

Scottish Police Authority

Annual Audit Plan 2016/17



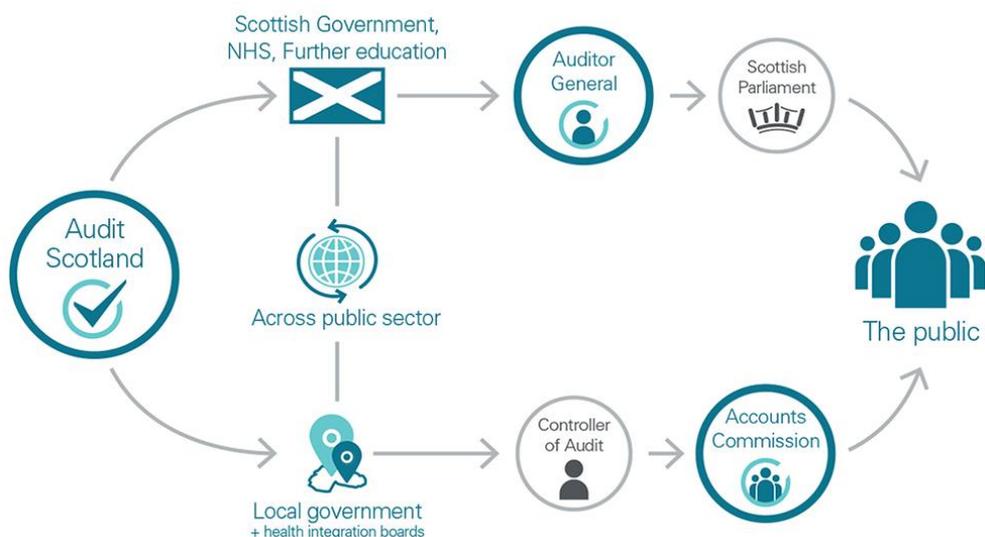
 AUDIT SCOTLAND

Prepared for Scottish Police Authority
April 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and other relevant guidance. The plan identifies our audit work to provide an opinion on the financial statements and related matters. It also outlines the wider scope requirements of public audit in contributing to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. We identified the following main risk areas for the Scottish Police Authority. These are based on our discussions with staff, attendance at committee meetings and a review of supporting information. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 also requires audit work to consider the risk in any audit of fraud over income and expenditure.</p> <p>Scottish Police Authority receives a significant amount of income from fees, charges and grant income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> Management has a system of internal controls in place to prevent and detect risk. It is recognised that further work is required to strengthen and standardise the processes and controls in place for income and expenditure across the Scottish Police Authority and this is currently underway. 	<ul style="list-style-type: none"> Analytical review across different categories of income and expenditure streams. Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.

Audit Risk	Management assurance	Planned audit work
<p>The risk of fraud over expenditure also exists due to the extent of expenditure incurred by the Scottish Police Authority in carrying out its functions.</p>		
<p>3 Preparation of the Annual Report and Accounts</p> <p>During the 2015/16 audit, significant changes were required to the draft annual report and accounts to ensure compliance with changes in the UK government's Financial Reporting Manual (FRoM). Additional changes will apply in 2016/17.</p> <p>There is a risk that the annual report and accounts in 2016/17 will not comply with FRoM requirements, increasing the risk of material misstatement.</p> <p>The need to draw financial information for the purpose of preparing the annual report and accounts from a wide range of legacy systems further increases the risk of error.</p>	<ul style="list-style-type: none"> • Management has adopted a project management approach to the preparation of the Annual Report and Accounts, with detailed plans in place, and agreed roles, responsibilities and governance structures. • The project plan includes adequate time for effective quality review processes to take place, and for any corrective action to be taken. • The senior management of the organisation are aware of the importance of the annual report and accounts and are committed to providing any support necessary to execute the project effectively. • Layers of senior management review prior to submitting the Annual Report and Accounts to Audit Scotland will include compliance and assurance sign offs by the CFO, DCO and the Accountable Officer. 	<ul style="list-style-type: none"> • Review planned Internal Audit work on the accounts preparation action plan 2016/17. • Review draft Annual Report and Accounts in line with FRoM requirements. • Discussions with management over roles and responsibilities in preparation of annual report and accounts. • Review the Scottish Police Authority's delivery against its action plan in response to the Auditor General's Section 22 report on the 2015/16 audit.
<p>4 Accounting for Property, Plant and Equipment</p> <p>During 2015/16, the previous independent auditor reported that <i>"Aspects of the accounting records and access to information and explanations in the area of property, plant and equipment were of poor quality"</i>. Insufficient consideration was given to the identification of surplus assets, and numerous errors were identified in the valuation of assets held for sale and investment properties as a result of assets being revalued under the incorrect asset category.</p> <p>Poor accounting records increases the risk of error in the financial statements.</p> <p>There is a risk that PPE accounting arrangements during 2016/17 were not sufficient.</p>	<ul style="list-style-type: none"> • Management has increased the level of staffing within the capital accounting function as well as bringing in a temporary Capital Accounting Manager. • A detailed action plan has been developed to address all capital accounting requirements for the 2016-17 Annual Report and Accounts, and this has been communicated to all parties involved, including the Estates team. • The capital accounting team are fully aware of the requirements and timescales, and the action plan is being monitored by senior management in the finance service on a weekly basis. • Our internal auditors will 	<ul style="list-style-type: none"> • Review management action against our 2015/16 audit recommendations relating to accounting for property, plant and equipment. • Examination of the accuracy, completeness and valuation of property, plant and equipment disclosures in the 2016/17 financial statements.

