

SCOTTISH POLICE  
AUTHORITY

<b>Meeting</b>	<b>Audit Committee</b>
<b>Date</b>	<b>24 July 2018</b>
<b>Location</b>	<b>Pacific Quay, Glasgow</b>
<b>Title of Paper</b>	<b>Internal Audit Accounts Preparedness Report</b>
<b>Item Number</b>	<b>5.9</b>
<b>Presented By</b>	<b>Gary Devlin, Partner, Scott-Moncrieff</b>
<b>Recommendation to Members</b>	<b>Members are requested to note the report.</b>
<b>Appendix Attached</b>	<b>Internal Audit Accounts Preparedness Report</b>

**PURPOSE**

This paper presents our final report on the review of Accounts Preparedness.

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 SPA's financial management has come under close scrutiny following the production of the 2016/17 annual accounts and subsequent Audit Scotland section 22 report.

Police Scotland Finance were tasked with developing a project plan for the production of the 2017/18 accounts to help ensure all year end tasks have been identified, are conducted and performed in a timely manner and all Audit Scotland recommendations are addressed.

Internal audit was asked by the Audit Committee members to undertake a review over the project plan and year-end close procedures to support preparation in advance of the 2017/18 external audit arrangements. In March 2018, we reported the results of our review of Police Scotland's project plan for the preparation of the 2017/18 accounts.

## 2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 In July 2018, Internal Audit completed the second stage of this review, which comprised a review of the SPA 2017/18 draft accounts against the requirements of the Financial Reporting Manual (FReM).

Our audit identified that good progress has been made to improve the efficiency of the preparation and submission of the draft annual report and accounts. The further development and application of documented year end procedures and timetable for the financial statements in particular, has helped to ensure key tasks are completed prior to the audit of the annual accounts. In this context, our review has identified some areas for further development in the SPA's year-end close procedures.

We performed a review of the draft 2017/18 annual report and financial statements against the requirements of the Financial Reporting Manual (FReM), using checklists published by the National Audit Office. Our review confirmed that the draft annual accounts are largely compliant with the FReM, however, we also identified a

small number of instances of non-compliance, including omissions and use of incorrect headings.

In addition, we identified areas where improvements could be made to enhance compliance, such as the provision of more detailed performance information in the Performance Report section of the draft accounts and clearer explanations of corporate risks in the Governance Statement. A listing of the issues identified has been provided at Appendix 1, with recommendations for improvement also included. These improvements should be actioned by the SPA in order to improve the quality and compliance of the accounts with the FReM.

### **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

## Audit Visit Memo

### 2017/18 Annual Accounts review

July 2018



Scott-Moncrieff  
business advisers and accountants



# Scottish Police Authority

## Audit Visit Memo

### 2017/18 Annual Accounts review

Introduction	1
Conclusion	2
Appendix 1: FReM Compliance – Review against 2017/18 requirements	4
Appendix 2: Points to consider	7
Appendix 3: Follow up of 2016/17 findings	8

# Introduction

## Background

The Scottish Police Authority's (SPA) financial management has come under close scrutiny in the last two years. External audit commentary included concerns on the preparation/submission of draft financial statements. This led to the recommendation that Finance officers should prioritise the accounts preparation process and ensure sufficient time is built in for a comprehensive review process by the SPA and Police Scotland (PS) senior executive teams prior to submission for audit.

Police Scotland Finance has developed a project plan for the production of the 2017/18 accounts to help ensure all year end tasks have been identified, are conducted and performed in a timely manner. Internal audit have been asked by the Audit and Risk Committee members to undertake a review over the project plan and year end close procedures to support preparation in advance of the 2017/18 external audit arrangements.

## Scope

In July 2018, we completed the second stage of this review, which comprised a review of the SPA 2017/18 draft accounts against the requirements of the Financial Reporting Manual (FReM). We also followed up on the points raised through our review of the 2016/17 draft accounts to confirm that these had been addressed within the 2017/18 draft where applicable.

To avoid duplication of the work that Audit Scotland will perform, this review did not constitute an audit of the draft accounts. While we have reviewed the draft accounts against FReM disclosure requirements this testing was not designed to provide assurance in relation to the completeness and accuracy of the figures included in the 2017/18 draft accounts.

## Acknowledgements

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

# Conclusion

We have reviewed the 2017/18 draft Annual Report and Accounts against the disclosure requirements of the Financial Reporting Manual (FReM). Whilst we found the draft to be largely aligned to requirements, we identified a number of recommendations for improving the level of compliance in 2017/18.

Of the 12 recommendations identified through our review of the draft 2016/17 Annual Report and Accounts, 10 have been appropriately addressed within the 2017/18 draft. Details of those with scope for further improvement are given within appendix 2.

## Compliance with the FReM

### 2017/18 Financial Statement requirements

Our review of the financial statement disclosure requirements in the 2017/18 (FReM) was completed using a checklist published by the National Audit Office. We identified one issue with regard to the required inclusion of a brief staff costs note within the notes to the accounts. The 2016-17 FReM clarified that a brief summary of staff costs should be included within the notes to the accounts, with a reference to more detailed disclosures in the Accountability Report.

