

<b>Meeting</b>	<b>SPA Audit Committee</b>
<b>Date</b>	<b>12 September 2019</b>
<b>Location</b>	<b>Edinburgh Grosvenor Hotel, 5 - 21 Grosvenor Street, Edinburgh, EH12 5EF</b>
<b>Title of Paper</b>	<b>Internal Audit Report: Stock Management</b>
<b>Presented By</b>	<b>Gary Devlin, Partner, Scott- Moncrieff</b>
<b>Recommendation to Members</b>	<b>For Noting</b>
<b>Appendix Attached</b>	<b>Stock Management Report</b>

**PURPOSE**

This paper presents our final report on the review of stock management.

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

The paper is submitted for noting.

## 1. BACKGROUND

As at 31 March 2019, SPA held £3.7m of stock. This primarily consists of operational consumables and uniform clothing, however the total included £0.7m of Forensics stock, £0.65m of ammunition, and £0.4m of vehicle parts and consumables. Stock is held in a range of locations, which include: one centralised general store in Glasgow; seven regional general stores; nine fleet workshops; and Forensics laboratories across eight regions. There is an ongoing efficiency programme to reduce the number of locations holding stock. Stock can be subject to potential fraud in terms of misappropriation of assets. It is important for SPA (including F/S) and Police Scotland to have appropriate controls in place to ensure stock is appropriately recorded and accounted for.

In accordance with the 2019/20 Internal Audit Plan, we have assessed the appropriateness of policies and procedures surrounding stock management and the management and accounting for stock.

## 2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 The report notes that Police Scotland and Forensic Services both hold a wide variety of stock in locations across the country, but there is no stock management policy, standard procedures or a common system in use. The lack of consistently applied, robust procedures creates a variety of risks around stock management.
- 2.2 The approach to accounting for stock is also variable and, whilst there are examples of coordination with Efinancials, in general it is very difficult to reconcile stock to the financial ledger. This means that it is also not possible to obtain up to date and accurate stock records that can form the basis of management information, allow monitoring of stock usage or form the basis of a stock take to confirm stock levels and identify stock losses or obsolescent stock. We also noted a number of issues with the annual stock-take process.
- 2.3 Stock controls and policies covering the storage or transport of stock for some specialist areas such as ammunition, hazardous chemicals and controlled substances were found to be in place and complied with.

- 2.4 Overall, there is an opportunity to improve the economy, efficiency and effectiveness of current stock control management arrangements by standardising and rationalising the stock management locations, systems and processes across the organisation.
- 2.5 We consider the weaknesses identified within this report to be fundamental and relating to the absence of key controls. As such, we recommend that management consider the findings urgently and implement improvements to limited the risk exposure in this area.

### **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 There are no environmental implications associated with this report. 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 note the report.

OFFICIAL



# Scottish Police Authority Internal Audit Report 2019/20 Stock Management

August 2019



Scott-Moncrieff  
business advisers and accountants



OFFICIAL

# Scottish Police Authority

## Internal Audit Report 2019/20

### Stock Management

Executive Summary	1
Management Action Plan	5
Appendix A – Year End Stock Balances and Variances	21
Appendix B – Definitions	22
Appendix C – Internal Audit Assignment Plan	23

<b>Audit Sponsor</b>	<b>Key Contacts</b>	<b>Audit team</b>
<i>James Gray, Chief Financial Officer</i>	<i>Iain McKie, Interim Head of Procurement &amp; Stores Anton Chalk, Head of Fleet</i>	<i>Gary Devlin, Relationship Partner Elizabeth Young, Head of Internal Audit Claire Beattie, Manager</i>

<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
		<i>Stephen Kelly, Manager Andrew Diffin, Internal Auditor</i>

# Executive Summary

## Conclusion

Police Scotland and Forensic Services both hold a wide variety of stock in locations across the country, but there is no stock management policy, standard procedures or a common system in use. The lack of consistently applied, robust procedures creates a variety of risks around stock management.

The approach to accounting for stock is also variable and, whilst there are examples of coordination with Efinancials, in general it is very difficult to reconcile stock to the financial ledger. This means that it is also not possible to obtain up to date and accurate stock records that can form the basis of management information, allow monitoring of stock usage or form the basis of a stock take to confirm stock levels and identify stock losses or obsolescent stock. We also noted a number of issues with the annual stock-take process.

Stock controls and policies covering the storage or transport of stock for some specialist areas such as ammunition, hazardous chemicals and controlled substances were found to be in place and complied with.

Overall, there is an opportunity to improve the economy, efficiency and effectiveness of current stock control management arrangements by standardising and rationalising the stock management locations, systems and processes across the organisation.

We consider the weaknesses identified within this report to be fundamental and relating to the absence of key controls. As such, we recommend that management consider the findings urgently and implement improvements to limit the risk exposure in this area.