Audit Risk	Management assurance	Planned audit work
	conduct a full compliance review of PPE prior to the Scottish Police Authority submitting to Audit Scotland.	
Wider dimension risks		
<p>5 Financial sustainability</p> <p><u>Long-term planning</u></p> <p>The Scottish Police Authority is currently developing its long-term financial strategy as part of the development of Policing 2026. Developing and maintaining a long-term financial strategy will help set the context for annual budgets approved by the board. It will also help clarify the overall financial sustainability of the organisation over an extended period and can help identify problems with affordability at an early stage. Underpinning strategies covering ICT, estates management and workforce remain incomplete.</p> <p>Without robust long-term planning, there is a risk that decisions may be taken without a clear understanding of the implications beyond the current financial year and how they affect the overall financial sustainability and delivery of policing in Scotland.</p>	<ul style="list-style-type: none"> The Scottish Police Authority has a financial model for developing a long term financial strategy, as well as a medium term financial plan. Initial high level financial modelling has indicated that it will take three financial years to bring the budget back into balance on a sustainable basis. Once the Policing 2026 Strategy has been finalised, the finance service will work with the 2026 team to ensure that the long term financial strategy and three year financial plan are developed in conjunction with the 2026 implementation plan. This work is due to be concluded by the end of the Summer. 	<ul style="list-style-type: none"> Monitor progress on developing long-term plans in finance, ICT and workforce, including how these align to the overarching strategy for policing, <i>Policing 2026</i>. Review the financial position and arrangements for securing financial sustainability including the appropriateness of plans to address identified funding gaps.
<p>6 Capital budget underspends</p> <p>In November 2016, the Scottish Government allowed the Scottish Police Authority's capital budget underspend (£19.4 million) to be offset against the revenue budget overspend (£20.5 million), resulting in a reduced overspend for 2015/16. Transferring capital to revenue budgets is done on an exceptional basis only, with the approval of the Scottish Government. In 2016/17, finance reports to the board suggest that planned capital underspends will be used again to offset revenue overspends.</p> <p>There is a risk to the integrity of the budget planning process if budgeting arrangements include a presumption that an element</p>	<ul style="list-style-type: none"> There is a clear recognition that planned capital under-spends to offset revenue over-spends is not a sustainable method to balance a budget. A significant amount of work has been undertaken with the Scottish Government to ensure that there is a clear recognition of the financial position of the Scottish Police Authority. This has resulted in a clear budget being set for 2017-18 which plans to spend the full capital budget on improving the asset base and enabling transformation, whilst recognising that at the beginning of the financial year there is an operating deficit within the revenue budget. The size of the capital under-spend was exceptional in 2015-16 as a result of an exceptional post 	<ul style="list-style-type: none"> Review financial year-end reporting of outturn performance. Review evidence of any request, and subsequent permission, of offsetting capital budget underspends against revenue overspends. Review budget plans for 2017/18 including the adequacy of scrutiny and challenge of the capital budget allocation.

