



Meeting	Audit, Risk and Assurance Committee
Date	02 August 2023
Location	By video conference
Title of Paper	Internal Audit Update
Presented By	John McNellis, Head of Finance, Audit and Risk Claire Robertson, BDO - Risk and Advisory Services Director
Recommendation to Members	For Discussion
Appendix Attached	Appendix A – Core Financial Systems - General Financial Controls

PURPOSE

To present the Audit, Risk and Assurance Committee (ARAC) with the Core Financial System internal audit report from the 2023/24 internal audit plan.

The paper is presented in line with the corporate governance framework of the Scottish Police Authority (SPA) and Audit, Risk and Assurance Committee (ARAC) terms of reference and is submitted for consultation.

1 BACKGROUND

- 1.1 The Internal Audit plan for 2023/24 was approved by the ARAC in January 2023.
- 1.2 The Core Financial System Audit is planned to provide introductory overview of key financial controls for BDO as the new appointed internal auditor.

2 FURTHER DETAIL ON THE REPORT TOPIC

Core Financial Systems - General Financial Controls (Appendix A)

a. Background:

- It was agreed with management that BDO would perform this review, as the new internal auditor, to give an understanding of the organisation, its finance function and systems. Specifically, BDO would undertake a review of processes surrounding cash and bank, purchasing and payables, property, plant and equipment (PPE), and payroll, given the material significance of these balances and volume of activity.
- The purpose of this review was to provide management and the ARAC with assurance over the design and operational effectiveness of the key financial controls in place, and to assess whether key finance processes are well designed and appropriately controlled.

b. Internal Audit Findings:

- BDO is able to provide **substantial assurance** over the design and **moderate assurance** over the operational effectiveness of the Scottish Police Authority's arrangements in place in relation to Core Financial Controls. Overall, BDO found the control environment to have a robust design and controls were mostly operating effectively in line with this design.
- Four identified findings are highlighted where processes could be improved upon.
- There were several limitations to current systems, resulting in manual input requirements, and noted that SPA have plans to review these systems in the next 3-4 years as part of a larger transformation project. However, it should be noted that, at present, manual inputting heightens the risk of error or manipulation.

c. Summary of Findings of Core Finance Report:

Findings		Agreed Actions
High	0	0
Medium	2	5
Low	2	3
TOTAL	4	8

- Of the total of eight actions:
 - One (Medium rated) has already been addressed.
 - Four (Medium rated) are scheduled to be implemented by August/September 2023.
 - The remaining three actions (Low rated) are scheduled to be implemented by September 2023/January 2024.

3 FINANCIAL IMPLICATIONS

3.1 There are no specific financial implications from this report, however, the implementation of some actions is likely to require financial resources.

4 PERSONNEL IMPLICATIONS

4.1 There are no personnel implications in this report.

5 LEGAL IMPLICATIONS

5.1 There are no legal implications in this report.

6 REPUTATIONAL IMPLICATIONS

6.1 There are no reputational implications in this report.

7 SOCIAL IMPLICATIONS

7.1 There are no social implications in this report.

8 COMMUNITY IMPACT

8.1 There are no community implications in this report.

9 EQUALITIES IMPLICATIONS

9.1 There are no equality implications in this report.

10 ENVIRONMENT IMPLICATIONS

10.1 There are no environmental implications in this report.

RECOMMENDATIONS

Members are asked to note the internal audit report and the level of assurance provided by the Authority's auditors.

SCOTTISH POLICE AUTHORITY

CORE FINANCIAL CONTROLS

INTERNAL AUDIT REPORT

JULY 2023

LEVEL OF ASSURANCE:

DESIGN

SUBSTANTIAL

EFFECTIVENESS

MODERATE

CONTENTS

1. <u>EXECUTIVE SUMMARY</u>	3
2. <u>DETAILED FINDINGS</u>	5
6. <u>APPENDIX I: DEFINITIONS</u>	13
7. <u>APPENDIX II: TERMS OF REFERENCE</u>	14
8. <u>APPENDIX III: STAFF INTERVIEWED</u>	15
9. <u>APPENDIX IV: LIMITATIONS AND RESPONSIBILITIES</u>	16

RESTRICTIONS OF USE

The matters raised in this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

DISTRIBUTION LIST

FOR ACTION	Head of Finance, Audit & Risk
	Head of Finance
	Head of Accounting & Control
	Finance Quality Assurance Manager
	Members
FOR INFORMATION	Audit Manager