## Background and scope

As at 31 March 2019, SPA held £3.7m of stock. This primarily consists of operational consumables and uniform clothing, however the total included £0.7m of Forensics stock, £0.65m of ammunition, and £0.4m of vehicle parts and consumables. Stock is held in a range of locations, which include: one centralised general store in Glasgow; seven regional general stores; nine fleet workshops; and Forensics laboratories across eight regions. There is an ongoing efficiency programme to reduce the number of locations holding stock. Stock can be subject to potential fraud in terms of misappropriation of assets. It is important for SPA (including F/S) and Police Scotland to have appropriate controls in place to ensure stock is appropriately recorded and accounted for.

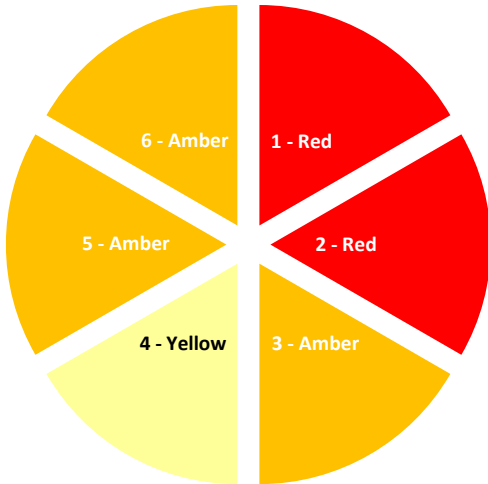
In accordance with the 2019/20 Internal Audit Plan, we have assessed the appropriateness of policies and procedures surrounding stock management and the management and accounting for stock.

The Stock Management audit assessed the extent to which appropriate policies and procedures are in place and up-to-date; stock records are maintained; that stock received, issued or otherwise disposed of is accurately recorded and accounted for; and, that stock is stored securely.

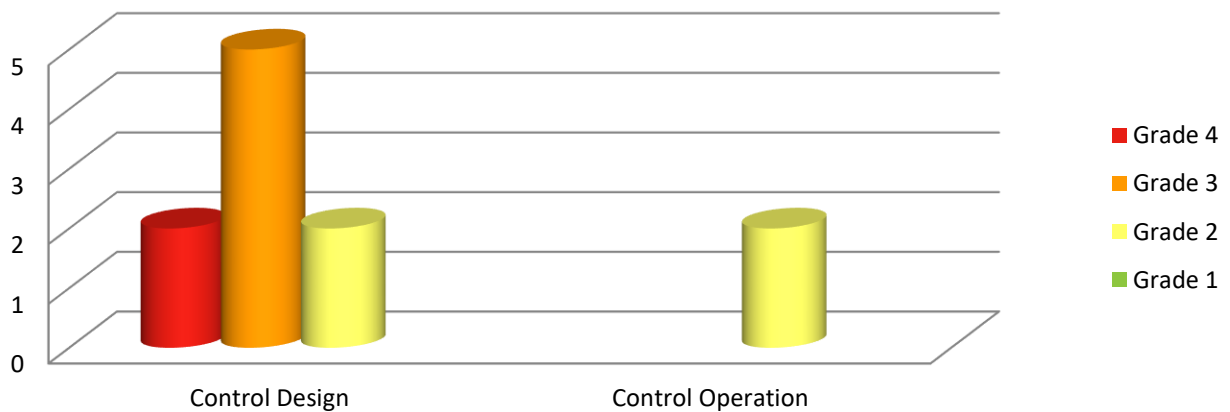


## Control assessment

- 1. Appropriate stock management policies and procedures are in place and kept up-to-date
- 2. Complete, accurate and up-to-date stock records are maintained
- 3. Issuing of stock is appropriately controlled and is reflected within the stock system on a timely basis
- 4. Stock is secured and transported in an appropriate manner and is held securely
- 5. There is set criteria for stock to be determined as damaged and any stock either damaged or lost is written down
- 6. Stock counts are carried out on a timely basis and variances are logged and investigated appropriately



## Improvement actions by type and priority



Eleven improvement actions have been identified from this review, the majority of which relate to the design of controls. See Appendix B for definitions of colour coding.

## Key findings

### Good practice

The SPA's and Police Scotland's procedures reflect good practice in the following areas:

- Finance has developed a process and set of standard templates outlining the required process to be followed when conducting the year end stock take. This includes provision for identifying obsolete, damaged or otherwise unusable stock and requiring it to be written off.
- Both Police Scotland and SPA Forensic Services have developed procedures for the transport, security and disposal of specialist/high risk items such as ammunition, controlled drugs and hazardous substances.
- Local arrangements are in place to manage stock in various locations. Although these were inconsistent, we did note elements of good practice at some locations surrounding policies and procedures, stock management, and record keeping.

### Areas for improvement

There is scope to improve and rationalise stock management arrangements across both SPA Forensic Services and Police Scotland. An overarching review of stock management locations, stock management systems, stock lines held, ordering procedures and stock issue processes should be undertaken to standardise systems and processes and improve economy, efficiency and effectiveness in stock management arrangements across both Police Scotland and Forensic Services.

We have identified a number of areas for improvement which could be implemented within SPA's and Police Scotland's current structure of controls. If addressed, these would strengthen SPA's and Police Scotland's control framework. They include:

- The development of an overarching stock management policy, procedures and system that covers transportation, storage, disposals, delegated authority levels, roles and responsibilities.
- Improved controls over reconciling stock balances to the financial ledger.
- Harmonising year-end stocktaking activity and ensuring a consistent and controlled approach to stock-checking and subsequent reporting.

