

Meeting	Audit, Risk and Assurance Committee
Date	5 May 2021
Location	By video conference
Title of Paper	Non-pay expenditure Follow Up Internal Audit Report
Presented By	Gary Devlin, Partner, Azets
Recommendation to Members	For Discussion
Appendix Attached	Internal Audit Report – Non-Pay Expenditure Follow Up

PURPOSE

This paper presents the final report of our review of Non-pay expenditure. The paper is presented for the Audit, Risk and Assurance Committee to consider the report, findings and management responses. The paper is submitted for discussion.

1. BACKGROUND

- 1.1 The Police Scotland Finance function processes over £200m of non-pay expenditure annually, composed of over 60,000 individual transactions. In 2020, Police Scotland commenced its rollout of a unified Purchase to Pay system as a component of a programme of measures to improve the effectiveness of purchasing controls across the organisation.
- 1.2 We reviewed non-pay expenditure in 2016/27 and 2019/20 and found a variety of local and legacy purchasing processes in operation, with inconsistent processes and controls that gave rise to a number of risks. Police Scotland intended to address the majority of the recommendations raised in these reports through the introduction of a new purchase to pay system.
- 1.3 In line with the 2020/21 Internal Audit Annual Plan, we reviewed the progress of the planned rollout of Police Scotland's purchase to pay system, including the operation of purchasing controls in areas where new processes have been implemented.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 We have gained assurance that the purchasing arrangements being implemented by Police Scotland are well designed and reflect good practice. Our audit confirms that recommendations made in previous audit reports have been addressed, although a number of control improvements had been recently introduced at the time of our audit and could not be fully tested.
- 2.2 We have reviewed the arrangements for monitoring the progress of the Purchase to Pay Project and confirmed that these are fit for purpose. Our audit has made 2 recommendations for improvement in manual controls.

3. FINANCIAL IMPLICATIONS

- 3.1 The Internal Audit Report considers systems and processes for the control of expenditure and the prevention of fraud. Committee members should consider this section when considering the overall implications of our findings.

4. PERSONNEL IMPLICATIONS

OFFICIAL

- 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

OFFICIAL

should consider this section when considering the overall implications of our findings.

RECOMMENDATIONS

Members are requested to discuss the report.

OFFICIAL



Scottish Police Authority

Internal Audit Report 2020/21

Non-Pay Expenditure Follow-Up

March 2021



OFFICIAL



Scottish Police Authority

Internal Audit Report 2020/21

Non-Pay Expenditure Follow-Up

Executive Summary	1
Management Action Plan	6
Appendix A – Definitions	11
Appendix B – Summary of management actions	12

Audit Sponsor	Key Contacts	Audit team
<i>James Gray, Chief Financial Officer</i>	<i>Alasdair Corfield, Financial Controller and Deputy CFO</i> <i>Ian McKie, Head of Procurement</i> <i>Paul Colley, Finance Transactions Lead</i> <i>Mark Hannah, Interim Finance Change Lead</i>	<i>Gary Devlin, Partner</i> <i>Matt Swann, Associate Director</i> <i>Andrew Diffin, Assistant Manager</i> <i>Colin McNeil, Internal Auditor</i>

Executive Summary

Conclusion

We have gained assurance that the purchasing arrangements being implemented by Police Scotland are well designed and reflect good practice. Our audit confirms that recommendations made in previous audit reports have been addressed, although a number of control improvements had been recently introduced at the time of our audit and could not be fully tested. We have reviewed the arrangements for monitoring the progress of the Purchase to Pay Project and confirmed that these are fit for purpose. Our audit has made 2 recommendations for improvement in manual controls.

Background and scope

The Police Scotland Finance function processes over £200m of non-pay expenditure annually, composed of over 60,000 individual transactions. In 2020, Police Scotland commenced its rollout of a unified Purchase to Pay system as a component of a programme of measures to improve the effectiveness of purchasing controls across the organisation.

We reviewed non-pay expenditure in 2016/27 and 2019/20 and found a variety of local and legacy purchasing processes in operation, with inconsistent processes and controls that gave rise to a number of risks. Police Scotland intended to address the majority of the recommendations raised in these reports through the introduction of a new purchase to pay system.