REPORT STATUS

LEAD AUDITOR(S):	Gemma Macleod
DATES WORK PERFORMED:	30 th May 2023 - 20 th June 2023
ADDITIONAL DOCUMENTATION RECEIVED:	3 rd June 2023
DRAFT REPORT ISSUED:	18 th July 2023
MANAGEMENT RESPONSES RECEIVED:	25 th July 2023
FINAL REPORT ISSUED:	25 th July 2023



EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)		
DESIGN	Substantial	There is a sound system of internal control designed to achieve system objectives.
EFFECTIVENESS	Moderate	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF FINDINGS (SEE APPENDIX I)			# OF AGREED ACTIONS
H	0		0
M	2		5
L	2		3
TOTAL NUMBER OF FINDINGS: 4			

BACKGROUND & SCOPE

In line with the approved 2023-24 internal audit plan, Internal Audit performed a high-level review of the key financial controls in place at the Scottish Police Authority (SPA). It was agreed with management that we would perform this review, as SPA's new auditors, to give an understanding of the organisation, finance function and systems. Specifically, it was agreed with management that we would review processes surrounding cash and bank, purchasing and payables, property, plant and equipment (PPE), and payroll: given the material significance of these balances and volume of activity taking place within each. At the year ended March 2022, PPE was valued at £520m, cash and cash equivalents balances at £46.9m, and trade and other payables amounted at £151m. For the year to March 2022, staff costs totalled £1.4bn.

The review assessed the controls in operation across the Police Scotland, Forensic Services, and SPA Corporate entities.

There are well defined policies and procedures in place governing core financial controls. The Scottish Public Finance Manual (SPFM) provides guidance to public sector organisations to promote good practice surrounding the use and reporting of public funds. The SPA has a Corporate Governance Framework which outlines the Financial Regulations in place and references the provisions made within the SPFM. It also defines the financial authorities which are delegated to the Authority in monetary terms, as well as the overall scheme of delegation of the Authority's functions and duties.

PURPOSE

The purpose of this review was to provide management and the Audit, Risk and Assurance Committee with assurance over the design and operational effectiveness of the key financial controls in place, and to assess whether key finance processes are well designed and appropriately controlled.

DATA ANALYTICS

As part of our review, we performed data analytics over payroll and purchasing data populations. Tests performed included:

- Identification of duplicate/missing employee details;
- Identification of invalid National Insurance Numbers;
- Comparison of employee records on payroll and HR databases;
- Identification of staff payments before start date/after leaving date;
- Identification of duplicate/missing supplier master files;
- Identification of inactive/one-time suppliers;
- Changes to supplier bank details; and
- Identification of duplicate invoices.

CONCLUSION

As a result of our fieldwork, we are able to provide Substantial assurance over the design and Moderate assurance over the operational effectiveness of the Scottish Police Authority's arrangements in place in relation to Core Financial Controls.

Overall, we found the control environment to have a robust design, and controls were mostly operating effectively in line with this. We identified 4 findings where there is an opportunity for improvement, two assessed as medium and two as low risk. We found that there were several limitations to current systems, resulting in manual input requirements, and noted that SPA have plans to review these systems in the next three to four years as part of a larger transformation project. However, it should be noted that, at present, manual inputting heightens the risk of manipulation.

OUR TESTING DID NOT IDENTIFY ANY CONCERNS SURROUNDING THE CONTROLS IN PLACE TO MITIGATE THE FOLLOWING RISKS:

- ✓ Segregation of duties may not be in place across key financial processes, compromising the control environment.
- ✓ There may be insufficient supervisory controls and therefore management do not have effective oversight of key financial processes.