These key issues are further discussed in the Management Action Plan below.

## Impact on risk register

This review is not directly linked to any of the identified risks within the Strategic Risk Register, dated March 2019. More generally, if robust controls are not in place over stock management, there is an increased risk of fraud or misappropriation of assets. This could result in both financial loss and reputational damage.

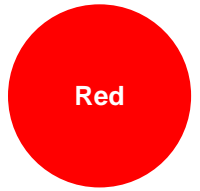
Our review has identified number of issues in relation to the integrity of stock records. As a consequence, there is an increased risk that fraud or misappropriation could occur without detection, and management should consider whether this risk is appropriately captured on operational risk registers.

# Acknowledgements

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

# Management Action Plan

Control Objective 1: Appropriate stock management policies and procedures are in place and kept up-to-date



## 1.1 Policies and Procedures

We surveyed a sample of eight locations responsible for the receipt, storing and issue of stock to identify whether consistent policies and procedures were in place. The stores surveyed were:

- Glasgow
- Glasgow ICT
- Glasgow Fleet
- Scottish Crime Campus, Gartcosh (Forensics)
- Fife
- Tayside (Dundee)
- Dumfries
- Grampian

We undertook sample testing at 4 store locations to determine if stock management processes identified during our survey review were being applied as expected. The stores tested were:

- Forensics (SCC Gartcosh)
- Glasgow Uniform/Kit store (Micklewood Road)
- Glasgow ICT Store (Helen Street)
- Fife
- Tayside

In only one location (Glasgow ICT) were there any recognisable and documented processes and procedures. In the locations tested, staff had adopted local procedures, but these were not formalised and/or documented. We also noted that there was a large variation across the sites in respect of the locally adopted procedures, meaning there is no consistently agreed method for receipting, managing and issuing stock.

### Risk

The lack of documented and consistently applied procedures creates a risk that stock could be misappropriated, or not managed efficiently, leading potentially to financial losses, equipment shortages and reputational damage.

### Recommendation

We recommend that SPA Forensic Services and Police Scotland develop a set of policies and procedures that can be applied across all stores. It is important for management to consider the needs of each location when doing so, taking cognisance of existing local processes and systems, to ensure there is sufficient flexibility to cover the needs of each store whilst standardising the key elements and ensuring robust controls are in place for these aspects. Management should ensure that the procedures address, at a minimum, the recording of:

- Stock received into the store, including matching receipts to purchase records, or records of transfers from other stores;
- Stock transferred to other stores;
- Stock issued to divisions or officers, including appropriate cost centre information; and
- Movements of stock in the financial ledger.

Once developed, management should ensure that the policies and procedures are appropriately approved and are reviewed in line with a pre-agreed timetable.

**Management Action: Agreed.**

Grade 4  
(Design)

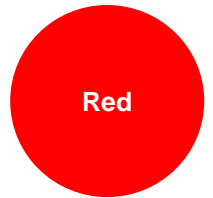
The entirety of the Stores Function will be reviewed and addressed as part of the Procurement Improvement Plan. Whilst it may take 18-24 months to fully implement a new Target Operating Model for Stores, there is a recognition by management that this is too long to wait to make improvements.

As a result management will develop and roll out temporary policies and procedures in relation to stock management before the end of the current financial year.

**Action owner: Chief Financial Officer**

**Due date: 31 March 2020**

## Control Objective 2: Complete, accurate and up-to-date stock records are maintained



### 2.1 Stock Management System

Although some localised policies exist (as noted in MAP 1.1), SPA Forensic Services and Police Scotland have no overarching stock management system in place. As a consequence, it is not currently possible to gain an accurate overview of the value or volumes of stock held across SPA Forensic Services and Police Scotland throughout the year.

Within Police Scotland, we surveyed seven stores and documented the use of four distinct electronic systems (Efinancials, Roadbase, Tranman, and ITConnect), and three manual systems. These comprise a mixture of legacy systems, special purpose systems implemented in areas with particular requirements such as IT and Fleet, and the use of the stock module of Police Scotland's financial ledger system Efinancials. It was further noted that some locations make use of more than one system for different categories of stock.

Within Forensic Services, there is no recognised system of stock management in place. Purchasing processes do not distinguish between purchases for immediate use and purchases to be held as stock. No records of stock held or issued are maintained, with the exception of controlled drugs which are subject to bespoke Home Office regulations.

With the exception of Efinancials, the stock systems used are not linked to the financial ledger. This means that stock movements must be manually recorded. We were unable to obtain evidence of robust processes that ensure that information is accurately transferred between stock systems and the financial ledger.

#### Risk

There is a clear risk that fraud or misappropriation will not be detected, as any potentially suspicious activity cannot be readily distinguished from unrecorded legitimate movements of stock. There is an increased risk of waste or inefficiency due to the difficulty in obtaining reliable management information in relation to the volumes of stock purchased, held, or issued.

