates to a purchase instigated through manual or electronic processes, is entered directly into e-Financials. Where purchases are instigated electronically, the purchaser records the account code and cost centre information at the point of request, as enforced by the system's built-in controls. Where a manual purchase order is raised, the purchaser records the account code and cost centre information on the purchase order template, and signatories are asked to confirm this as part of the invoice authorisation process. It should be noted, in line with our finding under Control Objective 3, that there are instances of manual purchases that are not processed using the standard purchase order templates.

We reviewed the invoices included in our sample in order to confirm, where documentation was available, that the account code and cost centre recorded on the purchase order, and confirmed at invoice authorisation were accurately reflected in the financial ledger. We reviewed the nature and originating area of the expenditure and confirmed that this appeared consistent with the allocated account code and cost centre. We did not identify any issues.

The Finance team carry out reconciliations of key control accounts bank accounts are carried out monthly and we confirmed there was appropriate segregation of duties in place between their preparation and review. We examined a sample of such reconciliations and confirmed that these had been completed as expected and appropriately signed off.

Control Objective 6: Timely, relevant and accurate management information is in available and is reviewed on a regular basis by budget holders and an appropriate group/committee

Green

No reportable weaknesses identified

Police Scotland operates a hierarchical ledger structure that allows expenditure to be recorded using nine levels of account code and nine levels of cost centre. The cost centre is designed such that level five cost centres represent a complete Division, Department, or Function, with subsidiary cost centres representing individual operational units.
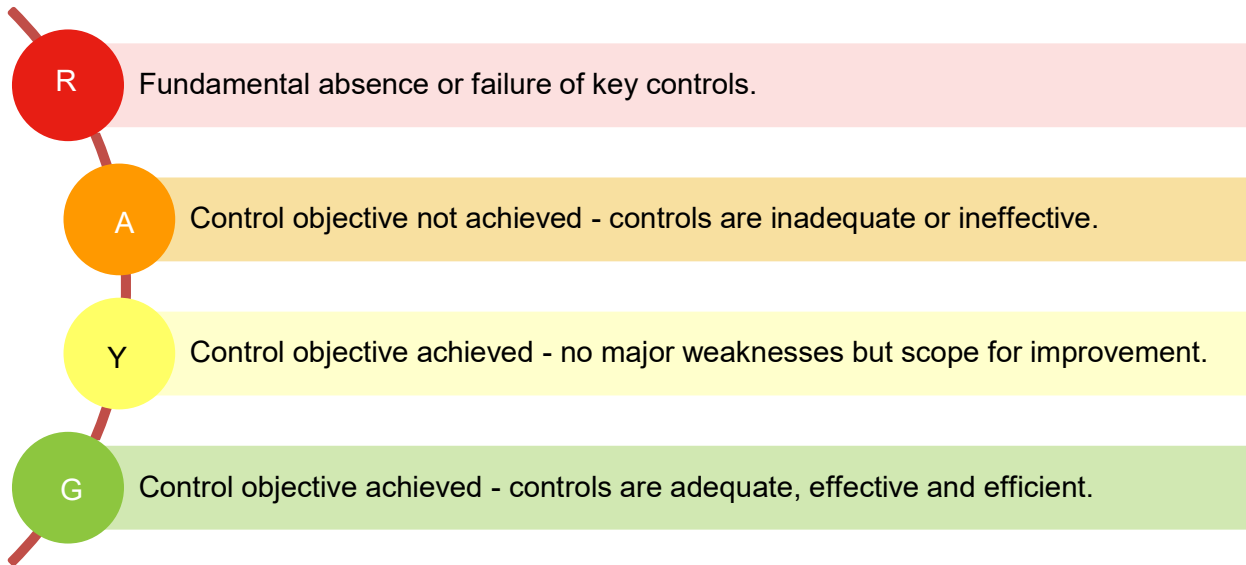
Management accounts are produced by the Business Partnership Team on a monthly basis and provided to Heads of Divisions and Directorates. The preparation of management accounts is automated to the extent possible with the systems in place, and is carried out according to a documented procedure to ensure consistency and comparability. Though management accounts follow a defined format, additional reporting providing further detail or alternative presentation can be provided in response to requests from budget holders.

