

# ***Scottish Police Authority***

Summary Report of Audits for Audit and Risk  
Committee – 23 October 2014

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# Section 1 – Overall Status

## Background

- 1.01 This report summarises the findings arising from the four internal audit reviews carried out by the In House Internal Audit function to 10 October 2014. The reviews within the 2014-15 annual internal audit plan completed to this date are Means Enquiry Warrants, Duplicate Payments (Creditor Ledger), Treasury Management and Budget Setting. Fieldwork was undertaken by the in-house internal audit team between June and September 2014.
- 1.02 The status of the completed reviews as at 10 October is –

Review Title	Status 10 October	Report rating	Findings and Recommendations	Commentary
677 - Means Enquiry Warrants	Final	Low	1 - Low	Agreed with management and responses shown
672 - Duplicate Payments	Final	Low	2 - Low	Agreed with management and responses shown
683 - Treasury Management	Final	Medium	3 – Medium, 1 - Low	Agreed with management and responses shown
674 - Budget Setting	Discussion Draft Issued –	Medium	4 - Medium	Issued to management for comment and response on 7 October. Agreed with Director of Financial Accountability to schedule further meetings with Corporate Finance to inform report findings.

- 1.03 We show below in Section 2 the summarised findings and status of recommendations and actions as to management response. All management responses have been accepted as proportionate and relevant. All actions will be followed up in lien with agreed process.

# Section 2 – Detailed Reporting to the Audit & Risk Committee

## Means Enquiry Warrants

2.01 Following our evaluation of the results of our audit work, we have assessed the systems, in relation to the execution of Means Enquiry Warrants processes and procedures as follows:

Report Rating
Low

### Overall Conclusion

2.02 Our audit has confirmed that the processes in place for the execution including collection and remittance of Means Enquiry Warrants monies where applicable, as contained within the issued SOP, are operating in an effective manner for most cases reviewed. However, our work at local level has demonstrated that for a number of cases there is a need for more timely and consistent monitoring to ensure that execution is made and (where applicable) remitted to the Scottish Courts Service). **(Finding 2.1)**

2.03 We have rated the overall risk attached to the Means Enquiry Warrant process as Low.

### Recommendation Classification (5 Levels)

2.04 The table below indicates the number and rating of recommendations made in this report. Acceptable management responses have been received:

Recommendations Made and Significance		No.
Low	Recommendations which are considered less significant, however the opportunity exists to enhance the internal control environment.	1

## Recommendations and Action Plan

Ref	Findings	Recommendations <i>[Comments]</i>	Rating	Management Response / Responsible Officer / Date for implementation
2.1	<p><b><u>Monitoring Process</u></b></p> <p>The monitoring process over the allocation, conducting of enquiries and execution of Means Enquiry Warrants are in not all cases evidentially conducted to a “professional standard of enquiry”. In seeking to pursue execution of the warrant including where applicable collection of monies. In making this observation we would acknowledge the relatively “low risk profile” to the public from non-actioning of these warrants when there are a number of competing demands for deploying Officers to other duties and roles.</p> <p>For all of the cases within our samples there was not always clear evidence of compliance with the SOP requirement for “a professional standard of enquiry.”</p>	<p>The monitoring process over the allocation, conducting of enquiries and execution of Means Enquiry Warrants should be conducted in all cases to a “professional standard of enquiry” and in compliance with the Warrants Standard Operating Procedure (SOP). This would include regular evidence of review of outstanding cases and noting of further actions in pursuing execution.</p>	<p><b>Low</b></p>	<p><b>Criminal Justice Division are now aware of the generic findings of the 'Review of Means Enquiry Warrants' and agree that the recommendation is achievable and commensurate with the level of risk identified with this area of business. Additionally the responsible officer for the Warrants monitoring process will study the divisional reports and produce some composite guidance This will shared with Internal audit for comment prior to circulation.</b></p> <p><b>Implementation Date</b></p> <p><b>Immediate</b></p>

## Duplicate Payments

2.05 Following our evaluation of the results of our audit work, we have assessed the controls in place around creditor payments for duplicate payment, as follows

Report Rating
Low

### Summary of Findings

2.06 Upon receipt of investigative feedback thereafter, the following table was compiled detailing the number and value of duplicate payments discovered during the audit, as well as the outstanding value of duplicate payments applicable to each Sub-Ledger as at 25/09/2014.

Sub-Ledger & Legacy Region	No. of confirmed duplicate payments raised by Audit Review	Value of duplicate payments made (£)	Overpayments currently outstanding and awaiting recovery as at 25/09/2014 (£)
AP1 - Central	1	1,454.60	
AP3 - Fife	1	430.80	
AP7 - SPA	5	22,267.31	
AP8 - Strathclyde	4	4,807.12	3,012.12
<b>Totals</b>	<b>11</b>	<b>29,959.83</b>	<b>3,012.12</b>

2.07 In the course of our work, it was also noted that over and above those duplicate payments shown above, a further number of duplicate payments on our list had been previously identified and that the various Sub-Ledger Finance Departments have already taken corrective action on these. We saw evidence of such action.