Audit Risk	Management assurance	Planned audit work
<p>of the capital budget will be used to offset revenue overspends, Planned non delivery of the capital spending programmes risks undermining Police Scotland's ability to deliver services effectively.</p>	<p>balance sheet event. Any capital underspend in 2016-17 will be minimal.</p>	
<p>7 Financial management <u>Finance team capacity</u> During 2017, Police Scotland recruited 15 members of staff to its finance team on a temporary basis. These appointments, together with the planned recruitment of a permanent Chief Financial Officer, means there will be significant on-going changes to the structure and personnel of the finance team. While these temporary appointments are designed to help increase the financial skills and capacity of the finance team in the short term, there remains a risk to the delivery of the audit timetable due to their arrival not occurring until almost the end of the financial year.</p>	<ul style="list-style-type: none"> • The permanent Chief Financial Officer should be in post prior to the start of the 2016-17 substantive audit of the Annual Report and Accounts. • All identified resource gaps have now been filled, and the team are briefed on what is required to deliver the draft accounts within the agreed timetable. The interim Chief Financial Officer is overseeing the process and is taking responsibility for the production of the draft accounts. 	<ul style="list-style-type: none"> • Discussions with management over plans for finance staff recruitment both in the short term and longer term and how these are expected to support the audit process, including the preparation and submission of the draft accounts to audit within the agreed timetable.
<p>8 Governance and transparency Recommendations from the Governance Review, undertaken by the Chair of the Scottish Police Authority, are currently being implemented. This will see changes to the operation and structure of the board and committees. During 2015/16, we reported that public board and committee papers are, at times, insufficiently transparent to enable interested parties and stakeholders to monitor the progress of key initiatives. With ongoing changes to the governance arrangements for policing, there is a risk that the openness and transparency of decision making may be reduced, preventing the Scottish Police Authority from demonstrating high standards of effectiveness in its use of public funds.</p>	<ul style="list-style-type: none"> • There was significantly greater transparency in papers recently submitted to the Board for approval of the annual budget than had been the case in previous years. • New and improved formats of reporting will also increase transparency. • The number of public Board meetings has been increased. • All significant decisions that are able to be taken in public will now be taken at the Board meetings. • Any significant decisions taken in between public Board meetings will be reported to the next public Board meeting. • Committee Chairs will formally report to each public Board meeting on business conducted at their meetings. • The Scottish Police Authority will continue to live stream all public Board meetings. • Papers for public Board meetings are now issued on an embargoed basis to key stakeholders. 	<ul style="list-style-type: none"> • Review the new governance arrangements in place to assess their appropriateness and effectiveness. • Review at Board and Audit Committee level whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports. • Her Majesty's Chief Inspector of Constabulary in Scotland has signalled his intention to inspect the Scottish Police Authority during 2017. His review will also include consideration of the effectiveness of the governance arrangements. As is required of us under the Police and Fire Reform (Scotland) Act

Audit Risk	Management assurance	Planned audit work
	<ul style="list-style-type: none"> • A performance framework is being developed jointly by Police Scotland and Scottish Police Authority and is nearing completion. • Public Board meetings will be performance focused on a quarterly basis. • A forward work plan for Board meetings is published by the Scottish Police Authority. • The Scottish Police Authority have publicly committed to a six month review of the new governance arrangements. 	<p>2012, we will coordinate our work and reporting with HMICS.</p>
<p>9 Value for money</p> <p>The national i6 system was expected to be a central element of longer-term police reform. It was intended to improve information and provide operational and financial benefits to the Scottish Police Authority and Police Scotland. i6 was expected to replace around 130 IT and paper-based systems used by the predecessor police forces in Scotland. In March 2017, the Auditor General reported that the failure of the i6 programme means that some of the benefits of police reform have been, at best, delayed.</p> <p>There is a risk that the anticipated benefits are delayed further unless urgent action is taken to determine what the next steps should be. This requires an assessment of how to procure, develop and deliver new police IT systems.</p>	<ul style="list-style-type: none"> • A new ICT strategy is currently under development which will be aligned to the Policing 2026 Strategy. • There is a clear recognition within the organisation that the objectives of the i6 programme are still valid, and this will be reflected in the updated ICT strategy. 	<ul style="list-style-type: none"> • Review the Scottish Police Authority's plans to develop and deliver a new police IT system following the termination of the i6 contract.