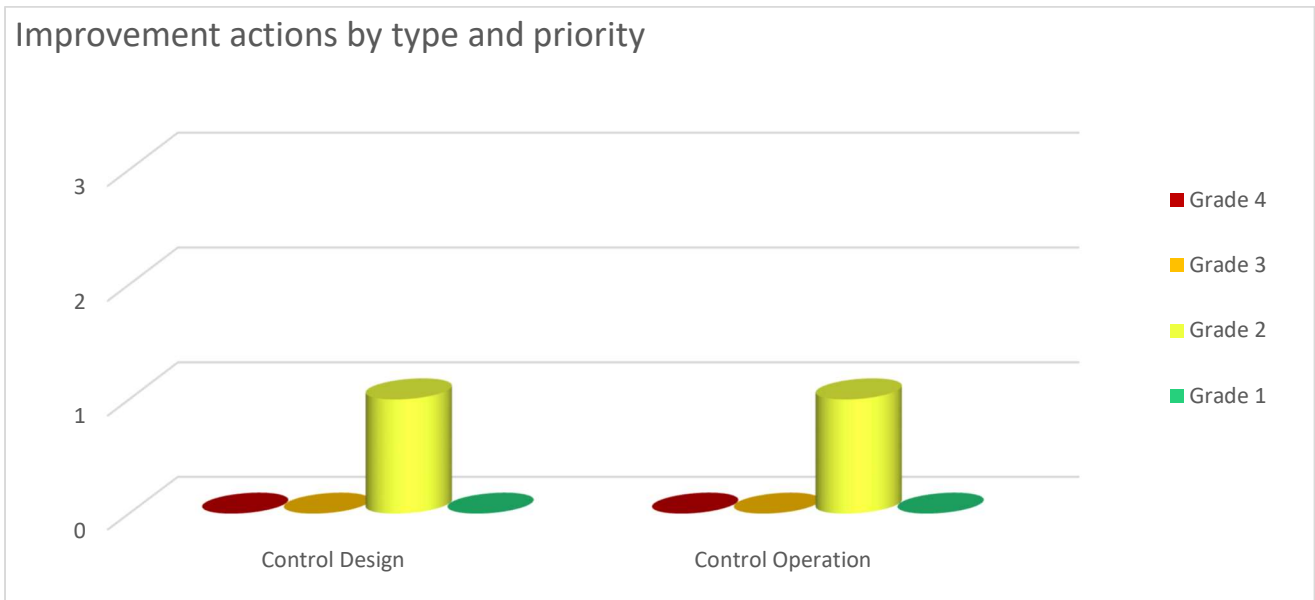
In line with the 2020/21 Internal Audit Annual Plan, we reviewed the progress of the planned rollout of Police Scotland's purchase to pay system, including the operation of purchasing controls in areas where new processes have been implemented.

Control assessment

- 1 The Purchase to Pay project is being appropriately managed, with a clear timetable for testing and roll-out that is being adhered to
- 2 The revised Purchase to Pay system has been designed in line with best practice and addresses the outstanding areas of weakness identified in previous audit reviews
- 3 Policies and procedures for the new purchase to pay processes have been developed, shared with staff and made readily accessible
- 4 The revised purchasing process is applicable to all purchasing activity, with any exceptions explicitly identified and alternative controls documented
- 5 Purchasing roles and responsibilities have been clearly articulated and staff with purchasing responsibilities have received sufficient training to carry out their roles effectively



Improvement actions by type and priority



Two actions have been identified from this review, one of which relates to compliance with existing procedures, and the other to the design of controls themselves. See Appendix A for definitions of colour coding.

Key findings

We have reviewed Police Scotland’s arrangements for non-pay expenditure in the context of previous reviews and recommendations, and with the acknowledgement that the implementation of revised systems and processes is ongoing.

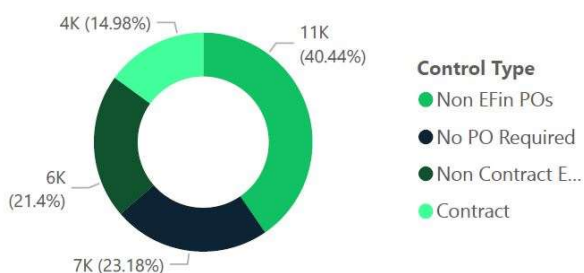
Police Scotland have carried out a review of purchasing channels, documented existing purchasing controls and processes, and set out an implementation plan for the rollout of enhanced electronic purchase management capability. In addition, existing purchasing controls have been documented, formalised, and embedded across the organisation. At the time of this review, the rollout of the P2P project and associated electronically controlled purchasing process had commenced in the E, N, and J divisions. The recent commencement of this rollout meant that we were not able to sample test transactions following this process but have been able to observe the functioning of these systems in a testing environment.