2,08 However, the following procedures detailed below, where controls would be improved by compliance, should always be adhered to:

- We noted in a number of instances that repayment had not been directly made for duplicate payments. Rather there was an informal agreement between the supplier and Police Scotland that the sums would be recovered against one or more future invoices. This solution made the evidencing of full repayment difficult in some instances. It also relies upon regular invoices by that supplier to ensure a timely refund; **(Finding 2.1)** and
- In reviewing potential duplicate payments we noted that the eFinancials system is not being fully utilised to record the actions taken on instances of duplicate payment. The facility is available to record ongoing and closed actions against account detail. This is not being utilised. **(Finding 2.2)**

2.10 The table below indicates the number and rating of recommendations made in this report. Acceptable management responses have been received:

<b>Recommendations Made and Significance</b>		<b>No.</b>
<b>Low</b>	Recommendations which are considered less significant, however the opportunity exists to enhance the internal control environment.	<b>2</b>

## Section 2 Main Findings, Recommendations and Action Plan

Ref	Findings	Recommendations / [Comments]	Rating	Management Response / Responsible Officer / Date for Implementation
2.1	We noted in a number of instances that repayment had not been directly made for duplicate payments. Rather there was an informal agreement between the supplier and PS that the sums would be recovered against one or more future invoices. This solution made the evidencing of full repayment difficult in some instances. It also relies upon regular invoices by that supplier to ensure timely refund.	Where a duplicate payment has been made and identified as such, a full refund should be requested as soon as is practical from the supplier. Overpayments should <b>not</b> be offset against any future supplier invoices. This will facilitate a full audit trail of overpayments and their recovery.	Low	<b>An instruction to this effect will be issued to all Accounts Payable staff and will be built into procedures which will be developed following implementation of the revised Finance structure</b>  Head of Exchequer Services  31/12/14
2.2	In reviewing potential duplicate payments we noted that the e Financials system is not being fully utilised to record the actions taken on instances of duplicate payment. The facility is available to record ongoing and closed actions against account detail. This is not being utilised.	Where a duplicate payment has been made, identified as such, and corrective action taken the corresponding transaction should be updated on eFinancials, via the ' <b>Powerpad</b> ' facility, to record a description of the occurrence and details of action taken. This facilitates for the provision of an audit trail to provide documentary evidence of the sequence of transactions undertaken.	Low	<b>An instruction to this effect will be issued to all Accounts Payable staff and will be built into procedures which will be developed following implementation of the revised Finance structure</b>  Head of Exchequer Services  31/12/14

## Treasury Management

2.11 Following our evaluation of the results of our audit work, we have assessed Police Scotland's Treasury management processes and procedures, as follows:

Report Rating
Medium

### Overall Conclusion

2.12 Our audit has shown that PS and SPA have in place comprehensive banking arrangement to conduct its financial business. However, the number of accounts in place is recognised as excessive and in need of rationalisation. Similarly, arrangements exist to forecast the flow of funds over the year to ensure funding from the Scottish Government is in place to meet commitments. However, this is based on annual budgets and there exists a need to improve the sophistication and reactivity of the cash flow forecasting tool to reflect changes in budget through slippage and early payments etc. As such there were a number of issues identified within our audit findings which if addressed, would enhance the effectiveness of the Treasury Management process for future years. These include ensuring:

- The design and issue of formal treasury management policies to relevant staff; **(Finding 2.1)**
- Regular updating of cash flow forecasts to reflect actual movements in forecast budgets; **(Finding 2.2)**
- Revised processes for the banking of divisional income; **(Finding 2.3)** and
- A comprehensive review of PS and SPA bank accounts. **(Finding 2.4)**

### Recommendation Classification (5 Levels)

2.13 The table below indicates the number and rating of recommendations made in this report. Acceptable management responses have been received:

Recommendations Made and Significance		No.
Medium	Recommendations which address control issues and provide scope for improvement. Prompt action required.	3
Low	Recommendations which are considered less significant, however the opportunity exists to enhance the internal control environment.	1

## Section 2 Main Findings, Recommendations and Action Plan

Ref	Findings	Recommendations / [Comments]	Rating	Management Response / Responsible Officer / Date for Implementation
2.1	<p><b><u>Treasury Management Policies</u></b></p> <p>At the time of our review and as per discussions with SPA and PS treasury management personnel, treasury management policies regarding cash flow forecasting, identification and management of treasury management risks and banking of divisional income were not in place.</p> <p>Risks:</p> <ul style="list-style-type: none"> <li>• Legal and regulatory risk;</li> <li>• Liquidity risk; and</li> <li>• Capital may not be sufficiently safeguarded.</li> </ul>	<p>It is recommended that SPA and PS develop formal treasury management policies regarding cash flow forecasting, identification and management of treasury management risks and banking of divisional income.</p>	<p><b>Medium</b></p>	<p><b>All policies recommended will be developed following implementation of the revised Finance Structure.</b></p> <p><b>Head of Exchequer Services</b></p> <p><b>Implementation Date</b></p> <p><b>31/12/2014</b></p>