#### Recommendation

We recommend that Police Scotland and Forensics rationalise the stock systems used, so that separate systems are only in use where there is a clear rationale and approval for doing so. This may require discussions between stores about the systems currently in use, to ensure that best practice is shared and the optimum solutions are implemented for each store and stock type. Management should also consider whether value for money would be more effectively achieved through the implementation of a new, consolidated stock management system that could serve the needs of each store and integrate effectively with the financial ledger.

Where standalone systems are retained, these should be integrated with Efinancials where possible to minimise manual transfers of information. If systems cannot be integrated, appropriate controls should be applied to ensure that information can be accurately and timeously transferred between systems.

We recognise that this recommendation may represent a significant organisational change. In the interim, we have made a number of other recommendations elsewhere in this report which would increase the level of

management control over stock in the present environment, prior to the development of any integrated stock system.

**Management Action: Agreed.**

Grade 4  
(Design)

In the short term we will implement the recommendation elsewhere in the report that will help to mitigate this risk until a longer term systems solution can be put in place.

As part of the Procurement Improvement Plan, systems options will be considered for the longer term solution of managing stock. The starting presumption will be that a consolidated stock management system will be the longer term solution, but this will be tested. It is management's intention that a solution will be found by the start of the 2021/22 financial year.

**Action owner: Chief Financial Officer**

**Due date:** Initial response 31 March 2020  
Longer term system fix 31 March 2021

## 2.2 Financial Ledger

As part of our testing, we attempted to reconcile the independently held stock records at a sample of locations to the financial ledger as at the end of Period 3 (June 2019). Other than the sites that used Efinancials, we were unable to reconcile local stock records with the values recorded in the financial ledger.

We also noted that significant adjustments to stock balances were posted at the time of the year end stock count (see MAP 6.3), and that these adjustments were of a scale which was not consistent with normal monthly activity.

Accordingly, we have been unable to provide assurance that complete, accurate and timely information concerning the receipt, transfer, or issue of stock is transferred to the financial ledger.

### Risk

The financial ledger does not accurately reflect the value of stock held by the organisation, other than at the year end when the annual stock count is performed. There is a risk that financial management decisions are taken on the basis of incomplete, incorrect or out of date information, leading potentially to financial loss or failure to adhere to budgetary parameters.

### Recommendation

We recommend that local stock systems are regularly reconciled to the financial ledger to identify any discrepancies between the stock movements posted to Efinancials and those in local records.

The reconciliation should take account of the opening stock balance, the value of stock purchased according to the purchasing system, and the value of stock issued or transferred according to local stock records.

This would allow for the better detection of any unusual purchasing patterns, the unauthorised issue of stock and the unrecorded transfers of stock.

#### Management Action: Agreed

Grade 3  
(Design)

Until a longer term stock management system is put in place, quarterly manual reconciliations will be undertaken between local stock systems and Efinancials. This will be put in place during the current financial year.

**Action owner:** Chief Financial Officer

**Due date:** 31 March 2020



## 2.3 Reporting Controls

The current varied approach to stock management makes it difficult to readily gather and report on the levels of stock held at any particular location or for the organisation as a whole. We were unable to obtain any evidence of any regular, consistent or comprehensive reporting of management information in relation to stock, including the levels of stock held, stock turnover or details of any fast / slow moving stock. Similarly, we were unable to identify any reporting of volumes of activity which would highlight unexpected patterns of demand or stock issue.

### Risk

There is a risk that the volumes of stock ordered and held are not fit for purpose. This could mean that SPA Forensic Services and Police Scotland is holding excessive stock levels, leading to inefficiency and financial losses; or that the stock held is inadequate for the organisation's needs, leading to operational areas being unable to access necessary goods or equipment on a timely basis.

### Recommendation

Subject to the implementation of the other recommendations under this control objective, we recommend that SPA Forensic Services and Police Scotland identifies its key stock information and reporting needs and takes steps to install an appropriate system for the reporting of stock volumes and stock turnover. The reporting of this information will allow the identification of developing issues such as slow moving items, and also help better inform the stock purchasing process.

#### Management Action: Agreed.

Grade 3  
(Design)

As part of the options appraisal for a stock system solution, appropriate reporting functionality will be taken in to consideration.

In the interim, management will consider what temporary solutions may be available to start reporting on stock, such as volumes, turnover and slowing moving items.

**Action owner:** Chief Financial Officer

**Due date:** Initial response 31 March 2020  
Longer term system fix 31 March 2021

## Control Objective 3: Issuing of stock is appropriately controlled and is reflected within the stock system on a timely basis

Amber

### 3.1 Authority Structure

We surveyed seven stores across Police Scotland and requested information outlining the processes and approvals required for the issuing of stock.

We were able to obtain evidence of a clearly documented structure of authority for issuing stock for West region uniform / equipment stores and for the ICT store. The other locations indicated that they relied on established or legacy line management arrangements as a matter of practice, however we were unable to confirm that this approach had been documented or widely approved.