At the time of our audit, work was also nearing completion to implement the recommendations of a review carried out by Deloitte over Fleet purchasing systems. These include: implementing purchasing controls that mirror those within the Efinancials system; and developing an interface between the Tranman fleet management system and Finance systems.

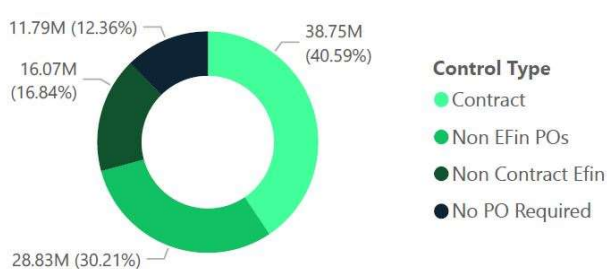
Finance provided a data set containing transaction information for the past six months. The data set was selected to encompass the period over which a number of initiatives impacting upon the operation of controls were initiated across the organisation. We have analysed this data according to the principal control processes that a transaction will follow: whether the transaction is controlled by electronic purchase order, by the non-Efinancials purchase order process, incurred under contract and subject to specific contract management controls, or is a known exception (including those processed through the Tranman fleet management system).



Transaction Volume by Control type



Gross value by Control type



The proportion of transactions controlled by electronic purchase order reflects the fact that the rollout of the P2P project, and its related purchasing process, commenced in February. Over time, the proportion of expenditure controlled through this process will increase as more of the organisation falls within its scope. Once fully implemented, all purchasing activity should be subject to electronic Purchase Order control, electronic authorisation through the Purchase Invoice Management tool, and/or specific contract management controls.

OFFICIAL

Police Scotland aims to bring all suppliers under contract where expenditure exceeds £5,000 annually, and this is regularly monitored as a KPI. As at the end of Q3 2020/21, the 86.4% of such expenditure had been incurred under contract, as compared to 76.4% at the same point in 2019/20.

We have assessed the progress of implementation of arrangements to address previous recommendations. These related to the introduction of a consistent set of purchasing controls across the organisation as a whole, which adhered to established good practice, including suitable authorisation, three-way matching, and segregation of duties controls. We have found that these arrangements are now in place, subject to the completion of the rollout of the P2P project and the implementation of revisions to Fleet purchasing arrangements.

Good practice

We have gained assurance that Police Scotland's procedures reflect good practice in a number of areas:

- There is a formally convened Project Board with responsibility for the delivery of the Purchase to Pay project, under the supervision of the Change Board. The rollout in the first tranche of Divisions is proceeding according to a documented plan, with a detailed timetable for subsequent divisional rollouts being developed in the light of lessons learned.
- Police Scotland has developed a purchasing policy and set of processes that define procedures for all channels of expenditure and has taken account of the issues and recommendations raised in previous reviews.
- Processes and controls are documented within a purchasing policy, which establishes the requirement for the use of purchase orders and an associated set of controls as a baseline. Exceptions to this process, such as bespoke management arrangements for expenditure under contract, or retrospective review of low-risk expenditure, are set out in the policy and supported by adequate supporting documentation.
- The rollout of the Purchase to Pay project, and the associated electronic purchasing process is supported by a set of training and guidance material, and a training plan.

Areas for improvement

We have identified a small number of areas for improvement which, if addressed, would strengthen Police Scotland's control framework, these are:

- Ensuring that authorised signatory lists are reviewed and kept up to date, where these are required for manual purchasing processes, and
- Making the list of circumstances in which it is permissible to incur expenditure without a purchase order available to staff.

These are further discussed in the Management Action Plan below.

OFFICIAL

Impact on risk register

The review is linked to the following risks from the Police Scotland Operation Risk Register (Dated January 2021):

- ORR128 Organisational Spend – Procurement Oversight and Control: If there is a lack of Procurement oversight of organisational spend there is a risk that Police Scotland will be in breach of Public Procurement (Scotland) Regulations 2015. (risk score 9).

And to the following risks from the Police Scotland Finance Risk Register (Dated August 2020):

- DCO029/FN058 Manual Processes & Controls (risk score 12).
- DCO030/FN064 Financial Management Arrangements and Resources (risk score 9).

We have not identified any issues that suggest that these risks are incorrectly scored. We note that the transition to electronic purchasing processes for the majority of expenditure will reduce reliance on manual processing, reducing exposure to this risk.

