

Meeting	Audit, Risk and Assurance Committee
Date	16 July 2020
Location	Video-conference
Title of Paper	Internal Audit Annual Report 2019/20
Presented By	Gary Devlin, Partner, Scott-Moncrieff
Recommendation to Members	Members are requested to discuss the report.
Appendix Attached	Internal Audit Annual Report

PURPOSE

The Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority, Police Scotland and Forensics during the year ended 31 March 2020, including our overall opinion on the internal control systems within Scottish Police Authority, Police Scotland and Forensics.

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

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

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 This Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority, Police Scotland and Forensics during the year ended 31 March 2020, including our overall opinion on the internal control system within Scottish Police Authority, Police Scotland and Forensics.
- 2.2 The report documents: the scope and responsibilities between management and internal audit; our planning process; the cover achieved in the year; confirmation of our independence; states our conformance with the Public Sector Internal Audit Standards; and our overall internal audit opinion for the audit year 2019/20.

3. FINANCIAL IMPLICATIONS

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

4. PERSONNEL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. REPUTATIONAL IMPLICATIONS

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

7. SOCIAL IMPLICATIONS

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

8. COMMUNITY IMPACT

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

9. EQUALITIES IMPLICATIONS

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

10. ENVIRONMENT IMPLICATIONS

10.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members

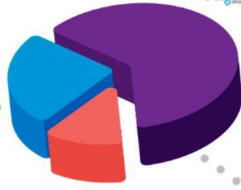
should consider this section when considering the overall implications of our findings.

RECOMMENDATIONS

Members are requested to discuss the report.



With **Campbell Dallas**
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The Scottish Police Authority

Internal Audit Annual Report 2019/20

June 2020



The Scottish Police Authority

Internal Audit Annual Report 2019/20

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Introduction

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

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

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

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at the Scottish Police Authority (SPA), including Police Scotland, during the year ended 31 March 2020, including our overall opinion on SPA’s internal control system.

Acknowledgement

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

Overall internal audit opinion

Basis of opinion

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

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

- All reviews undertaken as part of the 2019/20 internal audit plan;
- Any scope limitations imposed by management;
- Matters arising from previous reviews and the extent of follow-up action taken including in year audits;
- Expectations of senior management, the Audit, Risk and Assurance Committee and other stakeholders;
- The extent to which internal controls address the client's risk management /control framework;
- The effect of any significant changes in SPA's objectives or systems; and
- The internal audit coverage achieved to date.

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

The majority of our audit fieldwork was undertaken pre COVID-19 and that work is the basis on which we have formed our opinion. The nature and timing of amendments to governance, risk and internal control arrangements as a result of Covid-19 should be carefully considered by the Audit, Risk and Assurance Committee for any impact on the governance statement and related commentary.

From our understanding of the organisation's COVID-19 response, we draw attention to the following good practice:

- SPA has supplemented its existing governance arrangements by putting in place additional oversight and reporting to specifically focus on COVID-19 and the extraordinary emergency policing powers that have been put in place. This oversight includes weekly briefings by Police Scotland, regular Board updates and focused COVID-19 sessions. The updates cover a range of policing and corporate matters, such as change in demands, crime levels, use of emergency legislation, supply of PPE, financial impact and staff wellbeing.

- Police Scotland's response to COVID-19 has necessitated a reprioritisation of work and reallocation of resources. This will inevitably lead to slowing of progress in some areas and introduced the potential for temporary changes to processes and controls. In response to this, Police Scotland has created a Recovery Co-Ordination Group with part of their remit being to understand the impact of COVID-19 on operations and to use that learning to develop a recovery plan.

Internal Audit Opinion

In our opinion Police Scotland has a framework of controls in place that provides reasonable assurance regarding the organisation's governance, internal controls, the effective and efficient achievement of objectives and the management of key risks. This is with exception to arrangements over stock management where we have raised a number of higher risk findings. We note however that work is ongoing to address these issues.