Within Divisions and Functions, monthly meetings of the Senior Team take place. These meetings receive and scrutinise Finance reports prepared by an allocated Business Coordinator based within a Business Support Unit. Finance reports identify key variances and financial performance in respect of Staff Costs, Non-Staff Costs, and Income. Any actions identified are captured within action logs for follow up at subsequent meetings.
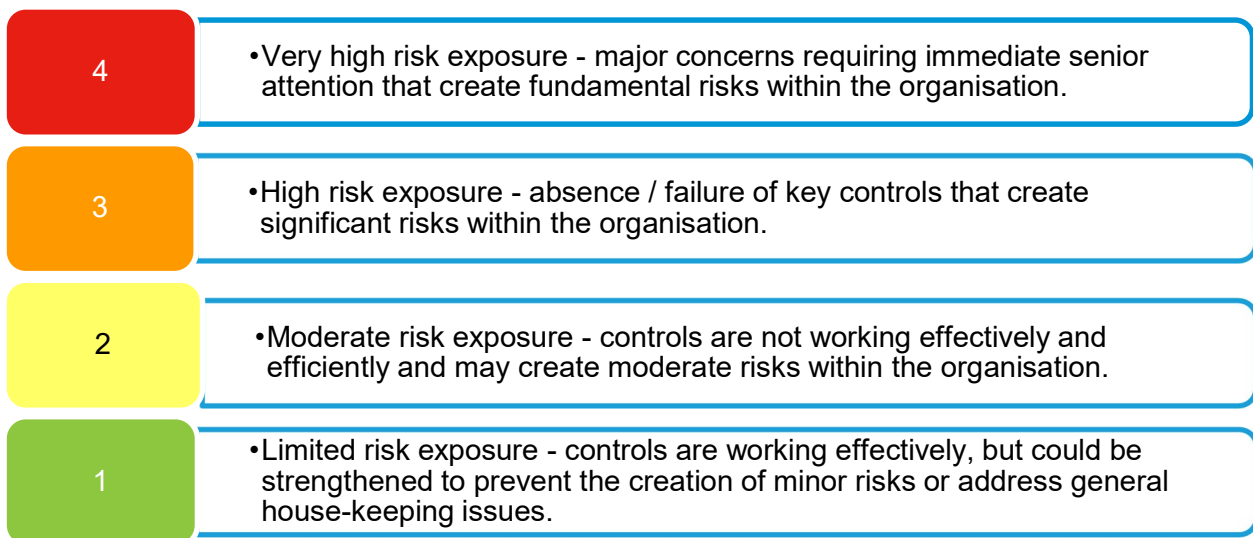
We have reviewed the proposed design of the replacement purchase to pay process and observed that it provides potentially greater scope for detailed reporting in relation to expenditure, should this be required. The process as designed incorporates a check against available budget at the point of purchase orders being created, which could provide an additional source of budgetary control, subject to the determination of the details of implementation.

Appendix A – Definitions

Control assessments

R	Fundamental absence or failure of key controls.
A	Control objective not achieved - controls are inadequate or ineffective.
Y	Control objective achieved - no major weaknesses but scope for improvement.
G	Control objective achieved - controls are adequate, effective and efficient.

Management action grades

4	• Very high risk exposure - major concerns requiring immediate senior attention that create fundamental risks within the organisation.
3	• High risk exposure - absence / failure of key controls that create significant risks within the organisation.
2	• Moderate risk exposure - controls are not working effectively and efficiently and may create moderate risks within the organisation.
1	• Limited risk exposure - controls are working effectively, but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

Appendix B – Action Summary

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
1.1	Arrangements should be made to adopt a consistent purchasing and invoicing process within the organisation. The process should be informed by existing arrangements and instances of good practice noted within individual divisions. Where possible, the SPA should look to identify opportunities where efficiencies can be achieved to support the ongoing management of the organisation's budget.	The Procurement Improvement Team will complete a review of buying and payment channels for all expenditure. The team will develop and issue policy and guidance to ensure that these channels are properly defined and consistently used. Where manual processes are being utilised, we will migrate these to the electronic system, where possible. This will leverage existing system controls, ensuring appropriate segregation of duties and reducing reliance on manual signatures.\n\nFurther improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality.\n\nAs a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.	3	Head of Procurement	December 2020
1.2	In developing the purchasing process, supporting policies and procedures should be developed to ensure a consistent process is adopted across the entire organisation. The	As per 1.1, the Procurement Improvement Team will implement a communication and training plan to ensure all relevant staff are aware of new policies and procedures, with access to those through the Procurement intranet site, and ensure any relevant	3	Head of Procurement	December 2020

