

# **Internal Audit Annual Report 2014/2015**

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**Scottish Police  
Authority**

**June 2015**

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# 1. *Executive summary*

## *Background*

This report outlines the work of the internal audit function carried out during 2014-15 and includes its annual opinion on the adequacy and effectiveness of the Scottish Police Authority framework of governance, risk management and control. The work of internal audit during 2014/15 has been primarily provided by the SPA In House team with seconded management support from PwC. Additionally, PwC has provided specialist reviews on a number of audit areas.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Audit and Risk Committee should look to gain assurance. This report does not supplant the Audit and Risk Committee's responsibility for forming their own view on governance, risk management and control.

This report covers the period from 1 April 2014 to 31 March 2015 and is based upon internal audit work undertaken prior to the Audit and Risk Committee meeting of 30 June 2015.

## *Scope*

In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Risk Committee, which should provide a reasonable level of assurance, subject to the inherent limitation of internal audit (covering both the control environment and the assurance over controls) described below and set out in Appendix 1. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation. Our findings are based upon and limited to the results of the internal audit work performed as set out in the Annual Audit Plan as presented to the Audit and Risk Committee in June 2014.

As noted above for 2014-15 the Head of Internal Audit role has involved PwC seconding a Senior Manager into SPA to manage the "in House" Internal Audit team, and PwC providing a number of days audit input to supplement the in-house team of 3.4 WTEs and support delivery of the Plan.

Internal audit work was performed in accordance with the Public Sector Internal Audit Standards. As a result, the work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

## *Opinion*

This opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in the 2014/15 Internal Audit Plan. We have completed the program of Internal Audit work for the year ended 2014/15.

Our work identified low, moderate and high rated findings. Based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control.

The key factors that contributed to our opinion are summarised as follows:

- Overall, we have identified 3 high risk recommendations, 17 medium risk recommendations and 10 low risk recommendations in 2014/15.
- Of the 12 reviews completed, none of the reviews were classed as critical. The Follow Up of External Audit Actions is ranked as high risk. All other reviews were classed as medium and low.

A summary of the key findings are described in **Section 2 – Summary of findings** as well as a table of all

reports considered in providing this annual report – ***Section 3 – Internal Audit work conducted.***

## *Acknowledgement*

We would like to take this opportunity to thank SPA staff, for their co-operation and assistance provided during the year.

## 2. Summary of Findings

This annual internal audit report is timed to inform SPA's Annual Governance Statement. A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p><b>Overview</b></p> <p>We completed <b>12</b> internal audit reviews raising 36 findings and advisory points. Our associated follow ups of previous audit actions was also undertaken and delivered to ARC. This resulted in the identification of <b>zero critical, 3 high, 17 medium and 10 low</b> risk findings to address weaknesses in the design of controls and / or operating effectiveness. We also raised 6 advisory points.</p>	<ul style="list-style-type: none"> <li>• Our work during the year reflected the assurance needs of the Audit &amp; Risk Committee for both PS and SPA in their second year of existence.</li> <li>• Our work has provided comfort on significant areas of internal control and assisted management in improving its control environments</li> <li>• We have worked closely with SPA in establishment of an overarching Assurance Map for reporting to the ARC.</li> </ul>
<p><b>Internal Control Issues</b></p> <p>During the course of our work we identified a number of weaknesses but none that that we consider should be reported as part of your annual reporting process to Board.</p>	<ul style="list-style-type: none"> <li>• We identified no significant weaknesses requiring inclusion in SPA's internal statement of control for 2014-15.</li> <li>• We identified three High ranking findings –               <ol style="list-style-type: none"> <li>1. Whistleblowing – agreeing governance overview of the “integrity matters” process;</li> <li>2. Data Loss – control over data transfer pending rollout of the Symantec EndPoint software</li> <li>3. iVPD – core system functionality issues</li> <li>4. Five matters arising from the 2013-14 external audit failure to progress all necessary actions required by June 2015. (five findings)</li> </ol> </li> </ul>
<p><b>Other weaknesses</b></p> <p>Other weaknesses were identified within the organisation's governance, risk management and control, which relate to the need to progress to national policies and procedures following the creation of Police Scotland from its legacy forces and SPA in its new role and form.</p>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Management check</li> <li>• Ownership of actions</li> <li>• Updating procedural guidance and registers</li> </ul>
<p><b>Follow up</b></p> <p>During the year we have undertaken follow up work as at December 2014 and June 2015 on previously agreed actions.</p>	<ul style="list-style-type: none"> <li>• Our work has highlighted improvement in the closure of actions. Internal Audit will continue to monitor performance in closure of internal audit actions during 2015-16.</li> </ul>

### 3. Internal Audit work conducted

#### Introduction

Our internal audit work was conducted in accordance with our letter of engagement, Public Sector Internal Audit Standards, and the ARC approved annual Internal Audit Plan. Any changes to the original Plan were agreed at ARC meetings.