Within SPA Corporate, we identified significant challenges in 2019 to address key issues relating to risk management, performance management, governance and internal control. The SPA appointed a new interim Chief Executive during the year. Following this appointment, there has been significant progress to address the weaknesses identified in our 2019 report including implementation of Corporate and Annual Plans, Risk and Excellence Frameworks and Strategic and Corporate Risk Registers. The revised framework of controls was not in place for the full year, however, and the governance issues referred to in my 2018-19 report remained relevant to the majority of the 2019-20 financial year.

Scott-Moncrieff

July 2020

Internal audit work performed

Scope and responsibilities

Management

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

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

Internal auditor

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

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

Planning process

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

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

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

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

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

Cover achieved

Our Internal Audit Plan comprises 500 days per annum. We completed 500 days of core internal audit work in 2019/20, with the following changes to our plan during the year:

Audit	Change in days	Comments
B.1 SPA Legal Claims Handling	- 30	This audit was cancelled at the request of the Audit Committee as approved at its September meeting.
B9. Assurance Mapping	- 25	This work was halted at the request of the Audit Committee Chair and the Audit Committee approved its cancellation at the July meeting.
C2. Strategic Workforce Planning	+ 40	A Strategic Workforce Planning audit was proposed by management to provide assurance over this key area and approved at the July Audit Committee meeting.
C.9 Transformational Change Programme	- 35	The scope of work in this area was tailored and resource freed up to be allocated to a review of TCSS. Approved at the July Audit Committee meeting.
C.13 Fleet Management	- 25	PS were in the process of drafting a Fleet Management Strategy and agreed it will be more useful to audit this area once the strategy had sufficient time to become fully embed within the organisation. Agreed at July meeting to defer review until 2020/21 (this has since been deferred further).
C.15 Relocation Costs	+ 25	At SPA management request, we followed up Police Scotland's progress in addressing control weaknesses in relocation policies and procedures identified as part of our 2017-18 audit work.

Audit	Change in days	Comments
D.5 Cyber Security	+ 50	At the July meeting of the Audit Committee it was agreed an audit in this important area would be valuable.
D.6 TCSS	+ 30	As per comments above, when scoping the Transformational Change review resources were specifically allocated to a focused review of TCSS.
Contingency	- 30	
NET CHANGE	-	

A comparison of actual coverage against the 2019/20 plan is attached at Appendix 1.

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

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

Reports











We have prepared a report for each of the internal audit reviews completed and presented these reports to the Audit, Risk and Assurance Committee.

Where relevant, all reports contained action plans detailing responsible officers and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit, Risk and Assurance Committee.

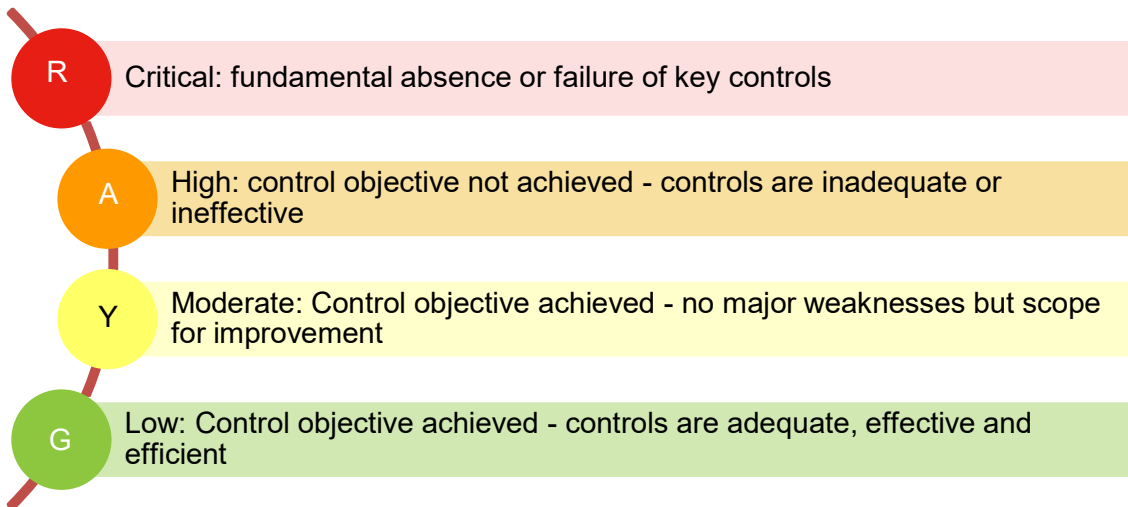
We made no significant recommendations that were not accepted by management.