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
	documents should be made accessible to all staff across all locations. Where appropriate, training on the new process should also be provided to existing staff and arrangements made to provide induction for relevant staff members joining the organisation.	training/induction needs are identified and delivered. Further training will be planned under the P2P project for the additional functionality delivered through the project. Policy and procedure documents will be updated to reflect the enhanced system functionality. As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.			
2.1	The development of an electronic purchase to pay system would enhance controls by enforcing authorisation and segregation of duty controls. Prior to the introduction of the new P2P system, we recommend that any manual invoices passed for payment without appropriate evidence of authorisation should be rejected.	As noted in the findings a significant portion and value of transactions are already handled electronically through the eFinancials system, enforcing segregation of duties and carrying out three way matching electronically. As per action 1.1 above, existing manual processes will be migrated to electronic processes where possible for the remaining expenditure categories. Further improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality. As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the	3	Head of Procurement	December 2020

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
		case, we anticipate a phased roll out commencing Q3 FY 2020.			
2.2	The roles and responsibilities of all staff involved in the purchasing and invoicing process should be documented, with clear lines of accountability to the Procurement and Accounts Payable teams. Both documented roles and responsibilities and staff job profiles should be made accessible to staff on an ongoing basis.	Following the review at 1.1, documentation will be published on the procurement intranet site which makes roles and responsibilities clear, including the responsibilities of invoice authorisers and the need for appropriate segregation of duties. Further work will be carried out under the P2P project to ensure that job profiles reflect the new processes. Depending on the outcome of this review, consultation may be required to align job profiles to the new system/processes. As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.	2	Head of Procurement	December 2020
3.1	The SPA should make arrangements to: • Develop and share a preferred supplier listing with all staff involved in the purchasing	We will take the following actions to ensure only approved suppliers are available on our e-Financials electronic system. These will all allow us to work towards a virtual "supplier list" on e-Financials, where only approved suppliers will be held:	3	Head of Procurement	(i) (ii) August 2020 (iii) (iv) December 2020

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
	process across the organisation • Document a process for obtaining authorisation for the use of a supplier out with the agreed listing. Adequate explanations to justify the use of such suppliers must be sought and authorisation must be obtained prior to a purchase orders being raised • Develop a supplier approval process to confirm the checks to be perform over suppliers before they are added to E-Financials	(i) Deactivation of circa 8000 legacy suppliers (ii) New supplier authorisation process implemented (iii) Introduce a "Pit-Stop" process which will review non-catalogue/non-contract POs before these are issued to suppliers. (iv) As part of the procurement improvement programme (PIP) initiatives, work is already underway to address opportunities we have identified to introduce new contractual arrangements with approved suppliers, which will further improve compliance and remove the majority of non-approved suppliers from the system. Additional resources to create a capability to address this work have been agreed and are currently being recruited and will be operational in Q3 of FY 2020. This will lead to a further rationalisation of approved suppliers within the system progressively, over a 12 – 18 month time period. Progress on PIP initiatives are already tracked and regularly reported to our Audit Committee. Further improvements to the purchasing process will be implemented through the delivery of the new P2P system functionality. As a consequence of Covid-19, the initial pilot of the system			

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
		has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.			
3.2	A consistent process should be put in place for performing and recording the three-way matching process (including a consistent process for receipting goods and services), which should be documented and communicated to all staff involved in the purchasing process.	As noted in the findings a significant portion and value of transactions are already handled electronically through the eFinancials system, enforcing segregation of duties and carrying out three way matching electronically. As per action 1.1 above, existing manual processes will be migrated to electronic processes where possible for the remaining expenditure categories.

Further improvements to the purchasing process workflow will be implemented during the delivery of the new P2P system functionality.

As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020. | 3 | Head of Procurement | December 2020 |
| 4.1 | Police Scotland should ensure that all invoices received are confirmed to contract rates or the relevant order prices prior to being authorised for | As 1.1 above, the review of buying channels will aim to shift manual processes to electronic processes where possible to leverage existing system controls before the new P2P system functionality is available. This includes the | 3 | Head of Procurement | December 2020 |

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
	payment. This could be accomplished by: • Introducing catalogue ordering systems where contracts specifying standard pricing are in place; • Making the details of contracted suppliers, and agreed rates, available to AP staff and invoice authorisers; and/or • Requiring the retrospective review of purchasing activity relating to contracted suppliers into existing contract management processes.	expansion of catalogues where possible, We also currently issue and make new suppliers details and rates available to the relevant staff. This will be re-enforced by additional communications and the guidance produced will reinforce the responsibility for invoice authorisers to ensure that invoices are correct before certification for payment where alternative contractual invoicing/payment procedures are utilised. We will introduce sample invoice checking on a 6 monthly basis. Further improvements to the purchasing process workflow will be implemented through the delivery of the new P2P system functionality. As a consequence of Covid-19, the initial pilot of the system has been paused until at least Q2 FY 2020. This being the case, we anticipate a phased roll out commencing Q3 FY 2020.			