We tested a sample of 68 stock issue transactions to establish whether the local arrangements in place over the issuing of stock, either as documented or explained to us, had been complied with in practice. We found:

- One site (covering nine items from our sample) where no audit trail relating to the authorisation of stock issues is retained;
- Four transactions in our sample with no evidence of authorisation; and
- Six stock issue requests from two sites that were self-authorised by the individual making the request to withdraw stock.

Forensic Services indicated that, other than controlled drugs, there were no formal authorisation requirements in place over the issue of stock from stores. Items purchased to be held as stock are stored in areas generally accessible by staff, who are able to remove items from stores as required.

#### Risk

The lack of controls over stock issues creates a risk that stock is issued without a clear business justification, potentially leading to waste, misappropriation and financial loss.

#### Recommendation

We recommend that SPA Forensic Services and Police Scotland develop and distribute a policy setting out the authorisation requirements for the issue of stock. In line with good practice, the approvals set should align with existing delegated authority and budget holder authorisation limits. These should include guidance for individuals in the scenario where the same individual would be requesting and issuing stock, to ensure appropriate segregation of duties is maintained. They should also cover the maintenance of an appropriate audit trail.

**Management Action: Agreed.**

Grade 3  
(Design)

The authorisation requirements for issuing stock will be set out the new standard policies and procedures that will be developed as part of MAP 1.1.

**Action owner: Chief Financial Officer**

**Due date:** Initial response 31 March 2020  
Longer term system fix 31 March 2021

## Control Objective 4: Stock is secured and transported in an appropriate manner and is held securely

Yellow

### 4.1 Security and Transport Policy

We could not obtain an overall policy that sets out the requirements for the security or transportation of stock. We did however obtain evidence of policies covering specialist areas such as ammunition within Police Scotland, and hazardous chemicals and controlled substances within Forensic Services.

During our site visits, we confirmed that all visited stores were situated within facilities to which the general public do not have access. Only three of the sites visited, however, implemented access controls to prevent employees already on site from accessing the store.

We noted that arrangements were in place at each site to transport stock to divisions and stations either using Police Scotland or Forensics Service vehicles, or through the use of logistics supplier DX.

#### Risk

There is a risk that the arrangements in place for the security and transport of stock held in stores are not fit for purpose, leading to misappropriation or unauthorised issue of stock.

#### Recommendation

SPA Forensic Services and Police Scotland should outline their approach for the security of stores and the transport of stock. This should define appropriate standards for each category of stock, commensurate with the risk attached, and stock holding areas should be brought into line with its requirements. Environmental issues relating to the safe storage and maintenance of stock in a fit condition for issue should also be considered.

The policy should be subject to approval by management at an appropriate level, and subject to a regular review timetable.

#### Management Action Agreed

Grade 2  
(Design)

The arrangements for the effective management of stock, including physical controls and transportation are being considered as part of the Procurement Improvement Plan.

The policy in relation to this will be captured in line with MAP 1.1.

**Action owner:** Chief Financial Officer

**Due date:** 31 March 2020

# Control Objective 5: There is set criteria for stock to be determined as damaged and any stock either damaged or lost is written down

Amber

## 5.1 Unusable stock (Police Scotland)

Areas that hold stocks of uniform make use of approved kit lists, which are in place for each specialism within Police Scotland. These are periodically updated and we have observed evidence that these updates are communicated to stores.

Beyond this, we were unable to obtain any evidence of a policy, process, or procedure in relation to the identification or disposal of unusable stock. Six locations surveyed indicated that stock was being held on site that could not be issued, generally because it was obsolete. We understand that this stock has been retained as a consequence of a lack of clarity over:

- Whether stock which is no longer included on an approved kit list, but still usable, can be issued; or
- The authorisation required to dispose of such stock.

The annual stock-take return includes provision to identify unusable stock and propose that this is written down. We reviewed a sample of five stock take returns and noted that although four of the five areas indicated that obsolete stock was being held, only one site proposed this for write off.

### Risk

There is a risk of inefficiency as a consequence of the storage of stock that can no longer be used, leading to unnecessary use of space and a continuing financial cost.

### Recommendation

We recommend that Police Scotland document the criteria that should be applied to identify damaged, obsolete, or otherwise unusable stock. This Policy should clearly articulate who has responsibility for authorising the disposal of stock and could be developed in conjunction with the setting of clear delegated authorities as per MAP 3.1. The Policy should include a procedure for notifying Finance of the disposal and recording any costs or proceeds associated with this process.

**Management Action Agreed**

**Grade 3  
(Design)**

The authorisation requirements for disposing of damaged or obsolete stock, as well as the process for identifying such stock, will be set out the new standard policies and procedures that will be developed as part of MAP 1.1.

Authorisation limits will be in line with the existing Scheme of Financial Delegation which was recently refreshed and approved by the SPA Board.

**Action owner: Chief Financial Officer**

**Due date:** Initial response 31 March 2020  
Longer term system fix 31 March 2021

## 5.2 Records of disposal (Forensics)

Forensic Services has no specific processes or rules for determining whether stock remains fit for purpose. It is generally left to the manager with responsibility for the area or function within which the store is situated to decide whether stock is obsolete.

