

SCOTTISH POLICE
AUTHORITY

Meeting	Audit Committee
Date	24 July 2018
Location	Pacific Quay, Glasgow
Title of Paper	Internal Audit Budgeting and Reporting Report
Item Number	5.8
Presented By	Helen Berry, Director, Scott-Moncrieff
Recommendation to Members	Members are requested to note the report.
Appendix Attached	Internal Audit Budgeting and Reporting Report

PURPOSE

This paper presents our final report on the review of Budgeting and Reporting.

The paper is presented in line with the Internal Audit contract with Scottish Police Authority.

The paper is submitted for noting.

1. BACKGROUND

- 1.1 Budgetary control is fundamental to the financial health and success of any organisation. In order to ensure the proper use of public funds, it is essential that the SPA and Police Scotland (PS) have robust processes and procedures in place to ensure effective budgetary control.

SPA's financial management has come under close scrutiny over the last few years and concerns have been raised over the lack of detail to explain the reform spend budget. During 2016/17, a new financial management reporting structure was created, to help improve the consistency and detail of budget information provided to management.

The 2017/18 budget was approved with a £47.2m operating deficit and, in order to manage this, SPA and PS rolled out a revised approach to budget management. This includes greater delegation of budgets to budget holders and improved budget holder training.

This audit was undertaken to determine whether the budget management and reporting arrangements in place within SPA and PS were designed adequately and operating effectively to support both statutory financial reporting requirements and financial stability. This audit is solely focused on the processes and controls that are in place to approve the current year (2018/19) budget and did not include an assessment of the long term financial sustainability of the organisation. Furthermore, our work has not included an assessment of the reasonableness of the assumptions adopted by SPA in setting the 2018/19 budget.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 The report notes that Police Scotland's budgeting and reporting controls procedures reflect good practice in a number of areas including:
- the devolved budgeting framework ensuring individual accountability;

- the business partnering arrangement with the Finance function within Police Scotland providing support to budget holders;
- the monthly (to Police Scotland Corporate Finance and Investment Board) and quarterly (to SPA Board) reporting of the Financial Review Report highlighting the consolidated financial performance of SPA Corporate / Forensics / Police Scotland and detailing significant variances where applicable; and
- the requirement for budget holders to develop clear, supportable savings plans.

The report contains four “grade 2” (moderate risk exposure) recommendations to enhance the design and operation of the budgeting and reporting controls. The findings contained within the report have been accepted with action owners and timescales for completion assigned.

Next steps: We will follow up management responses contained within the report on a periodic basis to monitor progress being made towards implementing management actions

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications arising as a direct result of this report.

4. PERSONNEL IMPLICATIONS

- 4.1 There are no personnel implications associated with this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no legal implications associated with this report.

6. REPUTATIONAL IMPLICATIONS

- 6.1 There are no reputational implications arising from with report.

7. SOCIAL IMPLICATIONS

7.1 There are no social implications directly associated with this report

8. COMMUNITY IMPACT

8.1 There are no community impact implications directly associated with this report.

9. EQUALITIES IMPLICATIONS

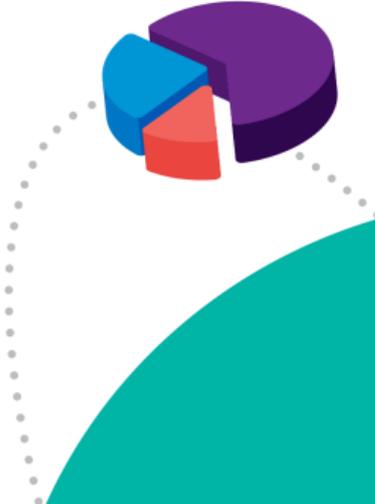
9.1 There are no equalities implications directly associated with this report.

10. ENVIRONMENT IMPLICATIONS

10.1 There are no environmental implications associated with this report.

RECOMMENDATIONS

Members are requested to note the report.