National Fraud Initiative

3. The National Fraud Initiative (NFI) is a data-matching exercise co-ordinated by Audit Scotland to aid the detection of fraudulent payments. The NFI allows public bodies to investigate matches and subsequently stop and recover payments where fraud or error exists. It also allows auditors to assess the arrangements that bodies have in place to prevent and detect fraud, including how they approach the NFI exercise itself.

4. The current data matching exercise collected data in October 2016 and investigation work commenced in January 2017. We will monitor the Scottish

Police Authority's participation with NFI and report progress in our Annual Audit Report.

Reporting arrangements

5. This annual audit plan will be published on our website, www.audit-scotland.gov.uk. We will also publish the planned audit outputs as detailed in [Exhibit 2](#), along with any other outputs on matters of public interest.
6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
7. We will provide an independent auditor's report to the Scottish Police Authority, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. The Scottish Police Authority is therefore required to submit their audited financial statements in line with the Scottish Government's accounts consolidation timetable.
9. In December 2016, the Auditor General presented a report to the Scottish Parliament on the [2015/16 audit of the Scottish Police Authority](#). The report highlighted a number of issues including: financial leadership in the Scottish Police Authority and Police Scotland; the final outturn for 2015/16 and budget setting for 2016/17; and the development of a long-term financial strategy. The Auditor General will update Parliament on progress with issues raised in the report following the completion of the 2016/17 audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee
Annual Audit Plan	April 2017	25 April 2017
Interim Report	July 2017	25 July 2017
Annual Audit Report including ISA 260 requirements	October 2017	23 October 2017
Signed Independent Auditor's Report	31 October 2017	N/A

Audit fee

10. The agreed audit fee for the 2016/17 audit of the Scottish Police Authority is £187,114 (2015/16: £250,000, this includes an additional fee of £40,000). In determining the audit fee we have taken account of the risk exposure of the Scottish Police Authority, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 July 2017. In addition, where adjustments are required to the annual report and accounts as part of the audit, it is essential that a clear trail

of all adjustments made is provided to the audit team to maximise the efficiency of the audit process.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

12. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

13. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

14. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

15. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

16. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Scottish Police Authority and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Scottish Police Authority will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

17. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Police Authority are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of gross expenditure for the year ended 31 March 2017 based on the latest audited accounts for 2016.	£17 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at approximately 25 per cent of planning materiality.	£4.3 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at approximately one per cent of planning materiality.	£0.1 million

19. We review and report on other information published with the financial statements including the performance report, accountability report including the annual governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit Committee.

Timetable

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	31 July 2017
Latest date for final clearance meeting with Chief Financial Officer	29 September 2017
Agreement of audited unsigned financial statements: Issue of Annual Audit Report including ISA 260 report to those charged with governance	23 October 2017
Independent auditor's report signed	23 October 2017

Internal audit

21. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we

carry out an assessment of the internal audit function. Internal audit is predominately supplied by Scott-Moncrieff in addition to a small in-house team within the Scottish Police Authority.

Adequacy of Internal Audit

22. We plan to carry out a review of the effectiveness of internal audit to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Areas of reliance

23. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Payroll
- Non pay expenditure

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Budgeting and Reporting
- Procurement.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Scottish Police Authority can demonstrate the affordability and effectiveness of the funding and investment decisions it has made.

Financial management

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the arrangements in place to ensure systems of internal control are operating effectively for Scottish Police Authority
- whether the Scottish Police Authority can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

Governance and transparency

28. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Scottish Police Authority can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Scottish Police Authority can:

- provide evidence that it is demonstrating value for money in the use of its resources.
- demonstrate that there is a clear link between money spent, output and outcomes delivered.
- demonstrate that outcomes are improving and that there is sufficient pace in delivering these improvements.

Independence and objectivity

30. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place

robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

31. The engagement lead and appointed auditor for Scottish Police Authority is Stephen Boyle, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Police Authority.

Quality control

32. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Police Authority

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