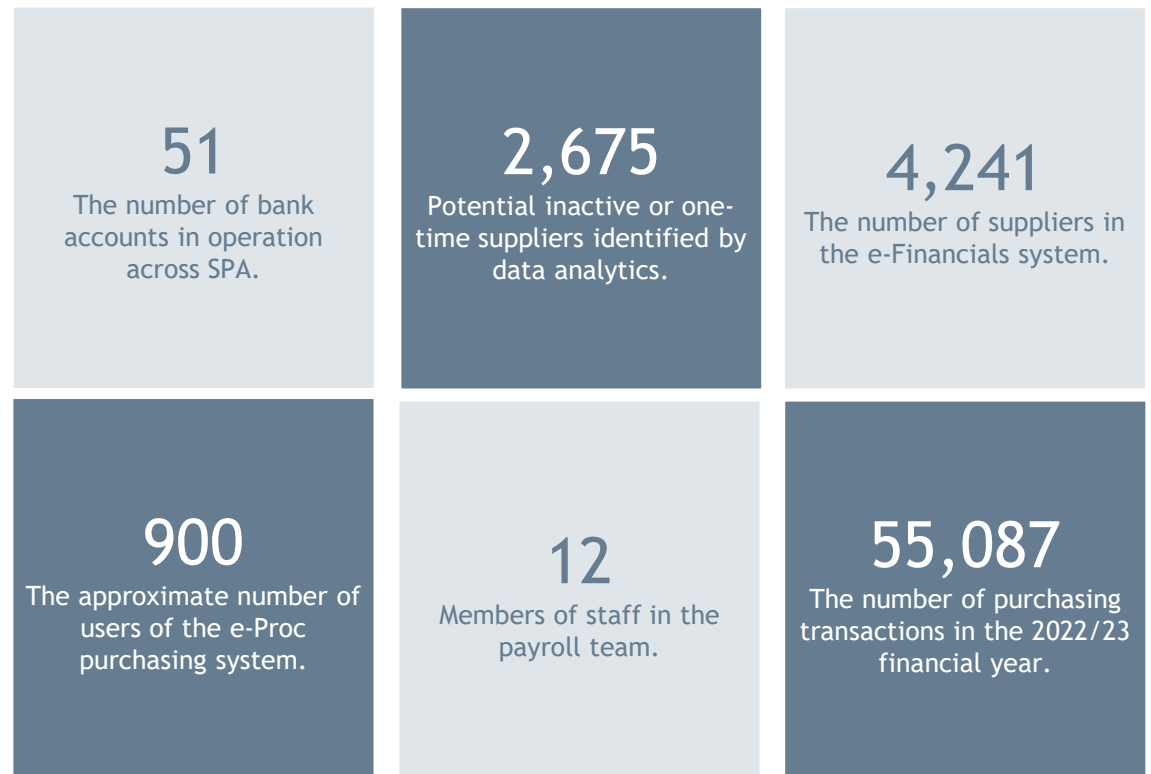
EXECUTIVE SUMMARY

SUMMARY OF GOOD PRACTICE

During our review and sample testing, we identified a number of areas of good practice:

- ▶ Policies are reviewed on a regular basis and there is a matrix maintained by the Finance Quality Assurance Team to monitor upcoming review dates.
- ▶ There are monthly balance sheet reconciliations completed and all reconciling items are investigated. A reconciliations matrix is maintained by Finance Quality Assurance to ensure all reconciliations have been completed and approved.
- ▶ A payments register is maintained of any manual payments.
- ▶ An additional approval is required for free-text requisitions over £500.
- ▶ There is a daily auto-matching process which performs three way matching between Purchase Orders, Invoices and Goods Received Notes, and there is ongoing monitoring of the success of this process.
- ▶ There is a first run of payroll made to identify any issues through exception reporting. Any changes to payroll are restricted and logged between the first and final payroll run.
- ▶ The Business Intelligence team produce monthly reporting for budget holders and finance business partners to provide them oversight of finance processes.
- ▶ During payroll data analytics, we found that employee master data was complete and there were no employees with missing details. We did not find any exceptions when testing for invalid National insurance numbers or employees paid before their start date.
- ▶ We selected a sample of five bank accounts and reviewed the reconciliations which had taken place for each account over a period of three months; during this testing we found that each reconciliation had been prepared and authorised by an appropriate person and that reconciling items had been suitably investigated.
- ▶ We selected a sample of ten Property, Plant and Equipment additions and ten disposals from the past year and found that each of these had been handled in line with documented procedures.
- ▶ We selected a sample of three months of the year and confirmed that, in these months, PPE journals had been prepared and authorised by suitable individuals and that monthly reconciliations of the Fixed Asset Register to the General Ledger had been appropriately completed and reviewed.

REVIEW HIGHLIGHTS




DETAILED FINDINGS



DETAILED FINDINGS

RISK: THE KEY CONTROLS IN PLACE ARE NOT CONSISTENTLY COMPLIED WITH.