Scottish Police Authority

Internal Audit Report 2017/18

Budgeting and Reporting

June 2018



Scott-Moncrieff
business advisers and accountants



Scottish Police Authority

Internal Audit Report 2017/18

Budgeting and Reporting

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<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
<i>James Gray, Chief Financial Officer, PS and SPA</i>	<i>Alison Dougall, Head of Management Accounting, PS John McNellis, Finance Manager, PS</i>	<i>Gary Devlin, Partner Helen Berry, Head of Internal Audit Laura Livingston, Senior Internal Audit Manager Claire Beattie, Assistant Manager</i>

Executive Summary

Conclusion

Police Scotland has implemented effective processes and procedures in relation to budget monitoring and the implementation of savings plans. These provide a robust system of internal control within the budget system, which supports the economic, efficient and effective use of public funds. We have identified five opportunities for improvement that will help to further enhance the design and robustness of controls, including the approval and implementation of the newly developed budget virement process.

Background and scope

Budgetary control is fundamental to the financial health and success of any organisation. In order to ensure the proper use of public funds, it is essential that the SPA and Police Scotland (PS) have robust processes and procedures in place to ensure effective budgetary control.

SPA's financial management has come under close scrutiny over the last few years and concerns have been raised over the lack of detail to explain the reform spend budget. During 2016/17, a new financial management reporting structure was created, to help improve the consistency and detail of budget information provided to management.

The 2017/18 budget was approved with a £47.2m operating deficit and, in order to manage this, SPA and PS rolled out a revised approach to budget management. This includes greater delegation of budgets to budget holders and improved budget holder training.

This audit was undertaken to determine whether the budget management and reporting arrangements in place within SPA and PS were designed adequately and operating effectively to support both statutory financial reporting requirements and financial stability. This audit is solely focused on the processes and controls that are in place to approve the current year (2018/19) budget and did not include an assessment of the long term financial sustainability of the organisation. Furthermore, our work has not included an assessment of the reasonableness of the assumptions adopted by SPA in setting the 2018/19 budget.

The Policing 2026 Three Year Implementation Plan requires significant capital and reform investment in order to take forward the prioritised projects that will contribute towards the delivery of the Policing 2026 Strategy. This includes significant investment in core ICT systems, investing in cyber capability and redesigning the ways in which the public make contact with the Police. The assumptions that are used in setting the annual budget must therefore be regularly reviewed to ensure that they remain appropriate and realistic.

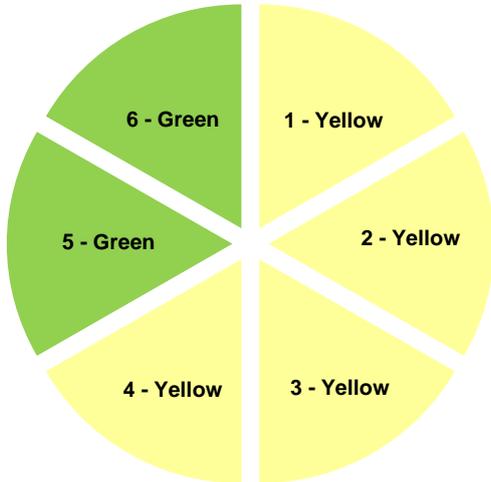
In the Three Year Financial Plan, the SPA 2018/19 budget, as approved by the SPA Board on 29 March 2018, has been adopted as the baseline. Approximately 97% of the annual spending is undertaken by Police Scotland, with the remainder incurred by the Forensics Service (2.6%) and the SPA Corporate body (0.4%).

SPA and SPA are continuing to reduce the annual revenue deficit in the journey towards financial balance by 2021. The operating deficit in the 2018/19 budget of £35.6m has reduced from the £47.2m deficit included within the 2017/18 budget, and is in line with the deficit reduction trajectory set out in the Three Year Financial Plan.