Upon review of the draft 2017/18 accounts we noted that the Statement of Comprehensive Net Expenditure includes a direct reference to the Remuneration Report (within the Accountability Report). We recommend that management include a brief note to the accounts which provides a summary of staff costs but remains proportionate and keeps duplication to a minimum. Further details of this issue and our recommendation are provided at Appendix 1 to this report.

In addition we noted that there are four areas with changes to requirements or issues to consider specific to 2017/18. It is unclear from review of the draft accounts whether each of these may be applicable to SPA. We have therefore included details within Appendix 2 to this report for consideration by management.

### 2017/18 Annual Report requirements

The 2017/18 places a number of additional disclosure requirements on the Performance and Accountability report. These are as follows;

#### Performance report

- A brief description of the business model and environment, organisational structure, objectives and strategies.
- Explanatory narrative around the link between KPIs, risk and uncertainty.
- An explanation of the relationships and linkages between different pieces of information within the ARAs
- The need to report on non-financial information pertaining to social matters, respect for human rights, anti-corruption and anti-bribery matters.

## Accountability report

- Providing information on other employee matters such as diversity issues and equal treatment in employment and occupation not already disclosed as well as employment issues, health and safety at work, trade union relationships and human capital management such as career management and employability.

## New reporting requirements

The 2017-18 FReM includes a new requirement for all relevant public sector organisations to report on trade union facility time. Facility time is paid time off for union representatives to carry out trade union activities. The SPA falls under these requirements and so must publish Trade Union Facility Time information in its Annual Report. At the time of our review this disclosure had not yet been made in the draft accounts.

Our review of the 2017/18 draft accounts against the NAO checklist and identified seven issues with regard to Annual Report disclosures. Of these, four were with regard to the new requirements detailed above and a further two were related to omissions within the current draft which are likely to be addressed in future iterations of the document. Full details of these issues and our recommendations are given at Appendix 1 to this report.

## 2016/17 Follow up

For each of the areas of non-compliance identified through our 2016/17 review against the FReM checklist, we confirmed that each remain applicable to 2017/18. We followed up on each to confirm that they had been appropriately addressed within the final 2016/17 financial statements. Of the 12 recommendations we have confirmed that 10 are appropriately actioned within the 2016/17 Accounts. Details of the 2 recommendations with scope for improvement are included in Appendix 2.

# Appendix 1: FReM Compliance – Review against 2017/18 requirements

We have detailed below the additional disclosure requirements of the 2017/18 FReM which are not included within the draft 2017/18 financial statements.

Area	Issue	Recommendation
<b>Performance Report - Overview</b>	<p>The FReM requires a statement from the entity's lead Minister or Chief Executive providing their perspective on the performance of the organisation over the period.</p> <p>Whilst there is space for the addition of this within the draft 2017/18 Performance Report, this is yet to be provided. We are therefore unable to confirm its inclusion or comment upon its content.</p>	A performance statement from the Interim Chief Executive should be provided.
<b>Performance Report - Overview</b>	<p>The FReM requires a statement of the purpose and activities of the organisation, including a brief description of the business model and environment, organisational structure, objectives and strategies.</p> <p>Whilst details are given on the legislative background and activities of SPA, there is little detail regarding organisational structure or objectives and strategies. There is a space for 'SPA Governance Arrangements' which may provide some further information here, however this is yet to be completed.</p>	Further details to be given regarding organisational structure, objectives and strategies within the Performance Report Overview.
<b>Performance Report – Performance Analysis</b>	<p>The FReM states that non-financial information including social matters, respect for human rights, anti-corruption and anti-bribery matters should be included within the performance analysis section of the Performance Report.</p> <p>This is not currently included.</p>	Details on these matters should be included within the performance analysis section of the Performance Report.

Area	Issue	Recommendation
<b>Performance Report - Performance Analysis</b>	<p>The 2017/18 FReM requires additional narrative within the Performance Report regarding the link between KPIs, risk and uncertainty.</p> <p>This is not included within the 2017/18 draft accounts.</p>	<p>Additional narrative required within the Performance Report.</p>
<b>Remuneration and Staff Report - Remuneration Report</b>	<p>The Remuneration Report complies with the FReM by disclosing SPA's policy on the remuneration for ministers and directors for current and future years. There is no specific reference however to the work and recommendations of the Senior Salaries Review Body.</p> <p>This requirement is referred to within the FReM.</p>	<p>Specific reference to the Senior Salaries Review Body should be made within the remuneration policy disclosures.</p>
<b>Accountability and Audit Report</b>	<p>The FReM contains the following disclosure requirements in respect of remote contingent liabilities;</p> <ul style="list-style-type: none"> <li>• A brief description of the nature of the liability; and</li> <li>• Where practical, an estimate of its financial effect.</li> </ul> <p>There is currently no disclosure of remote contingent liabilities in the draft accounts. Whilst there is space for inclusion of this the disclosure is yet to be populated. This may be because there are no remote contingent liabilities to disclose.</p>	<p>Remote contingent liability disclosure to be incorporated into the draft accounts detailing all FReM requirements where required.</p>