Acknowledgements

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

Management Action Plan

Green

Control Objective 1: The Purchase to Pay project is being appropriately managed, with a clear timetable for testing and roll-out that is being adhered to.

No Reportable Weaknesses Identified

The rollout of the Purchase to Pay project is overseen by a formally constituted Project Board, chaired by the Chief Financial Officer. The Project Board has developed an indicative timetable for the rollout of the project, which has been approved by the Change Board. The revised timetable for rollout runs from March to November 2021, following the decision in March 2020 to delay commencement as a consequence of the response to COVID-19.

The rollout plan takes a phased approach, introducing new system functionality and training in support of revised purchasing processes on a division by division basis. Broadly, the order of the phasing comprises: Local Policing, National Policing, Corporate Services, P&D, and SPA functions. The rollout of purchase to pay began in February in E, N, and J Divisions.

The progress of the rollout is monitored by the Project Board on a weekly basis via highlight reporting. We reviewed the reporting prepared for the Board and confirmed that it contained all expected information, including progress against key milestones, emerging risks, progress of training, and an issues log used to inform a “lessons learned” document. This document will be used to inform the development of plans for further divisional rollouts.

Control Objective 2: The revised Purchase to Pay system has been designed in line with best practice and addresses the outstanding areas of weakness identified in previous audit reviews.


 Yellow

2.1 Authorised Signatory List

We selected a sample of 24 settled invoices from the past six months, to reflect the embedding of newly formalised processes. These were apportioned across four purchasing channels dependent upon whether these were controlled by electronic purchase order or another process, and whether the expenditure was with a contracted or non-contract supplier.

Our testing found that for 1 transaction, the individual who approved the invoice was not on the list of authorised signatories available to staff. On investigation, we confirmed that the individual did hold the required authority but had been omitted from the signatory list.

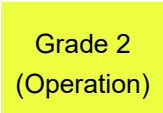
Risk

There is a risk that payments are processed when suitable authorisation is not in place, as a consequence of authorised signatory lists not being kept up to date.

Recommendation

The authorised signatory list should be periodically reviewed and updated. Where system POs are raised and approved on behalf of users with delegated authority, local management should perform dip sample tests to check that approvers are shown on the approved delegated authority lists.

Management Action


 Grade 2
(Operation)

The authorised signatory lists are being reviewed and rationalised in line with the introduction of role based methodology to support the new system-based approach. These lists will be regularly updated and published on our intranet for users to access and review. Where POs are approved on behalf of an authorised individual, local managers will be required to undertake dip sampling to ensure the approvers are detailed on the authorised signatory lists. These checks will be evidenced.

Action owner: Financial Controller

Due date: 31 July 2021

Control Objective 3: Policies and procedures for the new purchase to pay processes have been developed, shared with staff and made readily accessible.



Yellow

3.1 Exceptions to Purchase Order Process

We selected a sample of 24 settled transactions from the last six months to reflect the embedding of newly formalised processes. For each of these, we identified the documented process that applied to a transaction of that nature and confirmed that we were able to obtain satisfactory documentation to confirm that the process had been adhered to.

Our sample included 16 transactions which were not processed through the EFinancials electronic purchase order system. Of these, 8 were subject to processing through the Tranman Fleet Management system, 3 were subject to retrospective review under contract management processes, and 5 to manual purchase order processes.

We were not able to obtain purchase order documentation for 1 transaction. We understand that the nature of the purchase (Courier Services) would not normally be subject to the requirement for a manual purchase order. The Purchasing Policy states that there are exceptions to the purchasing process in which a purchase order need not be raised in advance of an invoice, however it does not specify what those exceptions are, other than to state that a list is held by Accounts Payable.

Risk

There is a risk that purchases are raised by staff without appropriate authorisation, as it is not clear under what circumstances it is permissible to raise a purchase without a purchase order.

Recommendation

The purchasing policy, or related guidance, should explicitly specify the circumstances under which it is permissible to raise a purchase in the absence of a purchase order, whether that be manual or electronic. However this is documented, the list of exceptions should be available to staff responsible for raising purchase requests, such that the process requirements are clear.

Management Action

Grade 2
(Design)

Management accept this recommendation. The new purchasing policy guide will be amended to point directly to a specific list of invoices which can be processed without a purchase order due to the nature of the invoice. This list will be agreed between the Procurement and Accounts Payable team and hosted on the procurement intranet P2P page where it will be subject to periodic review if any new categories of invoice are to be added or existing removed.

Action owner: Interim Head of Procurement and Stores

Due date: 30 April 2021

Control Objective 4: The revised purchasing process is applicable to all purchasing activity, with any exceptions explicitly identified and alternative controls documented.