FINDING 1 - SUPPLIER DATA MAINTENANCE	TYPE
<p>Supplier master data is maintained within the e-Financials finance system, with the Accounts Payable team having responsibility for making authorised changes to existing suppliers and adding new suppliers as required. It is important that supplier data is accurate and up to date to ensure payments are made correctly. Data enabled testing performed over all supplier master data highlighted a number of exceptions which are summarised below:</p> <ul style="list-style-type: none"> • Testing for duplicate supplier details found that within the supplier master data there were 138 duplicate addresses (3% of population), 198 duplicate bank details (5% of population), and 120 duplicate supplier names (3% of population). • Testing for missing supplier details found 462 (11% of population) instances where suppliers were missing bank details. • There were 2,037 suppliers (48% of population) with zero transactions in the last 12 months, indicating that they are possibly inactive; and 638 suppliers (15% of population) with only one transaction in the last 12 months, indicating that they are possibly one-time suppliers. <p>We note that the exceptions identified above represent potential instances of duplicate data, missing data, inactive and one-time suppliers, and have not been individually verified by Internal Audit. A detailed review of the above instances will be required to be undertaken by management to assess the extent to which there are genuine exceptions within supplier master data.</p>	<p>EFFECTIVENESS</p> 
<p>IMPLICATION</p>	<p>SIGNIFICANCE</p>
<p>If key controls in place are not consistently complied with and, as a result, supplier master data is not carefully maintained and kept up to date; there can be an increased risk of paying the incorrect supplier, making duplicate payments, making late payments, or of fraudulent activity taking place. Each of these risks would have a negative impact on both the finances and reputation of the Scottish Police Authority, were they to materialise.</p>	<p>MEDIUM</p>



DETAILED FINDINGS


RISK: THE KEY CONTROLS IN PLACE ARE NOT CONSISTENTLY COMPLIED WITH.

FINDING 1 - SUPPLIER DATA MAINTENANCE (continued)				
RECOMMENDATIONS	RESPONSIBLE ENTITY	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>1. We recommend that management review the outputs provided as part of this review and consider and rectify specific exceptions. We also recommend that, going forward, supplier records are reviewed on a periodic basis (e.g. quarterly) for completeness and accuracy. As part of this review, duplicate suppliers should be identified and cleared, and any missing or inaccurate records should be updated. We note that when e-Financials moves to the cloud, there may be opportunities to improve supplier data maintenance e.g. by introducing mandatory fields so that key information cannot be incomplete, validation of data entered, and automated flagging of duplicates.</p>	Police Scotland	Senior Manager, Purchasing, Receivables & Cash Services	<p>ACCEPTED.</p> <p>ACCOUNTS PAYABLE WILL REVIEW THE EXCEPTIONS HIGHLIGHTED. ALTHOUGH AS REFERENCED IN THE CLOSING MEETING THESE WILL LIKELY BE DUE TO KNOWN REASONS I.E., ARNOLD CLARK BRANCHES ARE SET-UP AS INDIVIDUAL SUPPLIERS BUT HAVE THE SAME BANK DETAILS; COUNCILS WITH THE SAME DETAILS.</p> <p>AP REVIEW SUPPLIER MAINTENANCE INFORMATION ON AN AD-HOC BASIS. AGREE THAT THIS SHOULD BE FORMALISED INTO A QUARTERLY CHECK/CONTROL REVIEW</p> <p>FOR NOTING THE UPGRADE IS PRIMARILY A TECHNICAL RELEASE RE ORACLE COMPATIBILITY SO WILL NOT OFFER ANY ENHANCED CONTROLS RE SUPPLIER MANAGEMENT</p>	30 th September 2023
<p>2. We recommend that management review the outputs provided as part of this audit and consider whether potentially inactive suppliers identified are genuine one-off suppliers and whether these can be removed from supplier master data. We also recommend that, going forward, SPA complete an annual review of supplier data to identify one-off suppliers.</p>	Police Scotland	Senior Manager, Purchasing/Receivables & Cash Services	<p>ACCEPTED.</p> <p>AP REVIEW INACTIVE SUPPLIERS. ANY INACTIVE SUPPLIERS ARE MARKED WITH AN INDICATOR WHICH PREVENTS THEM BEING USED. WILL CHECK TO SEE WHETHER THESE SUPPLIERS HAVE HAD THE INDICATOR APPLIED AND IF APPROPRIATE WILL APPLY.</p> <p>FOR REFERENCE CURRENTLY HAVE 11,961 SUPPLIERS OF WHICH 8,084 MARKED WITH AN INDICATOR TO PREVENT THEM BEING USED.</p> <p>AS ABOVE WILL FORMALISE THE INACTIVE SUPPLIER REVIEW INTO A QUARTERLY PROCESS.</p> <p>ONCE THE UPGRADE AND HOSTING HAS BEEN COMPLETED AN EXERCISE WILL BE UNDERTAKEN WITH THE VENDOR TO REMOVE INACTIVE SUPPLIERS FROM THE SYSTEM</p>	30 th September 2023