Acknowledgements

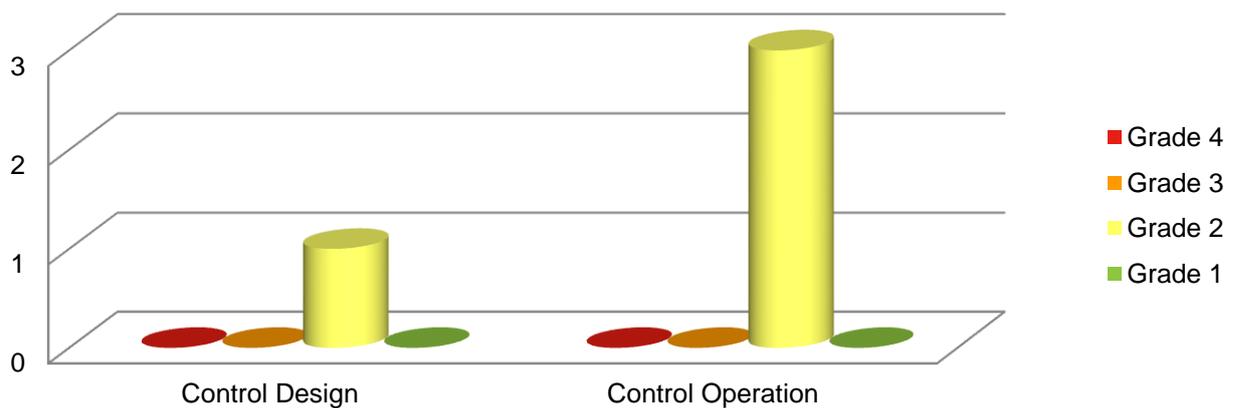
We would like to thank all staff consulted during this review for their assistance and co-operation.

Control assessment



- 1. A documented budget-monitoring process is in place, which includes clear allocation of responsibility for monitoring and explaining budget variances.
- 2. All amendments to budgets are justified, authorised and accurately applied.
- 3. Budget performance is monitored against financial targets, with variations from the budget promptly identified and investigated.
- 4. The organisation is implementing clear plans to deliver required savings, with governance arrangements in place to monitor progress.
- 5. Savings plans for staff costs are based on reliable establishment data and are used to inform recruitment decisions.
- 6. Savings plans are based on reliable data linked to transformation plans and are risk assessed to determine the likelihood of it being achieved.

Improvement actions by type and priority



Four improvement actions have been identified from this review, three of which relate to the operation of existing controls, rather than the design of controls themselves. See Appendix A for definitions of colour coding.

Key findings

Good practice

SPA and Police Scotland's budgeting and reporting arrangements reflect good practice in the following areas:

- Police Scotland, SPA and Forensics devolve responsibility for managing revenue budgets, capital budgets and reform budgets to individual budget holders. The devolved budgeting framework requires budget holders to maintain proper control of allocated budgets and holds these individuals accountable for performance against budgets and ensuring ongoing control, management and transparency of budget performance.
- To support the devolved budgeting process, the Finance function within Police Scotland operates a business partnering arrangement which aligns support to budget holders across the organisation. This support extends through the financial year from budget planning to budget monitoring and management. The model was refined with respect to the 2017/18 financial year with greater support delivered by Finance to budget holders in developing the budget. This aim was to secure more effective devolution of the budget and was achieved through comprehensive budget management guidance and training. Once budget approval is secured, the Finance Business Partner then actively supports the budget management process throughout the financial year. A key part of this function is engagement with budget holders in active budget management through regular meetings, issue and review of monthly financial performance reports. An integral part of this process is to determine the reasons for any variances and agree appropriate mitigation and management of the issues arising. The business partner model appears to be operating effectively, providing sufficient budget monitoring control through regular review of budget allocations, budget performance, identifying the explanations behind variances and ensuring these are reflected within the management accounts. We tested the monitoring of a sample of budget variances and noted that in each instance there was appropriate challenge and oversight by management.
- A Financial Review Report is produced on a monthly basis and presented at each Police Scotland Corporate Finance and Investment Board and SPA Finance Committee with a quarterly report presented to the SPA Board. The report includes the consolidated financial performance of SPA Corporate, SPA Forensics and Police Scotland and sets out an overview of the financial positions against the annual budgets for all three organisations. The Financial Review Report also highlights budget variances providing detail on the reasons for these variances and the corrective action that has been taken to mitigate them.
- As part of the 2018/19 budget setting process, budget holders must develop clear, supportable savings plans. These savings plans are reviewed and risk assessed by finance in order to determine the plans achievability. Following approval, savings are reflected within the SPA 2018/19 budget, as approved by the SPA Board on 29 March 2018. We tested a sample of the savings proposals and transformation projects and verified that there was evidence in each instance that a risk assessment had been carried out.