Area	Issue	Recommendation
<p><b>The Trade Union (Facility Time Publication Requirements) Regulations 2017</b></p>	<p>For 2017-18 all relevant public sector organisations are required to report on trade union facility time. Facility time is paid time off for union representatives to carry out trade union activities.</p> <p>SPA falls under these requirements and so must publish Trade Union Facility Time information in their Annual Report.</p> <p>Whilst there is space for inclusion of this the disclosure is yet to be populated.</p>	<p>Trade union facility time disclosure to be included within the 2017/18 accounts.</p>
<p><b>Staff numbers and related costs</b></p>	<p>The FReM requires that a brief summary of staff costs should be included within a separate note to the accounts. This note should include a reference to the more detailed disclosures in the Accountability Report.</p> <p>This note should be proportionate, and minimise duplication and can cross-refer to the Accountability Report. However, a cross-reference from the SOCNE to the Accountability Report is not deemed appropriate by the FReM as the Accountability Report is not an integral part of the financial statements.</p> <p>Within the draft 2017/18 accounts, the SOCNE is referenced directly to the Remuneration Report (part of the Accountability Report).</p>	<p>A summary staff costs note should be included within the notes to the accounts and referenced to directly from the SOCNE. This note should be brief and reference to the detailed disclosures within the Remuneration Report.</p>

## Appendix 2: Points to consider

We have detailed below the additional disclosure requirements of the 2017/18 FReM which are not included within the draft 2017/18 financial statements.

Whilst these may not be applicable to SPA they are detailed here for consideration by management.

Area	Issue	Recommendation
<b>IFRS or interpretation applied before the effective date</b>	<p>Where an IFRS or interpretation is applied to a period before its effective date (and earlier application is permitted), the following needs to be disclosed:</p> <ul style="list-style-type: none"> <li>• The fact of earlier application; and</li> <li>• How approval for doing so has been obtained.</li> </ul>	If applicable to the 2017/18 financial statements, SPA should ensure that the relevant disclosures are made.
<b>Apprenticeship Levy</b>	The Apprenticeship levy needs to be accounted for as a tax expense within staff costs.	If applicable to the 2017/18 financial statements, SPA should ensure that these costs are accounted for correctly.
<b>EU income</b>	Where EU income has been received, these amounts need to be included within the Statement of Comprehensive Net Expenditure on a gross basis. Also, where funds are received for distribution to other bodies, these funds should be accounted for as third party assets.	If applicable to the 2017/18 financial statements, SPA should ensure any EU income is accounted for correctly.
<b>Notes to the financial statements</b>	There is a requirement in the 2017/18 FReM to consider the systematic ordering of the notes to the accounts. In particular the ordering of notes should consider the impact on understand ability and comparability of the Financial Statements.	Whilst we have not identified an issue with the ordering of the notes to the accounts, management should consider this with regard to the 2017/18 financial statements

# Appendix 3: Follow up of 2016/17 findings

Area	Issue	Recommendation	Follow up
<p><b>Accountability Report</b></p>	<p>The FReM 5.3.4 requires the following sections to be clearly identified as subject to audit:</p> <ul style="list-style-type: none"> <li>• Regularity of expenditure;</li> <li>• Fees and charges;</li> <li>• Remote contingent liabilities;</li> <li>• Single total figure of remuneration for each minister and director;</li> <li>• CETV disclosures for each minister and director;</li> <li>• Payments to past directors, if relevant;</li> <li>• Payments for loss of office, if relevant;</li> <li>• Fair pay disclosures;</li> <li>• Exit packages, if relevant; and</li> <li>• Analysis of staff numbers and costs.</li> </ul> <p>Whilst the accounts identify that the 'Salary and Pension Entitlements' heading is subject to audit, it is unclear what sections this heading covers (e.g. the section also contains information on employee relations and staff absence figures that would not be subject to audit).</p> <p>This section also does not contain information on regularity of expenditure, and fees and charges, which are not currently identified as subject to audit.</p>	<p>The SPA should update the draft accounts to make it clear precisely what information within the Accountability Report will be subject to audit.</p>	<p>In some cases it remains unclear within the draft 2017/18 Financial Statements which areas are subject to audit.</p> <p>The 'Salary and Pension Entitlements' heading is still marked as being subject to audit, however 'Staff analysis by gender' and 'Additional staff details' are also marked as audited when these areas are not.</p> <p>'Agency and Consultancy fees' and 'Remote contingent liabilities' are subject to audit but are not identified as such.</p> <p>Further work required in this area.</p>

Area	Issue	Recommendation	Follow up
<b>Structure and content of the financial statements</b>	<p>The Annual Report and Accounts does not include the following information:</p> <ul style="list-style-type: none"> <li>• The legal form of the entity;</li> <li>• The Country of incorporation; and</li> <li>• The address of the registered office (or principal place of business).</li> </ul>	<p>This information should be included in the Annual Report and Accounts.</p>	<p>The address of the registered office (or principle place of business) is not included within the draft 2017/18 accounts.</p>



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