Through discussion, we understand that areas within Forensics do dispose of stock that is no longer fit for use however we have been unable to obtain any evidence regarding the conduct of these disposals, of any approvals sought, records of the disposals, or the related disposal costs.

### Risk

There is a risk that waste as a consequence of poor stock control will not be identified, leading to financial losses. Disposals of stock may be occurring without any separate authorisation and in a manner that is uncontrolled and unauthorised.

### Recommendation

Forensics should document their processes for stock disposals, ensuring that they are undertaken in a managed and transparent fashion. This should include clear protocols in respect of identifying and documenting obsolete stock, authorising the disposal of stock, and notifying Finance of any adjustments required to the financial ledger.

#### Management Action: Agreed

Grade 2  
(Design)

The process for stock disposals in Forensic Services will be determined by Procurement and Stores Management after consultation with the Forensic Service to understand any specific requirements. Insofar as possible processes will be standardised across all areas of the organisation.

The approach and timescales will be the same as those set out in relation to the previous management response at 5.1.

**Action owner:** Chief Financial Officer

**Due date:** Initial response 31 March 2020  
Longer term system fix 31 March 2021

## Control Objective 6: Stock counts are carried out on a timely basis and variances are logged and investigated appropriately

### 6.1 Annual Stock Count Process

Finance provides a process document and set of templates that outlines the annual stock count process. The templates consist of a set of forms to be used to record:

- The completion of counts;
- The identity and roles of individuals involved;
- The completion of independent spot checks over the counts performed; and
- Any variances found.

We reviewed the returns supplied to Finance from six locations. This included Forensic Services, who compile a single return for all areas under its responsibility.

We found that three of the locations surveyed (Fleet stores, IT Stores and the Glasgow Uniform store) do not apply the procedure as written. Instead, these areas apply locally developed stock-take procedures to compile the information required to complete the return expected by Finance. The alternative processes as described to us appeared to be reasonable, however there is a clear division between the documented procedure and current actual practice.

#### Risk

There is a risk that incomplete or inaccurate information is incorporated into the annual stock count, as a consequence of a lack of clear understanding of the stock count processes being applied. The effective management of the year end process may be compromised due to the varying approaches to year-end stocktaking.

#### Recommendation

Finance should either insist on the application of the year-end processes being undertaken uniformly or if considered appropriate, allow local variations that are agreed in advance. Regardless of the approach taken to year-end stock-taking, the process ultimately applied should generally accord with the issued Finance guidance and reflect established good practice.



**Management Action: Agreed**

Grade 2  
(Operation)

As part of the planning for the 2019/20 Annual Report & Accounts process, finance will engage with local stock management teams to understand local circumstances. Management's starting assumption will be that the local teams should follow the guidance issued by finance. However, should finance discover local circumstances that require an alternative approach, this will be reflected in the year-end guidance issued in respect of stock counts.

**Action owner: Financial Controller**

**Due date: 31 March 2020**

## 6.2 Year End Stock-Count – Independent Checks

The year-end stocktake process includes a number of controls to ensure the integrity of the stock count. These include an expectation that the counts themselves are carried out by staff independent of the day to day running of the store and a requirement for a check to be conducted by an independent manager over a sample of the counts completed.

We reviewed the returns prepared by six stock locations, including Forensic Services. For five of these six locations we noted that:

- Three areas had not provided information to Finance that confirmed these controls had been adhered to; and
- The documentation submitted by two areas did not confirm that the counts had been carried out by independent staff and subject to an independent check.

### Risk

There is a risk that fraud, misappropriation or the loss of stock is not detected with the potential consequences of financial loss and reputational damage to SPA and Police Scotland.

### Recommendation

We recommend that Finance emphasise the need for independent checks of stock to be undertaken by persons unconnected to the day to day handling of stock and / or processing of any related documentation.

It is further recommended that close attention is paid to the documented annual stocktaking returns and that Finance management consider appropriate further action where the stocktaking activity is not compatible with the issued Finance guidance, or where the results of the stock-checking are incomplete or give cause for concern.

#### Management Action: Agreed.

Grade 2  
(Operation)

Finance will review the current arrangements in place to identify opportunities to strengthen them by ensuring that stock counts are undertaken by unconnected persons. As a minimum finance will ensure that members of the finance team attend stock counts as independent witnesses to ensure that they are undertaken appropriately. This will also provide an opportunity for finance to ensure that the results of stock-checking are fully documented.

Any issues that give rise to concern will be investigated.

**Action owner: Financial Controller**

**Due date: 31 March 2020**

## 6.3 Stock Count Variances

We reviewed the stock take returns provided to Finance for six stock locations covering Police Scotland and Forensics for evidence of the reporting and investigation of stock variances.

We noted that the annual stock count revealed:

- Significant variances between the financial ledger and local stock systems in all areas reviewed, which we have summarised at Appendix A; and
- Variances between the expected volumes of stock according to local stock records and the actual levels of stock identified during the stock-count.