Areas for improvement

We have identified a number of areas for improvement which, if addressed, would strengthen SPA and PS's controls.

- Budget management training should be delivered to Forensic budget holders;
- The draft budget virement process should be completed, approved and implemented;

- SPA Corporate Finance resource levels should be reviewed to determine if these are appropriate to deliver effective and efficient budget monitoring; and
- Police Scotland should consider incorporating corporate level saving plan performance data within quarterly Financial Review Reports.

These are further discussed in the Management Action Plan below.

Management Action Plan

Control Objective 1: A documented budget-monitoring process is in place, which includes clear allocation of responsibility for monitoring and explaining budget variances



1.1 SPA Forensic Budget Holder Training

Budget management training has not been delivered to SPA Forensics budget holders.

SPA Finance asserted that a budget holder training session is in the process of being arranged for Forensic Heads of Function, Operation Managers and Team Managers. We confirmed that the training session content has been agreed and that training slides for the session has been developed. We were unable to confirm when the training session will take place as the date is yet to be agreed.

Risk

There is a risk that SPA Forensics budget holders have a lack of awareness or clarity regarding the budget monitoring process. This increases the risk that budget holders could follow outdated procedures and guidance that could lead to inefficiencies within the organisation and a lack of clarity regarding whether the annual budgets are achievable.

Recommendation

Management should prioritise the delivery of the proposed budget management training session to Forensic budget holders to ensure there is clarity around roles and responsibilities from the outset of the new financial year.

Management Action

Grade 2
(Operation)

Management accepts this recommendation.

Training will be delivered as soon as possible to Forensics Budget Holders.

Action owner:

Interim Director, Improvement and Assurance, SPA

Due date:

End August 2018

Control Objective 2: All amendments to budgets are justified, authorised and accurately applied

Yellow

2.1 Budget Virement

The Budget Management and Month End Guidance document sets out the circumstances under which a virement is allowable. However, during 2017/18 there is no formal process in place for the request, review and authorisation of virements.

Police Scotland is aware that a formal virement process is required and a new process is currently under development. The new process will include an appropriate scheme of delegation and will provide clarity of virement roles and responsibilities amongst budget holders, finance, appropriate governance groups, and Scottish Government. A new Financial Controller joined Police Scotland in May 2018 and management have advised that the new virement process will be implemented once this individual has had sufficient time to review and influence the new procedures.

A Financial Review Report is presented monthly to the Police Scotland Corporate Finance and Investment Board and SPA Finance Committee which highlights budget variances and corrective actions taken however this is at a consolidated level rather than individual departmental levels and will only highlight material variances.

Risk

There is an increased risk that inappropriate amendments are made to budgets due to the lack of a formal process for the request, review and authorisation of virements. This could lead to lower level budgetary overspends which, cumulatively, could adversely impact the achievement of the annual budget.

Recommendation

Management should consider prioritising the completion and approval of the virement process that is under development. The approved process should then be implemented across the organisation with clear communication provided to all budget holders.

Management Action

Management accepts this recommendation.

Grade 2
(Design)

Action owner:
Financial Controller

Due date:
End July 2018

Control Objective 3: Budget performance is monitored against financial targets, with variations from budget promptly identified and investigated

Yellow

3.1 SPA Finance Resource

Approximately 97% of the annual spending is undertaken by Police Scotland, with the remainder incurred by the Forensics Service (2.6%) and the SPA Corporate body (0.4%). Budgeting responsibilities have been devolved within SPA Forensics but not SPA Corporate. SPA Corporate will devolve budgeting responsibilities following the implementation of the new SPA Corporate Governance Structure.