No Reportable Weaknesses Identified

The Police Scotland Procurement and Accounts Payable teams have carried out a review of purchasing channels within the organisation, and determined that purchases generally follow one of a number of overarching processes:

- Purchases controlled by electronic purchase order, either through EFinancials or the Tranman fleet management system;
- Purchases under contract not controlled by purchase order (electronic or otherwise), but subject to contract management controls; and
- Local, Manual, or Legacy processes, which may involve a manual purchase order.

At time of review, purchases through Tranman were subject to a separate review carried out by Deloitte. This identified a number of recommendations which are currently being implemented. Once in place, the Tranman controls will mirror those of the revised electronic P2P process, with purchase data transferred between the two systems.

The rollout of the P2P project makes electronic purchasing available to divisions that are not currently able to access Efinancials. Over time the expectation is that this will supplant legacy and manual processes. As noted at 3.1, there will remain low risk, low value areas of expenditure not subject to a purchase order process.

Where purchasing takes place under contract, the specific controls to ensure that appropriate authorisation is in place have been documented for each supplier.

We have reviewed the purchasing policy and process document for each purchasing channel and confirmed through our sample testing that the process followed by the sampled transactions is appropriately documented.

We have also reviewed management reporting, which is prepared on a monthly basis and includes data on the proportions of transactions following each purchasing channel. This includes the volume and value of transactions within and out with the electronic purchase order process.

Control Objective 5: Purchasing roles and responsibilities have been clearly articulated and staff with purchasing responsibilities have received sufficient training to carry out their roles effectively.

Green

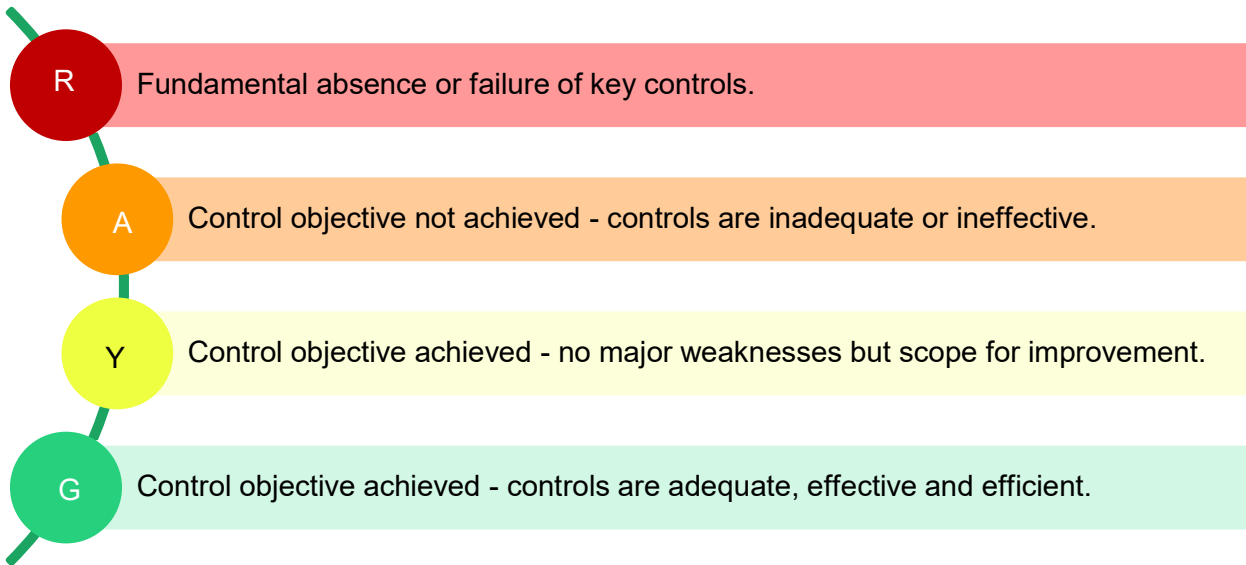
No Reportable Weaknesses Identified

The roles and responsibilities of those involved in the purchasing process are detailed within the purchasing policy. The policy addresses each stage of the purchasing process under the headings of the job role i.e. Requisitioners, Approver, Purchase Order creator, Buyer Reviewer, Receiver. Under each heading the responsibilities of the staff member as well as providing guidance to assist the member of staff in completing their duties. Our testing confirmed that the roles and responsibility outlined in the policy fully cover and distinguish between the roles of an effective purchasing system.