#### Results of individual assignments

Audit unit	Report status	Report classification	Number of findings				Advisory
			Critical	High	Med	Low	
Budget Setting	Final	Medium			4		
Procurement	Final	Low			1	1	1
Duplicate Payments	Final	Low				2	
Treasury Management	Final	Medium			3	1	
ME Warrants	Final	Low				1	
Complaints	Final	Medium			3		1
Whistleblowing	Final	Medium		1	4		
Productions	Final	Medium			2	2	1
Data Loss (PwC)	Final	Medium		1			1
iVPD (PwC)	Final	Medium		1			
Corporate Strategy (PwC)	Final	Low					1
Benefits Realisation (PwC)	Final	Low				3	1
External Audit Follow Up	Final	High		5			
Follow Up – Dec/Jun	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		<b>Total</b>	-	<b>8</b>	<b>17</b>	<b>10</b>	<b>6</b>

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## *Implications for next year's plan*

In undertaking our internal audit work to provide the reports shown in the table above we have addressed controls and processes within areas of the control environment that have been considered in our 2014-15 annual report conclusions and will inform internal audit reporting for 2015-16. In particular we have undertaken –

Audit Area	Planned 2014 – 15 work per approved plan	Actual work undertaken and impact on annual opinion
Budget Monitoring & Reporting	<ul style="list-style-type: none"> <li>• Sufficient relevant, reliable information is available to budget holders, including non-financial information and forecasts of the year end position;</li> <li>• Budgetary variations are analysed, investigated, explained and acted upon;</li> <li>• Effective budget monitoring arrangements are in place at departmental and senior management level;</li> <li>• Information for inclusion in the report to the senior management team is relevant and reliable; and</li> <li>• To ensure that savings achieved are separately identified and reported.</li> </ul>	<p>In undertaking our work on the Budget Setting report provided to ARC we necessarily arrangements in place around monitoring and reporting to support the validity of the setting process. Aspects of budget monitoring were also considered in our work on Treasury Management, Procurement, Benefits Realisation and Corporate Strategy.</p> <ul style="list-style-type: none"> <li>• Engaging with relevant finance staff who work with budget holders on the process and any issues on financial monthly information timing and quality.</li> <li>• Evidencing Finance engaging with Managers to discuss their budgets. E.g. variance analysis particularly around overtime.</li> <li>• Reviewing Period 4 Revenue Reports Documenting the financial reporting cyclical process including up to Finance and Investment Committee and Board.</li> <li>• Monitoring &amp; Control with details of where &amp; how the majority of savings are being delivered;</li> <li>• Engaging with budget holders to discuss the actual out-turns and their concerns; and</li> <li>• Considered Capital Spend monitoring with the Capital Accountant to understand the planning monthly monitoring meetings with Budget holders from Nov 2014.</li> </ul> <p>This work will be updated and used to inform our planned work on arrangements over Financial Strategy Implementation and Savings delivery in 2015-16.</p> <p>In the absence of significant issues we have placed some reliance on the areas shown above regarding monitoring and reporting in our annual opinion albeit the review was not delivered to a final report status.</p>
Joint Financial Ledger	Provide this “value protection” work to assess the design and operation of key controls across all the main financial processes	A single Financial ledger has operated across 2014/15. Our work in year addressed controls over Treasury Management and Duplicate Payments did not produce High risk classification.