There are Budget Monitoring Guidelines in place for Police Scotland and SPA Forensics which detail the requirement for monthly budget reports and monthly budget performance meetings. We were able to evidence that these guidelines were being followed for both Police Scotland and SPA Forensics.

Currently the SPA Senior Management Group, consisting of four staff members, is responsible for the SPA Corporate Budget. We were unable to evidence that SPA Corporate were following the same Budget Monitoring Guidelines as Police Scotland and SPA Forensics however financial performance is monitored at a corporate level through the process of preparing the overarching Financial Performance report. Furthermore, monthly financial performance reports are provided and discussed with budget holders at other meetings that are attended by management:

- Forensics Committee; and
- SPA Senior Management Team (SMT) meetings.

Additionally, monthly Financial Review consolidations are produced and presented to the PS CFIB, SPA Finance Committee and quarterly to SPA Board for review, scrutiny and comment. The presentation of these reports at both governance groups ensures financial performance is being adequately reviewed at an appropriate level within both organisations. The presentation of these reports provides governance groups with the information required to enable them to effectively discharge delegated governance.

Risk

While there is appropriate scrutiny over current financial performance at SPA Corporate and Forensics, there is a risk that there will be insufficient resource at SPA Corporate to support budget holders in the management and delivery of the annual budget following the planned devolvement of budgeting responsibilities.

Recommendation

As part of the planned restructure, SPA Corporate should consider Finance resource levels to determine if these are appropriate to deliver effective and efficient budget monitoring when the budgeting process becomes devolved. SPA Corporate should also review the service level agreement with PS to ensure there is clarity on roles and responsibilities in relation to budgetary matters.

Management Action

Management accepts this recommendation.

SPA Corporate is currently undergoing a restructure of the SPA executive team which will provide the necessary increase in capacity and capability required for the SPA to carry out all its statutory functions effectively. Within the proposed new structure SPA's internal financial management will be strengthened as well as providing more support for discharging the duties of the Accountable Officer. The recruitment process for new posts will include formal consultation with current staff. The roles and responsibilities within SPA's agreement with PS for the provision of financial services is also currently being considered.

Action owner:

Interim Director, Improvement and Assurance, SPA

Due date:

End of October 2018

Control Objective 4: The organisation is implementing clear plans to deliver required savings, with governance arrangements in place to monitor progress

Yellow

4.1 Corporate Savings Plan Performance

To reduce the budget deficit, Police Scotland has agreed to deliver savings of £12.9 million during 2018/19 budget. The savings breakdown is as follows:

- Police Officer Costs: £2.7m;
- Police Staff Costs: £5.7m; and
- Non-Pay Savings/efficiency targets: £4.5m (Telematics £1.8m, ICT Maintenance Contracts £1m, Telematics £0.7m, Soft FM £0.3m, Single Payroll Solution £0.3m, Commercial Excellence £0.3m, Catering Contracts £0.1m)

These savings have been assigned to Police Scotland departments and divisions and have been incorporated within individual departmental and divisional budgets. Performance against these savings will be monitored via oversight of these individual budget lines. SPA is continuing to reduce the annual revenue deficit in the journey towards financial balance by 2021. The operating deficit in the 2018/19 budget of £35.6m has reduced from the £47.2m deficit included within the 2017/18 budget, and is in line with the deficit reduction trajectory set out in the Three Year Financial Plan.

We noted that the 2017/18 Financial Review Reports adequately explained savings plan performance and provided informative reasons for variances. Due to our review taking place within period one of 2018/19, we were unable to confirm the adequacy of saving plan performance reporting this financial year. However we understand that Finance does not intend to report performance against the Police Scotland corporate savings targets identified – saving plan performance will be reported on an individual budget line basis only.

Risk

There is a risk that there is inappropriate oversight and governance of non-pay saving plans targets. This could lead to areas of poor performance not being adequately and timeously identified and addressed which increases the risk of failure to deliver budget deficit plans.