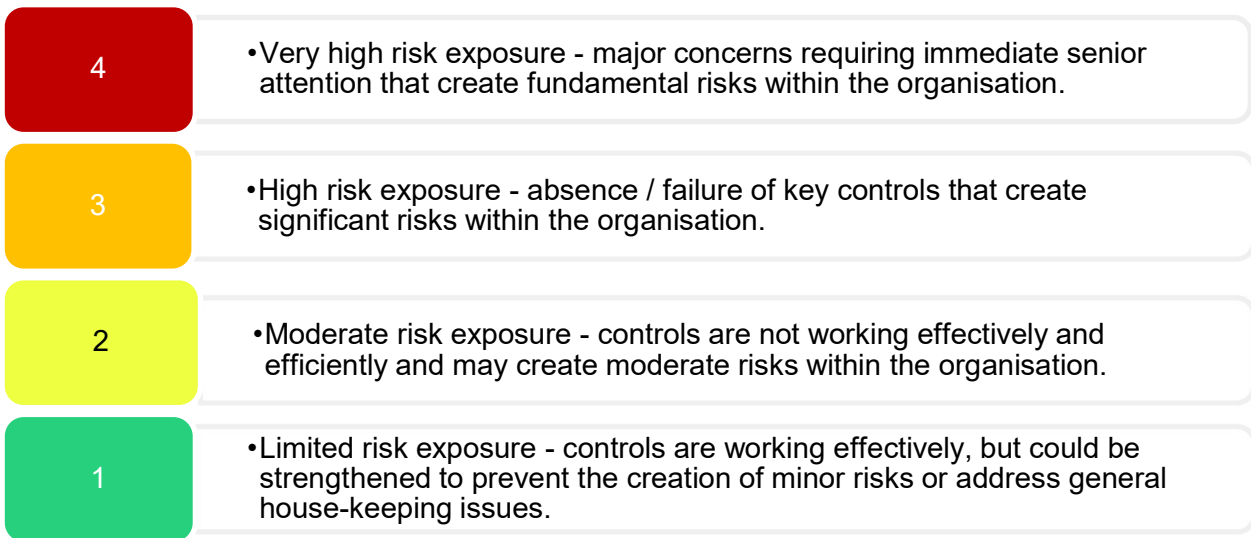
Purchasing staff are trained when the Purchase to Pay system is rolled out to their area with the training being delivered to Business Support Unit (BSU) team-leaders, Co-ordinators and Administrators. The training is being delivered in two tranches with the staff in the first tranche having been chosen by their BSU team-leaders as they will be using the new systems immediately. This tranche will be trained by the Project team whereas the second tranche will be trained locally in a `train the trainer` method by staff who have already received the training. Our testing confirmed that training has been delivered to staff in divisions E, N and J where the Purchase to Pay system has been rolled out.

Appendix A – Definitions

Control assessments



Management action grades



Appendix B – Summary of management actions

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
2.1	<p>Authorised Signatory List</p> <p>The authorised signatory list should be periodically reviewed and updated. Where system POs are raised and approved on behalf of users with delegated authority, local management should perform dip sample tests to check that approvers are shown on the approved delegated authority lists</p>	<p>The authorised signatory lists are being reviewed and rationalised in line with the introduction of role based methodology to support the new system-based approach. These lists will be regularly updated and published on our intranet for users to access and review. Where POs are approved on behalf of an authorised individual, local managers will be required to undertake dip sampling to ensure the approvers are detailed on the authorised signatory lists. These checks will be evidenced.</p>	2	Financial Controller	31 July 21
3.1	<p>Exceptions to Purchase Order Process</p> <p>The purchasing policy, or related guidance, should explicitly specify the circumstances under which it is permissible to raise a purchase in the absence of a purchase order, whether that be manual or electronic. However this is documented, the list of exceptions should be available to staff responsible for raising purchase requests, such that the process requirements are clear.</p>	<p>Management accept this recommendation. The new purchasing policy guide will be amended to point directly to a specific list of invoices which can be processed without a purchase order due to the nature of the invoice. This list will be agreed between the Procurement and Accounts Payable team and hosted on the procurement intranet P2P page where it will be subject to periodic review if any new categories of invoice are to be added or existing removed.</p>	2	Interim Head of Procurement and Stores	30 April 21

OFFICIAL

© Azets 2021. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales
Registered No. 09652677. VAT Registration No. 219 0608 22.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute
of Chartered Accountants in England and Wales.

OFFICIAL