We were unable to obtain evidence of any robust investigation of these variances, however identified issues regarding the integrity of record keeping mean that in practice, it is unlikely that the nature of the variances could be determined readily from the information available. As a consequence, established practice is to bring the ledger into line with the values of stock counted through the posting of significant adjusting journals without further investigation.

### Risk

There is a risk that fraud, misappropriation, or loss of stock is not identified, and that issues with local processes or the transfer of information between systems are not resolved, as a consequence of a lack of investigation.

### Recommendation

As part of the update of the stock take procedure recommended under MAP 6.1, we recommend that Finance clarify responsibility for investigating variances identified during the stock take process.

Depending on the nature of the variance, this may involve local stores' staff, business support units and/or management accountants and Finance. Posting of significant adjusting journals should require an appropriate level of management sign off to ensure that adequate investigation has been carried out in respect of the underlying variances.

#### Management Action; Agreed

Grade 3  
(Design)

Finance will update the stock counting procedures to clearly set out expectations with regard to the investigation of variances. These will be communicated to the personnel working in stock management.

**Action owner:** Financial Controller

**Due date:** 31 March 2020

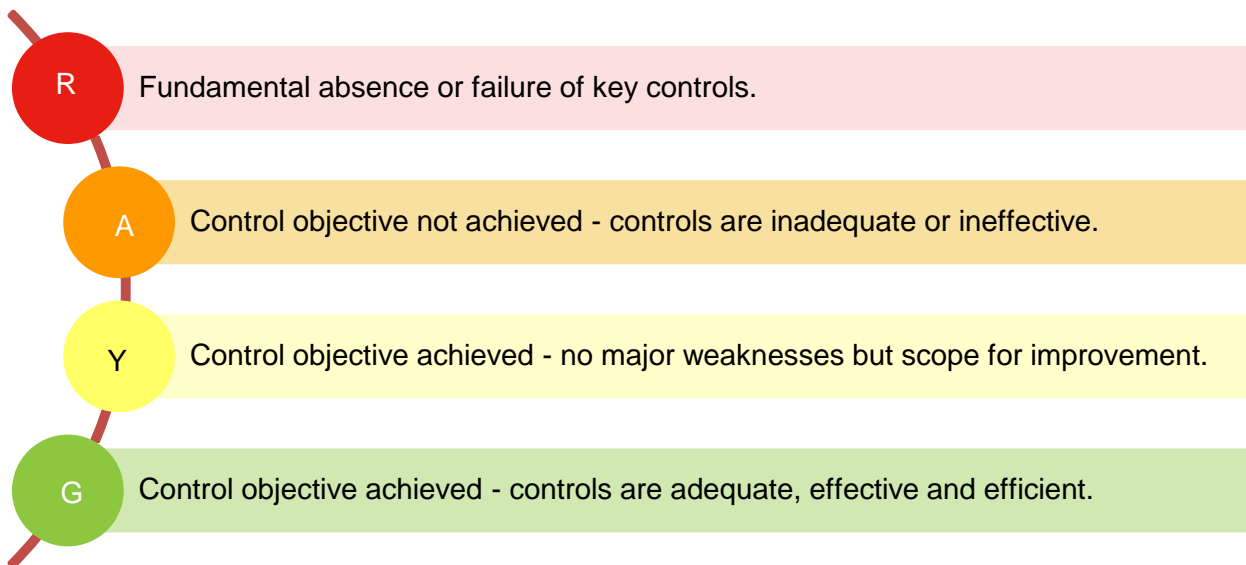
# Appendix A – Year End Stock Balances and Variances

We have summarised the variances observed between the counted values of year end stock and the figures according to the financial ledger prior to the stock count. These have been summarised by regional cost centres, however note that each geographic region incorporates operational consumables and vehicle parts and consumables, which are generally held in distinct physical locations and subject to distinct processes. Forensics and IT stores are considered separately as these are not tracked by region within the ledger, and instead are considered within the same cost centre. Fuel and Ammunition have been excluded as these are subject to separate processes for the reporting of year end stock balances.