Summary of reports by control objective and action grade

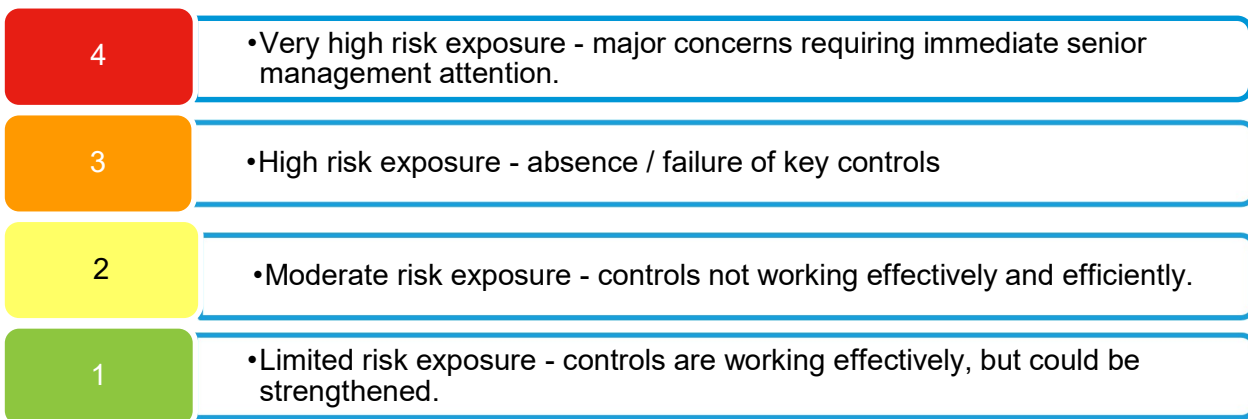
Twelve internal audit reports have been completed during 2019/20, as summarised in the table below.

Review	Control objective assessment	No. of issues per grading			
		4	3	2	1
A.3 Payroll		-	1	5	-
A.5 Non Pay Expenditure		-	6	1	-
C.2 Workforce Planning		-	3	2	-
C.3 Demand and Productivity		-	3	4	-
C.9 Transformational Change Programme		-	5	5	-
C.11 Stock Management		2	5	4	-
C.12 Productions		-	1	1	1
C.15 Relocation Costs		-	9	2	-
D.1 General Computer Controls		-	3	5	1
D.5 Cyber Security		-	4	-	-
D.6 TCSS	<i>Advisory report / not graded</i>				
E4. Fraud reporting	<i>Advisory report / not graded</i>				