Recommendation

Police Scotland should consider incorporating material non-pay saving plan performance data (such as the Telematics and ICT Maintenance Contracts performance) within the quarterly Financial Review Report, ensuring governance groups have an overarching awareness of the progress being made towards achieving the 2018/19 savings plan target.

Grade 2
(Operation)

Management Action

Management accept this recommendation.

Savings arising from initiatives will be reported through project governance groups from where the project has been initiated with a summary provided in the quarterly finance report. Where budgets have been reduced through other reductions, variances will be monitored as part of the savings applied within the monthly finance reports.

Action owner:
Strategic Financial Planning & Budgeting Lead

Due date:
end of October 2018

|

Control Objective 5: Savings plans for staff costs are based on reliable establishment data and are used to inform recruitment decisions

Green

No weaknesses identified

Finance has developed a People Modelling System that supports the development of accurate staff budgets and savings plans. The People Modelling System reconciles the establishment data within SCOPE (HR system) with actual establishment expenditure data retrieved from the payroll system and financial ledger, ensuring the modelling system reflects the true establishment each month. This data is then used to inform the budget and saving plan setting process within each department/division as well as supporting the accurate performance monitoring of staff annual budgets and savings plans throughout the year.

In line with the Policing 2026 Strategy, Police Scotland are budgeting for 17,134 Police Officers in 2018/19, a reduction of 100 from 2017/18 which has been achieved through a reduction in probationer recruitment through the release of Officers previously employed in back office corporate services roles. These increases / reductions are devolved to divisional / departmental budget holders and required staff savings, as well as any other additional staff savings identified, will be reflected within savings plans. Once the annual budget and savings plans have been agreed, divisions / departments will use these plans to inform recruitment decisions to reduce the risk of resource overspends.

While we have not identified any findings related to this area during this review, we have performed internal audit reviews in two areas that are linked to this control objective: HR Performance Management and Workforce Planning. The issues identified within these reviews will impact on PS's ability to ensure that savings plans for staff costs are based on reliable establishment data; notably the lack of long term workforce planning and the reliability of data contained within the SCOPE system.

Control Objective 6: Savings plans are based on reliable data linked to transformation plans and are risk assessed to determine the likelihood of it being achieved



Green

No weaknesses identified

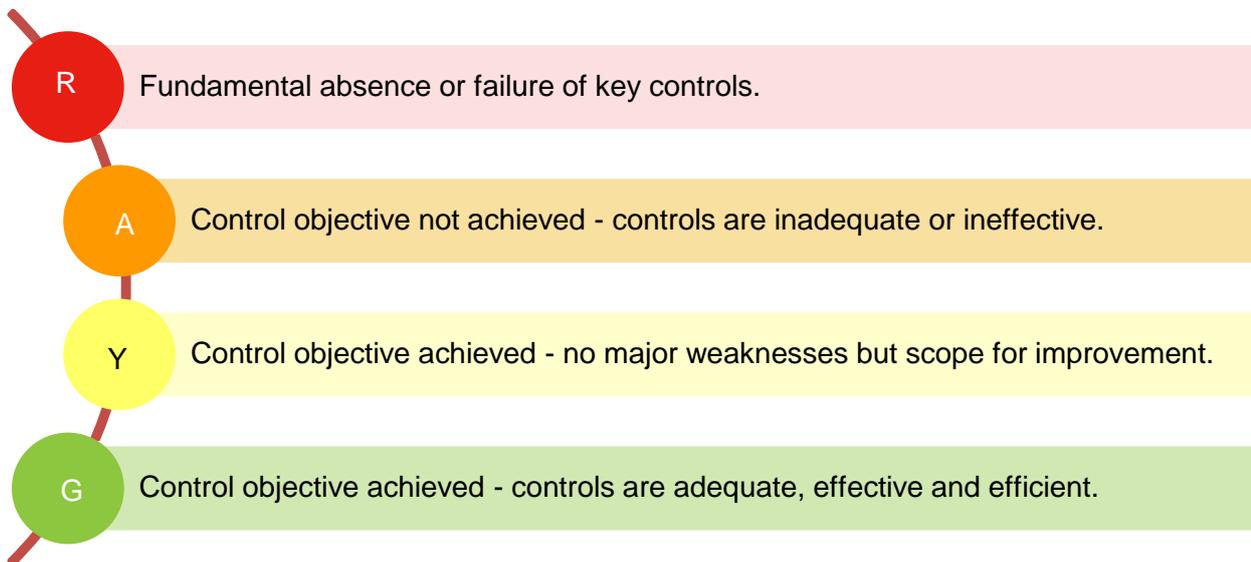
Finance has prepared a savings plan return form that requires budget holders to develop savings proposals that are appropriately justified and fully supportable. In addition, transformation projects must justify all anticipated savings within project business cases. The budget setting process, as set out within the Revenue Budget Setting Process, requires all savings plans to be risk assessed. In addition, all reform and capital projects must also be risk assessed. We tested a sample of the savings proposals and transformation projects and verified that there was evidence in each instance that a risk assessment had been carried out.