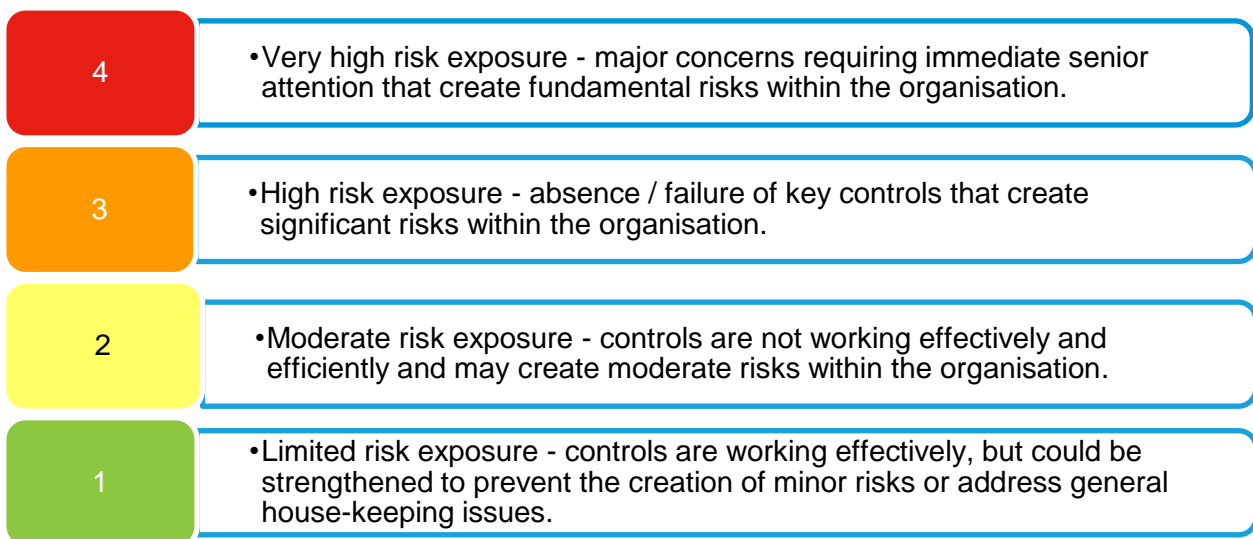
Region	Year end Stock Count balance £'000	Variance with Financial Ledger £'000	Percentage Variance %
Stirling	90	12	13.3%
Dumfries and Galloway	35	-26	-74.3%
Fife	216	-19	-8.8%
Aberdeen	172	-13	-7.6%
Edinburgh	157	5	3.2%
Inverness	27	-10	-37.0%
Forensics and ICT	742	148	19.9%
Glasgow	1,502	162	10.8%
Dundee	144	6	4.2%

# Appendix B – Definitions

## Control assessments



## Management action grades



# Appendix C – Internal Audit Assignment Plan

<b>Client:</b>	<b>Scottish Police Authority</b>
<b>Assignment:</b>	<b>C.11 Stock Management</b>
<b>Background:</b>	<p>SPA holds a range of stock, mainly comprising equipment, uniforms, and fuel and vehicle parts. There is an ongoing efficiency programme to reduce the number of locations holding stock.</p> <p>Stock can be subject to potential fraud in terms of misappropriation of assets. It is important for SPA (including F/S) and Police Scotland to have appropriate controls in place to ensure stock is appropriately recorded and accounted for.</p>
<b>Scope:</b>	<p>In accordance with the 2019/20 Internal Audit Plan, we will assess the appropriateness of policies and procedures surrounding stock management.</p> <p>The audit will assess the extent to which appropriate policies and procedures are in place and up-to-date stock records are maintained; that stock received, issued or otherwise disposed of is accurately recorded and accounted for; and that stock is stored securely.</p>
<b>Business objectives:</b>	<p>To ensure that:</p> <ul style="list-style-type: none"> <li>• Appropriate stock management policies and procedures are in place and kept up-to-date;</li> <li>• Complete, accurate and up-to-date stock records are maintained;</li> <li>• Issuing of stock is appropriately controlled and is reflected within the stock system on a timely basis;</li> <li>• Stock is secured and transported in an appropriate manner and is held securely;</li> <li>• There is set criteria for stock to be determined as damaged and any stock either damaged or lost is written down;</li> <li>• Stock counts are carried out on a timely basis and variances are logged and investigated appropriately</li> </ul>
<b>Business risks:</b>	<p>This review is not directly linked to any of the identified risks within the Strategic Risk Register, dated March 2019.</p> <p>More generally, if robust controls are not in place over stock management, there is an increased risk of fraud or misappropriation of assets. This could result in both financial loss and reputational damage.</p>
<b>Client contacts:</b>	Audit Sponsor: James Gray, Chief Financial Officer

<b>Client:</b>	<b>Scottish Police Authority</b>
	<p>Key Contacts: Paul Donovan, Head of Procurement  Iain McKie, Interim Procurement Improvement Lead  Anton Chalk, Head of Fleet  Paul Rankin, Logistics Manager  Jennifer Muir, Head of Business Support Forensic Services,  Mark Simmons, Operations Manager Scene</p> <p>Examination West  Susan Duncan, Personal Assistant to the Director of Forensic Services  Sandra Moffat – Team Manager, SCC Gartcosh</p> <p>Forensic Services  Lee McCann, Forensic Laboratory Assistant (Drugs)</p>
<b>Resources:</b>	<p>Andrew Diffin, Internal Auditor – 14 days  Rachael Weir, Assistant Manager – 5 days  Elizabeth Young, Head of Internal Audit – ½ day  Gary Devlin, Relationship Partner – ½ day</p>
<b>Timetable:</b>	<p>Pre-audit catch-up: 17 June 2019  Fieldwork commences: 26 June 2019  Fieldwork completed: 18 July 2019  Closing meeting with auditee: 18 July 2019  Draft report issued for management responses: 1 August 2019  Management responses to be provided by: 15 August 2019  Report to be issued as final by: 22 August 2019  Audit Committee meeting: September 2019</p>
<b>Reporting format:</b>	Standard internal audit report to management and Audit Committee.
<b>Agreed by client and date:</b>	Police Scotland, May 2019    SPA, July 2019

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