Control objective assessment definitions

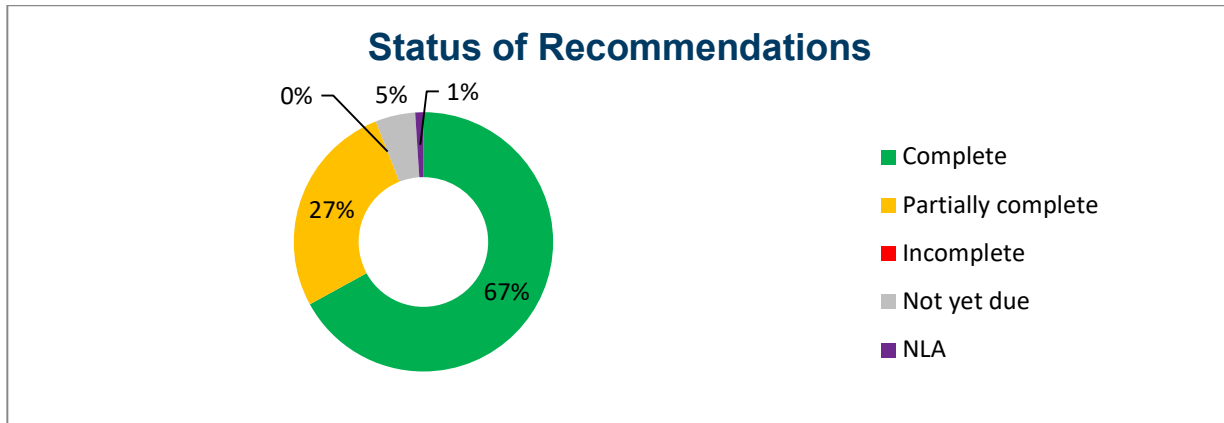


Management action prioritisation definitions



Progress in implementing internal audit actions

We completed quarterly follow up reviews during the year to validate management's progress in implementing agreed audit actions. In total we reviewed management's progress in implementing 116 actions. As of our Q4 follow up in May 2020, we confirmed 78 (67%) actions had been completed, with 1 (1%) closed with no further action. Of the 37 remaining outstanding actions, 31 (84%) were partially complete and in progress, and 6 (16%) not yet due for completion.



Key Themes

- The SPA has developed and implemented key strategic documents during 2019/20, identifying key objectives and risks at strategic and operational levels. These corporate documents provide the platform to move the organisation forward and support the organisation demonstrate how it will deliver best value in its operations and use of resources. We are aware that work is ongoing to deliver a new enhanced organisational structure for SPA Corporate to ensure the resources are available to deliver identified strategic and operational objectives and manage key risks. The organisational structure is due to be completed in Autumn 2020
- The SPA did not have an effective risk management process operating for the full 2019/20 year, although we note this has been addressed with the implementation of a Risk Framework and Strategic and Corporate Risk Registers.
- In addition, our 2018/19 Best Value Readiness Review found that limited best value arrangements had been developed by the SPA. The implementation of plans with clear objectives will go some way to demonstrating delivery of best value. In the context of the progress noted above, further work is required to enable full demonstration of how SPA achieves best value from its operations.
- We reviewed the Stock Management arrangements at SPA and Police Scotland and found that there was no stock management policy, standard procedures or common system in use. We found fundamental weaknesses in the various processes and controls that were in place and the absence of key controls in many areas. This meant that it was not possible to obtain an up-to-date stock listing, ensure stock was being properly managed, that it was being utilised appropriately or accounted for correctly. We raised a number of high-risk recommendations relating to these findings.

- Although we confirmed that Police Scotland's approach to the development of a strategic workforce plan was well designed and adheres to good practice, we found that the project management and governance arrangements were not sufficiently robust. We were therefore unable to provide assurance that the project is proceeding according to the expected timetable or that the risks to delivery are being appropriately managed.
- Our review of Transformational Change identified several areas where controls could be introduced to improve the consistency in how programme and projects are managed within Police Scotland such as clearly setting out to what extent best practice standards such as Managing Successful Programmes (MSP) are mandated. We also found some areas where controls outlined within the Portfolio Management Framework or programme / project templates were not consistently implemented across the portfolio, such as the use of benefit realisation plans to track programme level benefits, or the documentation of owners assigned to project plan tasks.
- We found a number of internal controls, policy drafting and policy compliance weaknesses within the current relocation process at Police Scotland. These weaknesses extend to failures in controls over expense claims, authorisation of payments, insufficient supporting documentation, and in the wider governance arrangements in place to monitor and report compliance. We note that Police Scotland have taken action to address identified internal control weaknesses in this area.

Independence

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

We can confirm that the staff members involved in each 2019/20 internal audit review were independent of SPA and their objectivity was not compromised in any way.

Conformance with Public Sector Internal Audit Standards

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

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

Key performance indicators

We use a suite of Key Performance Indicators (KPIs) to monitor the quality of the internal audit service. These are reported monthly to management via the Internal Audit Progress Report and presented to each meeting of the Audit, Risk and Assurance Committee. Appendix 3 includes a summary of performance against the KPIs. We would welcome any comments on the KPIs currently used.