DETAILED FINDINGS

RISK: THE KEY CONTROLS IN PLACE ARE NOT CONSISTENTLY COMPLIED WITH.

FINDING 2 - ACCURACY AND TIMELINESS OF PAYMENTS	TYPE
<p>Invoice data is automatically read and registered to e-Financials by the Cloudtrade software. Any issues with picking up data will require manual intervention by Accounts Payable. Invoices are then processed and approved for payment on the Purchase Invoice Manager (PIM) system. It is important that information is entered into the system accurately to ensure that payments are made correctly and on time.</p> <p>As part of our data analytics testing of supplier transactions, we identified a number of exceptions around the timeliness and accuracy of payments made which are summarised below:</p> <ul style="list-style-type: none"> We identified 52 exceptions (0.1% of population, exception total value £241,269) where a payment was made against the same invoice number more than once which may indicate a duplicate payment. We further investigated the top 10 exceptions by materiality and found that each of them arose as a result of staff using the wrong supplier account and then correcting this. There is a risk that if a payment is made to the wrong supplier account and not detected, there could be a negative impact on the supplier relationship. We identified 20 exceptions (0.1% of population, exception total value £189,883) where payment appears to have been made before the invoice payment date. We queried the top 10 exceptions by materiality and found that in two cases the invoice date was recorded incorrectly, and in one case the invoice date had been recorded incorrectly and the invoice had originally been recorded and paid at the wrong value. The remaining seven invoices had been sent by the supplier before the invoice date. In instances where suppliers may offer discounts for early payment, there is a risk that credit terms are not fully utilised if payments are made early and funds are not used in the most advantageous way for the organisation. There is also a risk that if invoice details are not recorded correctly, incorrect payments may be made or credit terms may be breached. We identified 1,014 suppliers (23.9%) where the average time to payment exceeded SPA's agreed terms (30 days). We investigated the top 10 exceptions by materiality. While seven instances were the result of known disputes over accounts or supplier invoicing practices (e.g. late receipt of invoices, invoices with incorrect invoice dates), we identified one instance where the date had been recorded incorrectly on the system, one instance where POs had been registered to the wrong supplier, and one instance where it was unclear why payment was made outside the agreed terms. Breaching supplier credit terms with late payments could result in reputational damage for the Scottish Police Authority, it could also result in financial penalties or the withdrawal of credit facilities from certain suppliers. <p>In addition to our data analytics, we undertook a walkthrough of the purchasing processes and selected a sample of ten purchase invoices to test whether key controls surrounding the purchasing and payable process had been followed as expected. During this sample testing we identified one invoice which was paid later than the payment terms of 30 days due to a delay in obtaining invoice approval.</p>	<p>EFFECTIVENESS</p> 
<p>IMPLICATION</p>	<p>SIGNIFICANCE</p>
<p>There is a risk that relationships with suppliers may be negatively impacted or that interest charges may be incurred where the organisation is late to pay suppliers as a result of inaccuracies in registering invoices, payments to incorrect supplier accounts or delays in obtaining approval.</p>	<p>MEDIUM</p>



DETAILED FINDINGS


RISK: THE KEY CONTROLS IN PLACE ARE NOT CONSISTENTLY COMPLIED WITH.