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	Internal Audit with External Audit, perform a rotational review of core financial controls across all significant financial processes over a 3 year period.	<p>Additionally, we have undertaken extensive follow up on Debtor /Creditor processes year. These reviews addressed issues around –</p> <p>Access to AP and AR ledgers, updating Authorised Signatory lists, bank account usage, consistent policies over income and debt collection, the need for treasury management policies, updating cash flow forecast and improving controls over duplicate payments to reduce occurrence.</p> <p>Additionally, we have undertaken specific audit work on Post External Audit issues impacting on a number of key financial areas. The outcomes of the work above have been reflected in our opinion within this paper as well as informing the nature and scale of work to be undertaken on Core Financial processes in 2015-16.</p>
Scope System	In addressing Core Financial Systems internal audit would consider payroll, through an assessment of the process to transfer information across HR systems (accuracy and integrity) regarding the move to a single SCOPE system, and the subsequent use of that system for recording annual leave/shifts/toil etc.	This review has not been delivered due to ongoing work around the implementation of a fully functioning robust SCOPE system. Our work on post External Audit findings has confirmed that only limited reliance on the SCOPE system has been possible during 2014-15. Our opinion has reflected this fact.
Capital Investments	<p>The purpose of such a review was to assess the adequacy of the arrangements for capital planning. Specific areas of review were;</p> <ul style="list-style-type: none"> <li>• The capital plan links to the overall strategy of the organisation;</li> <li>• The planning and assessment procedures within various departments/divisions for identifying and prioritising areas of capital expenditure, including the assessment of funding sources and the revenue impact of the proposed capital expenditure;</li> <li>• The drafting, preparation and approval of Business Cases;</li> <li>• The approval arrangements for capital expenditure, including relevant Committees; and</li> <li>• The monitoring and reporting arrangements in place around capital expenditure.</li> </ul>	<p>In undertaking our work around Budget Setting we covered the process in place around monitoring and reporting of capital expenditure with no issues arising.</p> <p>Additionally, our work on Corporate Strategy has considered the implementation of the Change programme across PS including capital schemes within the review scope with no significant issues noted.</p> <p>We have recognised this in summarising our view of the internal control environment for 2014-15.</p>
IT Project Delivery	<p>In delivery of transformational change PS and SPA are undertaking some 62 distinct projects to support its strategic objectives for policing. The delivery of this significant programme of change represents a major challenge as to resource and governance to ensure successful outcomes.</p> <p>A planned review within the 2014-15 plan</p>	<p>This review has not been delivered due to the delivery of internal audit Reviews by PwC on Data Collection and the iVPD database.</p> <p>This area remains one of criticality in delivery of projects to facilitate the business restructuring and resulting strategic planning process to meet both SPA and PS Corporate Objectives.</p> <p>A significant review of Project &amp; Programme</p>

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	was not delivered.	<p>Management is included within the Draft Internal Audit Plan for 2015 -16.</p> <p>In undertaking our work around the Assurance Framework, Budget Setting and Corporate Strategy we did note the existence of routine reporting to a bespoke internal PS/SPA Governance process.</p>
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A 2015-16 Internal Audit Plan has been created with SPA and PS management receiving ARC approval in April 2015. That plan recognises the issues arising from previous IA work. We see the generic areas of Information Governance and IT security and the related risks to PS and SPA from data loss as ongoing areas of perceived high control risk for the ARC. Additionally, the i6 Programme of IT infrastructure improvement will fall to be addressed as part of the 2015-16 Plan. The ongoing work around key financial controls will be carried on in a number of reviews around External Audit Follow Up (2013-14), budgetary control, key reconciliations etc.

### *Direction of control travel*

Finding rating	Trend between current and prior year	Number of findings		
		2013/14	2014/15	2015/16
Critical		0	0	TBC
High		14	7	TBC
Medium		36	17	TBC
Low		70	10	TBC
Advisory		17	6	TBC
<b>Total</b>		137*	40*	TBC

\*We show above the number of findings arising during 2014-15 and how these will be measured against the prior and subsequent years to highlight any trends in internal control effectiveness. Ostensibly there has been a significant reduction in the number of audit findings during 2014-15 in comparison with 2013-14. This is due to the centralisation of processes and functions within PS reflecting business restructuring thus removing the need to audit across legacy area processes – i.e. 10 audits now replaced by one audit. To demonstrate this the 2013-14 Audit Findings included –

- Divisional testing – 57
- Debtors and Creditors – 44
- Payroll – 16

In total these three audits covering continuing legacy arrangements constituted 117 findings (85%) in 2013-14.

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During 2014-15 Internal Audit has carried out its audits across PS processes – many newly created – identifying issues impacting across PS nationally. Examples have included Whistleblowing, Procurement and Complaints addressing recognised risks within both PS and SPA. Where we have undertaken audits that retain processes in a legacy form e.g. Means Enquiry Warrants – we have reported cross cutting issues in a condensed form – reducing the number of findings but collectively raising the issue for members' attention.

As such the raising of some 40 findings by internal audit during 2014-15 evidences an increase in the level of scrutiny across the internal control environment within PS and SPA.

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# Appendix 1: Basis of our classifications

## Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less