Police Scotland advised that most future savings will be derived from transformation activity. However, as most transformation projects are still in the early stages, there has been limited transformation savings realised within the 2018/19 draft budget. The 2018/19 draft budget does reflect savings specific to the Commercial Excellence and Telematics Projects as these will be implemented during the year. Management asserted that significantly higher savings will be recognised in 2019/20 budgets and beyond as these projects progress.

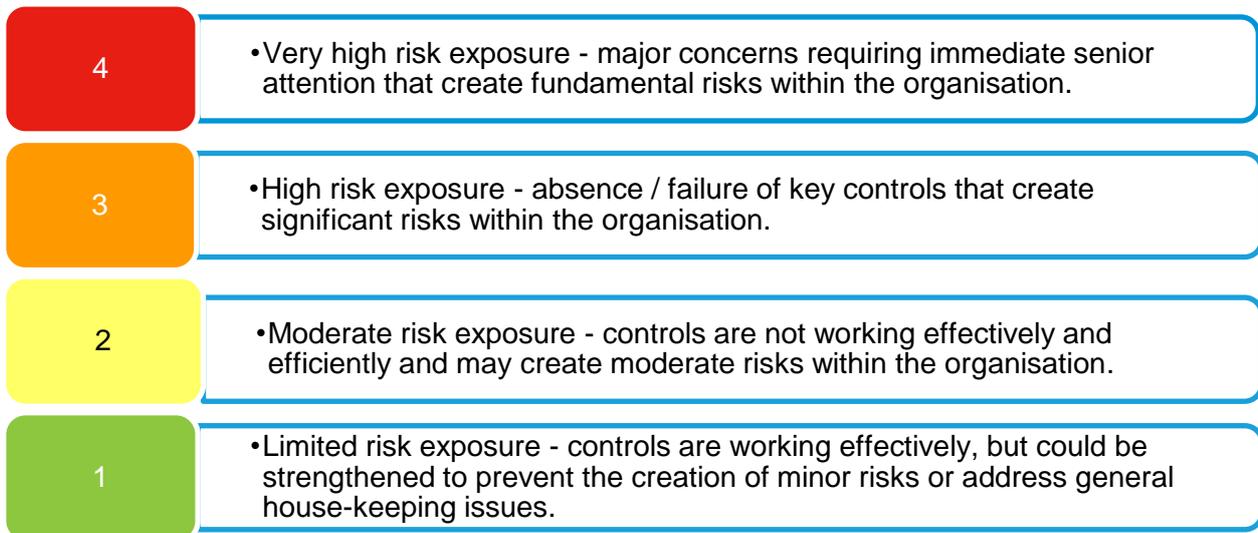
The Policing 2026 Three Year Implementation Plan and the long term ten year financial strategy contain a number of assumptions that have not been assessed as part of this review. Some of these assumptions relate to funding from external bodies which are outwith Police Scotland's control. It is crucial that the assumptions that are used in both the three year and ten year financial strategy are regularly tested to ensure they remain appropriate and realistic.

Appendix A – Definitions

Control assessments



Management action grades



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