FINDING 2 - ACCURACY AND TIMELINESS OF PAYMENTS (continued)				
RECOMMENDATIONS	RESPONSIBLE ENTITY	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
1. We recommend that management investigate the exceptions identified which indicate a possible duplicate payment has occurred, to verify whether there was a genuine duplicate payment and the extent to which sufficient remedial action has been taken. In line with our recommendation to Finding 1, we recommend supplier master-data is reviewed on a periodic basis (eg, quarterly) to ensure duplicates are identified and cleared to prevent the risk of the wrong supplier accounts being used.	Police Scotland	Senior Manager, Purchasing/Receivables & Cash Services	ACCEPTED. POTENTIAL DUPLICATE PAYMENTS REFERENCED WILL BE REVIEWED POLICE SCOTLAND PARTICIPATE IN THE NFI PROCESS. THIS IDENTIFIED ZERO DUPLICATE PAYMENTS (4 VAT OVERPAYMENTS) WITH A POPULATION SIZE OF 164,844 FOR THE PERIOD 1/10/2019 TO 30/09/22 GROSS VALUE £859 MILLION. ALL ACCOUNTS PAYABLE PAYMENTS ARE RUN THROUGH AN EXCEL MODEL WHICH SIMULATES THE CHECKS UNDERTAKEN BY NFI PROCESS.	30 th August 2023
2. We recommend management ensure staff are sufficiently trained to sense check all invoice details captured in the finance system, following the automated data capture process, to ensure that details including invoice dates are recorded accurately.	Police Scotland	Senior Manager, Purchasing/Receivables & Cash Services	ACCEPTED. WHERE MANUAL INPUT DOES OCCUR STAFF WILL BE REMINDED OF THE IMPORTANCE OF BEING VIGILANT / DILIGENT. WILL CONTINUE TO STRIVE TO AUTOMATE ALL INPUT.	30 th August 2023
3. We recommend management investigate the exceptions identified which indicate payment later than the standard 30 days payment terms, to verify the reason for late payments and take sufficient remedial action as required. We also recommend management monitor supplier accounts where average time to pay exceeds agreed terms on a regular basis (eg, quarterly), to understand the reasons for delayed payment and ensure any necessary corrective actions are identified and implemented as required.	Police Scotland	Head of Purchasing Operations & Logistics	ACCEPTED AND IMPLEMENTED. NO FURTHER ACTION REQUIRED. PROPOSED TO CLOSE. ACCOUNTS PAYABLE TYPICALLY PAY INVOICES WITHIN 20 DAYS OF RECEIPT AND 30 DAYS FROM INVOICE DATE. AS HIGHLIGHTED BY YOUR ANALYSIS AND OUR INTERNAL METRICS THIS IS NOT THE CASE FOR ALL INVOICES. THE PURCHASING BOARD WHICH CONTAINS SENIOR REPRESENTATION FROM PURCHASING, PROCUREMENT AND ACCOUNTS PAYABLE AND IS CHAIRED BY THE CFO HAS SEVERAL INFLIGHT INITIATIVES TO CONTINUE TO IMPROVE PAYMENT CYCLE	N/A



DETAILED FINDINGS


RISK: SEGREGATION OF DUTIES MAY NOT BE IN PLACE ACROSS KEY FINANCIAL PROCESSES, COMPROMISING THE CONTROL ENVIRONMENT.

FINDING 3 - PURCHASE AND INVOICE APPROVALS				TYPE
<p>It is important that there is segregation of duties in place to ensure that only individuals with appropriate levels of authority can approve purchases and that the same individual cannot raise and approve a purchase requisition. In addition, they should ensure that invoices are approved for payment by an individual with appropriate authority in line with delegated authority levels. Purchases and invoices are required to be approved within the Purchase Invoice Manager (PIM) system which has authority levels built in and will not allow approval if the purchase or invoice is outside the users delegated authority.</p> <p>Since implementing the e-Procurement module, a temporary measure stated in the policy permits the Procurement team to approve ICT purchases and non-stock uniform purchases by proxy, with departmental approval being provided via email or iConnect (for IT purchases). This is because these items have not been transitioned onto e-Procurement to date. We understand that it is intended that ICT and non-stock uniform purchases will move onto e-Procurement in the near future.</p> <p>Testing completed on a sample of ten purchase invoices identified two non-PO invoices which had been approved via emails rather than within PIM.</p>				<p>EFFECTIVENESS</p> 
IMPLICATION				SIGNIFICANCE
There is a risk that unauthorised purchases could be raised, or invoices may be approved by inappropriate members of staff where approvals are provided through means other than the PIM system which has in-built authorisation limits.				LOW
RECOMMENDATIONS	RESPONSIBLE ENTITY	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
1. We recommend that all members of staff who are responsible for invoice approvals are reminded of the importance of ensuring they provide timely authorisations, and of using the PIM system for authorisations as far as possible.	Police Scotland	Head of Purchasing Operations & Logistics / Head of Finance	ACCEPTED. NOTE WILL BE SENT REMINDING ALL APPROVERS OF THE IMPORTANCE OF TIMELY APPROVAL OF NON-PURCHASE ORDERS ON PIM.	30 th September 2023
2. We recommend that, as intended, ICT and non-stock uniform purchases are moved onto the e-Procurement system.	Police Scotland	(for ICT) Procurement Operations Manager / (for non-stock uniform) Head of Purchasing Operations & Logistics	ACCEPTED AND IN PROGRESS. MANAGEMENT ARE AWARE OF THIS ISSUE AND ACTION IS UNDERWAY TO CEASE THESE PROCESSES. ACTIONS INCLUDE TRAINING OF NEW APPROVERS AND REMOVAL OF PROXY APPROVAL ACCESS.	30 th September 2023