Ref	Findings	Recommendations / [Comments]	Rating	Management Response / Responsible Officer / Date for Implementation
2.2	<p><b><u>Cash Flow Forecasting</u></b></p> <p>At the time of our review, monthly cash flow forecasts and grant in aid budget profiling figures are being produced by the Business Support Accountant using revenue budget and capital programme figures.</p> <p>However, at the time of review, an exercise to investigate and understand Budget profiling discrepancies between budgeted and actual figures whilst undertaken by the management accountancy function requires further sophistication to enhance the predictive role of the forecasts and reduce the risk of shortfalls in draw downs.</p> <p>Risks:</p> <ul style="list-style-type: none"> <li>• Liquidity risk; and</li> <li>• Capital may not be sufficiently safeguarded.</li> </ul> <p>As an example of this was an unexpected direct debit outflow occurred in July 2014 within the SPA Direct debit account. As a result the account had to be “topped up” by £1m from SPA Citibank “income” account.</p>	<p>It is recommended that cash flows forecasts are prepared on a regular basis (to be agreed) with proof that the statements were reviewed for correctness by an independent person. In addition, the regular comparison undertaken between actual and forecasted cash flow figures in order to identify instances of unanticipated payments or receipts outwith expected time periods should be further developed to be fully effective.</p>	<p><b>Medium</b></p>	<p><b>The Management Accounting team routinely investigate Budget profiling discrepancies between budgeted and actual figures. The sophistication of this exercise will be developed to ensure closer links with the Cash/Banking function following implementation of the revised Finance structure.</b></p> <p><b>Head of Exchequer Services &amp; Head of Management Accounting</b></p> <p><b>Implementation Date</b></p> <p><b>31/12/2014</b></p>

Ref	Findings	Recommendations / [Comments]	Rating	Management Response / Responsible Officer / Date for Implementation
2.3	<p><b><u>Divisional Income Accounts</u></b></p> <p>At the time of our review PS divisional income accounts were not being “cleared” in a regular manner. We noted that as at 14 August 2014, legacy Strathclyde had some £13m and legacy Northern some £2m in their local income accounts.</p> <p>As at 2 September 2014 only the legacy Strathclyde income bank balance has been cleared to SPA Citibank income account on 20 August 2014. The other seven legacy forces income accounts have not been cleared.</p> <p>Risk:</p> <ul style="list-style-type: none"> <li>Banking arrangements are inadequately monitored.</li> </ul>	<p>It is recommended that designated SPA and/or PS finance personnel should ensure that their responsible local income account balances are cleared to SPA Citibank income account when it reaches a certain level as soon as reasonably practical.</p>	<p><b>Medium</b></p>	<p><b>Following implementation of the Revised Finance structure a detailed review of existing banking arrangements will be undertaken – it is anticipated that local income accounts will be consolidated into one and that the Cash/Banking function will routinely monitor and clear this account as necessary.</b></p> <p><b>Head of Exchequer Services</b></p> <p><b>Implementation Date</b></p> <p><b>31/12/2014</b></p>

Ref	Findings	Recommendations / [Comments]	Rating	Management Response / Responsible Officer / Date for Implementation
2.4	<p><b><u>Police Scotland and SPA Bank Accounts</u></b></p> <p>We were provided with a list of bank accounts used by PS and SPA during the year to 31 March 2014. This disclosed 161 accounts in total (56 of these had a zero balance at 31 March 2014). From the total of 161 accounts we selected a random sample of 13 bank accounts to confirm their status i.e. in use or closed as at 31 July 2014. At the time of reporting the following accounts statuses had not yet been confirmed -</p> <ul style="list-style-type: none"> <li>• former Lothian and Borders (L&amp;B) account number 00778640- £7,754,737.91 balance stated as at 31 July 2014 - no bank statement made available to confirm the account balance, and</li> <li>• L&amp;B Treasury account number 11721276- zero balance as at 31 July 2014 - we were not provided with a confirmation that the account has been closed.</li> </ul> <p>Additionally, our sample included two Aberdeen and Moray confiscation accounts. These were set up by Scottish Government but not requested by Aberdeen and Moray Finance department- we were informed that the accounts have never been used. Closure of these accounts would seem appropriate. Risks:</p> <ul style="list-style-type: none"> <li>• Cash may not be sufficiently safeguarded;</li> <li>• Access to cash is not properly authorised; and</li> <li>• Banking arrangements are inadequately monitored.</li> </ul>	<p>It is recommended that a comprehensive review of all “open” bank accounts should be undertaken to ensure that only necessary bank accounts are open with unnecessary bank accounts closed promptly.</p>	<p><b>Low</b></p>	<p><b>Following implementation of the Revised Finance structure a detailed review of existing banking arrangements will be undertaken</b></p> <p><b>Head of Exchequer Services</b></p> <p><b>Implementation Date</b></p> <p><b>31/12/2014</b></p>

## Appendix 1: Report Classifications

Finding Rating	Assessment Rationale
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>▪ <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance ; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences ; or</li> <li>▪ <b>Significant</b> impact on the reputation or brand of the organisation</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>▪ <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>▪ <b>Minor</b> impact on the reputation or brand of the organisation.</li> </ul>