Appendix 1 – Planned v actual days 2019/20

Ref and Name of report	Planned Days	Actual Days
A. Key financial systems		
A3. Payroll	35	35
A5. Non-Pay Expenditure	45	45
B. Governance and risk management		
B1. SPA Legal claims handling	30	0.5
B9. Assurance mapping	25	-
C. Operational		
C2. Workforce planning	-	40
C3. Demand and productivity	35	35
C9. Transformational change programme	100	65
C11. Stock management	20	20
C12. Productions	30	30
C13. Fleet management	25	-
C15. Relocation costs	-	25
D. Information technology		
D1. General computer controls	35	35
D5. Cyber security	-	50
D6. TCSS	-	30
E. Compliance and regulatory		
E1. Follow-up	20	20
E4. Fraud reporting	20	20
F. Management		
F1. Audit & Risk Committee planning and attendance	12	12
F2. Audit needs analysis - strategic and operational IA planning	15	15
F3. Attendance at ad hoc SPA and PS management meetings	6	6
F4. Liaison with external audit and HMICS	3	3
F5. Monthly liaison meetings	12	12
F6. Annual internal audit report	2	2
G. Contingency		
	30	-
Total	500	500

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All amendments to the plan set out above were agreed with management and reported to the Audit, Risk and Assurance Committee during the year.

Appendix 2 – Summary of Internal Quality Assurance Assessment

We are required by Public Sector Internal Audit Standards to disclose the outcome of our regular internal and external quality assessments.

The table below summarises the outcome of our most recent internal quality assessment, in which we have assessed the extent to which our internal audit methodology conforms to the standards.

Standard	Does not conform	Conforms	Improvements we have identified
Purpose & positioning			
• Remit		✓	
• Reporting lines		✓	
• Independence		✓	
• Other assurance providers		✓	
• Risk based plan		✓	
Structure & resources			
• Competencies		✓	
• Technical training & development		✓	
• Resourcing		✓	
• Performance management		✓	
• Knowledge management		✓	
Audit execution			
• Management of the IA function		✓	
• Engagement planning		✓	
• Engagement delivery		✓	
• Reporting		✓	
Impact			
• Standing and reputation of internal audit		✓	
• Impact on organisational delivery		✓	
• Impact on Governance, Risk and Control		✓	

Comment

Overall, our service conforms to the requirements of the PSIAS.

Our assessment is based on the overall service that is delivered to each client. Compliance with the methodology will be monitored through an enhanced system of internal quality assurance to supplement existing arrangements.

We are happy to provide Audit, Risk and Assurance Committee members with further details of the information set out above and the assessment process, if required.

Appendix 3 – Progress against KPIs

The following table sets out performance against the core internal audit plan using the KPIs we have agreed with management and the [Audit Committee/Name of Governance Committee].

KPI description	Status	Comments
1. The Annual and Strategic Internal Audit plans are presented to and approved by the Audit Committee prior to the start of the audit year.	GREEN	The Internal Audit Plan was approved by the SPA Board at the March 2019 meeting.
2. 90% of audit input is provided by the core team and continuity of staff is maintained year on year.	GREEN	
3. Draft reports are issued within 15 working days of completing fieldwork.	AMBER	It took longer than 15 days to issue our Payroll and Productions reports.
4. Management responses are received within 15 working days and final report issued within 10 working days.	AMBER	Management responses from Police Scotland were received after the 15 day target for the Payroll, General Computer Controls and Non-Pay Expenditure reports impacting on our ability to issue these reports within the 10 working day target.
5. At least 90% of the audit recommendations we make are agreed with and accepted by management.	GREEN	All recommendations accepted to date
6. At least 75% of Audit Committee meetings are attended by an Internal Audit Partner.	GREEN	
7. The annual internal audit plan is fully delivered within agreed cost and time parameters.	GREEN	All changes to the plan have been agreed with the Audit Committee.
8. The annual internal audit report and opinion is presented to and approved by the Audit Committee at the first meeting after the year-end each year.	N/A	The Annual Report will be presented to the July 2020 meeting.
9. All internal audit outputs are finalised and submitted to the Committee Secretary at least 10 working days before the Audit Committee meeting to allow time for senior management review.	GREEN	All papers submitted in line with agreed timescales, except where late changes were requested by management outwith the control of IA.
10. Members of senior management and the Audit Committee are invited to participate in the firm's client satisfaction survey arrangements.	N/A	Not yet due

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