DETAILED FINDINGS

RISK: THE KEY CONTROLS IN PLACE ARE NOT CONSISTENTLY COMPLIED WITH.

FINDING 4 - MANUAL INTERVENTION REQUIREMENTS				TYPE
<p>It is important that there are suitable systems in place to allow key financial processes to take place with maximum efficiency and efficacy. Well-designed systems will allow controls to be applied with minimal requirement of manual intervention which can increase the risk of fraud or error.</p> <p>During our testing, we identified a number of areas where systems could be improved to reduce the manual input required, as follows:</p> <ul style="list-style-type: none"> • There is a system constraint by which changes to existing suppliers can be made in e-Financials without authorisation of the Purchasing Manager being enforced by the system. A manual process is in place which relies on users flagging changes to the Purchasing Manager. We note this does not impact new suppliers, which require the Purchasing Manager to action new supplier accounts before they are added to master data. There are also some compensatory detective controls in place to identify potentially fraudulent changes to supplier data: the Accounts Payable Team maintains a file of evidence to support any supplier changes and the Cash & Banking Team send a monthly email querying any changes made to supplier bank details without supporting records, this email has only been required twice in the last 12 months. • The HR system (SCoPE) is not integrated with the Payroll system (iTrent). Key staff highlighted that on average 2,000 transactions per month require manual input to iTrent, vs 60-70 transactions (overtime and expenses) which can be extracted from SCoPE and uploaded to iTrent. • There are a number of monthly payroll and exception reports which have to be individually run by the payroll co-ordinators by clicking into each report type in iTrent, selecting the desired output formats and selecting run, which can be time consuming. There may be opportunities to automate this process further if the same reports and formatting are required monthly. • Bank reconciliations are prepared manually and are not automated within e-Financials. We note from discussions with key staff that automation was trialled within e-Financials in the past, however was unsuccessful. <p>We note management are planning to undertake a renewal of the corporate system as part of a larger transformation project in the next 3-4 years.</p>				DESIGN 
IMPLICATION				SIGNIFICANCE
Where systems require excessive manual input, there is a higher risk of human error or fraud and therefore key controls may not be consistently complied with.				LOW
RECOMMENDATIONS	RESPONSIBLE ENTITY	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
1. We recommend that SPA ensure that the manual nature of current systems is addressed, and consideration be given to opportunities to automate systems as part of the intended renewal of the corporate system.	Police Scotland	(Bank Recs) Senior Manager Accounting Control and Business Systems	ACCEPTED AND IN PROGRESS. EPF IS THE CORPORATE PROGRAMME WHICH IS LOOKING AT DRIVING SERVICE OWNERSHIP AND SYSTEM INTEGRATION (ELIMINATION OF MANUAL PROCESSES). NO FURTHER ACTION REQUIRED RE STRATEGIC DIRECTION THE ITEMS HIGHLIGHTED ABOVE WILL BE ADDRESSED VIA EPF. AS AN INTERIM MEASURE THE BANK ACCOUNT RECONCILIATION WILL BE AUTOMATED IN E-FINANCIALS.	Jan-24

APPENDICES



APPENDIX I: DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
SUBSTANTIAL	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
MODERATE	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
LIMITED	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
NO	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
HIGH	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
MEDIUM	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
LOW	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.
ADVISORY	A weakness that does not have a risk impact or consequence but has been raised to highlight areas of inefficiencies or potential best practice improvements.



APPENDIX II: TERMS OF REFERENCE

EXTRACT FROM TERMS OF REFERENCE

PURPOSE

The purpose of this review is to provide management and the Audit, Risk and Assurance Committee with assurance over the design and operational effectiveness of the key financial controls in place, and to assess whether key finance process are well designed and appropriately controlled.

In particular, the key financial controls which will be considered as part of this review include: cash and bank; purchases and payables; property, plant and equipment; and payroll.

KEY RISKS

1. Policies and procedures may not sufficiently document the controls to be followed when undertaking key financial processes, or, the key controls in place are not consistently complied with.
2. Segregation of duties may not be in place across key financial processes, compromising the control environment.
3. There may be insufficient supervisory controls and therefore management do not have effective oversight of key financial processes.

APPROACH

Our approach will be to conduct interviews and walkthrough testing to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described.

We will:

- Gain an understanding of the current procedures through discussions with key personnel, examining existing documentation and building on our knowledge obtained during scoping, as well as the progress made on issues identified during any previous reviews in this area.
- Create a tailored test strategy, aligned to Scottish Police Authority's control framework, in line with Internal Audit's methodology.
- Evaluate noted key controls to confirm whether they adequately address the risks associated with this review through the performance of sample testing, full population testing (where appropriate) and the review of relevant documentation.
- Identify gaps and weaknesses in the design and operational effectiveness of the internal controls framework.
- Identify inefficiencies in the processes currently in place, and;
- Benchmark processes against comparable size organisations to support any conclusions made and when developing the required recommendations.

EXCLUSIONS/LIMITATIONS OF SCOPE

Due to the budget being limited to 30 days, the focus of our testing will be carried out using interviews and walk throughs to assess the design of the key finance controls in place, while sample testing of the operational effectiveness of these controls will also be completed. The scope of the review is limited to the areas documented in the following section of this terms of reference. All other areas are considered outside of the scope for this review.



APPENDIX III: STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Head of Finance, Audit & Risk	Audit Sponsor (SPA)
Head of Finance	Audit Sponsor
Finance Quality Assurance Manager	Audit Lead
Senior Manager, Purchasing/Receivables & Cash Services	
Finance Purchasing Manager	
Procurement Services Manager	
Purchasing Assistant	
Corporate Reporting Specialist	
Payroll Operations Manager	
Banking and Controls Manager	
Cash Officer	
Banking and Controls Finance Officer	
Cash Officer	
Capital Financial Accountant	



APPENDIX IV: LIMITATIONS AND RESPONSIBILITIES

MANAGEMENT RESPONSIBILITIES

The Audit & Risk Assurance Committee (ARAC) of the Scottish Police Authority is responsible for determining the scope of internal audit work, and for deciding the action to be taken on the outcome of our findings from our work. ARAC is also responsible for ensuring the internal audit function has:

- The support of the management team.
- Direct access and freedom to report to senior management, including the Chair of the ARAC

The Board is responsible for the establishment and proper operation of a system of internal control, including proper accounting records and other management information suitable for running the organisation.

Internal controls covers the whole system of controls, financial and otherwise, established by the Board in order to carry on the business of the organisation in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as 'controls' or 'internal controls'.

The Board is responsible for risk management in the organisation, and for deciding the action to be taken on the outcome of any findings from our work. The identification of risks and the strategies put in place to deal with identified risks remain the sole responsibility of the Board.

LIMITATIONS

The scope of the review is limited to the areas documented under Appendix II - Terms of reference. All other areas are considered outside of the scope of this review.

Our work is inherently limited by the honest representation of those interviewed as part of colleagues interviewed as part of the review. Our work and conclusion is subject to sampling risk, which means that our work may not be representative of the full population.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that: the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or the degree of compliance with policies and procedures may deteriorate.

FOR MORE INFORMATION:

CLAIRE ROBERTSON, HEAD OF DIGITAL,
RISK AND ADVISORY SERVICES, SCOTLAND

0141 249 5206
claire.robertson@bdo.co.uk

Freedom of Information

In the event you are required to disclose any information contained in this report by virtue of the Freedom of Information Act 2000 (“the Act”), you must notify BDO LLP promptly prior to any disclosure. You agree to pay due regard to any representations which BDO LLP makes in connection with such disclosure, and you shall apply any relevant exemptions which may exist under the Act. If, following consultation with BDO LLP, you disclose this report in whole or in part, you shall ensure that any disclaimer which BDO LLP has included, or may subsequently wish to include, is reproduced in full in any copies.]

Disclaimer

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

The matters raised in this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

Copyright © 2023 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk