

Scottish Police Authority

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for the Scottish Police Authority
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Scottish Police Authority, which includes the financial results of Police Scotland.

The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts of the Scottish Police Authority and the issue of an independent auditor's report setting out our audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- providing assurance on the Whole of Government Accounts (WGA) return
- review the Scottish Police Authority's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus pandemic (Covid-19) has had a significant impact on public finances and the delivery of public services, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this annual audit plan may be required.

Adding value

4. We aim to add value to the Scottish Police Authority through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Scottish Police Authority promote improved standards of

governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit, Risk and Assurance Committee (ARAC) and actively participate in discussions.

Respective responsibilities of the auditor and the Scottish Police Authority

5. The Code of Audit Practice (2016) sets out in detail the respective responsibilities of the auditor and the Scottish Police Authority. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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.

Scottish Police Authority responsibilities

8. The Scottish Police Authority has 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 deliver their objectives.

9. The Scottish Police Authority is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

Managing the transition to 2022/23 audits

10. Our audit appointments are typically for five years however the current appointment was extended to six years due to the impact of Covid-19. The audit year 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described below. The materiality values for the Scottish Police Authority are set out in Exhibit 1.

Exhibit 1 2021/22 Materiality levels

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the audited financial statements for 2020/21.	£18 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 assessed performance materiality at 60% of planning materiality.	£11 million
Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the Scottish Police Authority, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Exhibit 2 summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Standards on Auditing (ISA) 240 require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of the management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Detailed testing of journals and other adjustments at the year-end and post-closing entries. • Identify and evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Review of the methods and underlying assumptions used to prepare accounting estimates. • Focused testing of accounting accruals and prepayments to confirm they are accounted for in the correct financial year.
<p>2. Risk of material misstatement due to fraud in expenditure recognition</p>	<ul style="list-style-type: none"> • Management has a system of internal controls in place to prevent and 	<ul style="list-style-type: none"> • Detailed testing of controls over expenditure/payables.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>The Scottish Police Authority incurs material amounts on non-pay expenditure.</p> <p>A new P2P system has been implemented during 2021/22 including a new procurement module in the financial ledger. As this is a new system there is potential for there to be weaknesses in the control environment which may present opportunities for fraud.</p>	<p>detect the risk of fraud over expenditure</p>	<ul style="list-style-type: none"> • Detailed testing of the new P2P system controls. • Carry out variance analysis on expenditure streams to identify unexpected variances which will direct our testing. • Detailed testing of expenditure transactions focusing on the areas of greatest risk. • Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.
<p>3. Estimation and judgments in the valuation of pensions</p> <p>Pension valuation is a key area of significant estimation and judgement. A full valuation was carried out by management's expert, the Government Actuary Department (GAD) for the Police Pension Scheme for 2020/21. However, these values were not used in the 2020/21 accounts due to Covid-19 related delays.</p> <p>The 2021/22 accounts will include the revalued liabilities.</p> <p>The subjective nature of the assumptions applied increases the risk that the pension costs and liability in</p>	<ul style="list-style-type: none"> • Government Actuary's Department report: Police Pension Schemes (Scotland) Resource Accounts 2021/22 • Hymans Robertson LLP: Actuarial Valuation and Results Schedule (LGPS Schemes Police Pension Schemes (Scotland)). 	<ul style="list-style-type: none"> • Review management's assessment of the appropriateness of actuarial assumptions. • Review the accounting treatment applied based on reports received from third parties. • Review management arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and year end. • Consider use of an auditor's expert to review the estimations and judgements used by management's expert, GAD.

Significant risk of material misstatement	Sources of assurance	Planned audit response
the financial statements will be materially misstated.		

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2021/22 because over 90% of income comes directly from the Scottish Government as grant in aid funding with the remaining income coming through predictable income streams. Therefore, our standard audit testing procedures for the income disclosed in the financial statements is deemed sufficient.

16. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have partially rebutted this presumed risk for Scottish Police Authority in relation to staff costs and depreciation because the amounts and timing of spend are more predictable than other areas which are subject to the new P2P processes. Additionally, we are familiar with the controls in place around these expenditure streams and have considered them to be robust in recent years. We therefore expect to obtain sufficient assurance from applying our standard audit testing procedures to these areas of expenditure.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

The areas of specific audit focus are:

- Estimations and judgements in relation to the valuation of Property, Plant and Equipment (PPE)

There is a significant degree of estimation and judgement in the valuation of property assets in the accounts. In addition, for those assets not subject to revaluation during the year there is the risk of the carrying value not reflecting current value. Combined with the current volatility in the property market this results in a higher level of uncertainty over those amounts.

- Estimations and judgements in relation to legal provisions

There is a significant degree of uncertainty and profession judgement in the identification and valuation of legal provisions in the accounts. This results in a higher level of uncertainty over those amounts.

- Police Pension Account

The Scottish Government requires the Authority to maintain a Police Pension Account to record the payments made and income received in respect of police pensions. Funding is made through a Police Specific Grant which takes into account the funding to meet the cost of the employer contributions. Due to the uniqueness of the reporting and funding it is an area of specific audit focus.

Audit risk assessment process

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

19. The Code of Audit Practice sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

20. The four dimensions that frame our audit work are shown in Exhibit 4.

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

21. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

22. Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Scottish Police Authority.

23. Additionally, as part our Best Value work, we reviewed the Best Value characteristic “fairness and equality” within the Scottish Police Authority in the prior year, and we will consider any further developments in 2021/22.

Audit dimension risks

24. We have identified audit risks in the areas set out in Exhibit 6. This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>A 5 year financial plan was approved by the Authority in September 2021. It maintains a balanced budget under the assumption that unavoidable cost pressures will be met either by funding from Scottish Government (SG) or savings across the organisation.</p> <p>Development of a 10 year financial strategy that takes into account the various supporting strategies, including</p>	<ul style="list-style-type: none"> • 5 year financial plan • Strategic Workforce Plan • Financial Planning Framework 	<p>Assess the medium-term financial and supporting strategies.</p> <p>Monitor progress of development of the long-term financial strategy.</p>

Description of risk	Sources of assurance	Planned audit response
<p>the Strategic Workforce Plan, is still ongoing.</p> <p>There is a risk that SG funding and achievable savings are insufficient, leading to a deficit.</p> <p>There is a risk that the supporting strategies in place are no longer sufficient to enable effective financial management and support long term sustainability.</p>		
<p>2. Workforce Planning and Benefits Realisation</p> <p>The Strategic Workforce Plan (SWP) was endorsed in November 2020 and has now been implemented for over a year. The SWP identified resourcing gaps across Local Policing Divisions and National Services. Efficiencies arising from projects within the Change portfolio are planned to reduce the gaps.</p> <p>There is a risk that productivity gains from Change projects are not realised, monitored and reinvested.</p>	<ul style="list-style-type: none"> • Work of the Demand, Design and Resourcing Board. • Strategic oversight by Resources Committee. 	<p>Review the governance and monitoring arrangements for evidencing productivity gains made via the Change programme, and how these become realised benefits.</p>

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. The audit outputs, as detailed in Exhibit 7, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. 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 officers to confirm factual accuracy.

27. We will provide an independent auditor's report to the Scottish Police Authority, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Scottish Police Authority and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. Exhibit 7 outlines the target dates for our audit outputs.

Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2022	18 March 2022
Independent Auditor's Report	2 September 2022	15 September 2022
Annual Audit Report	2 September 2022	15 September 2022

Source: Audit Scotland

Timetable

29. To support the efficient use of resources, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have

included a proposed timetable for the audit at Exhibit 8 that has been discussed with management.

30. We will continue to work in close partnership with management as the audit progresses to identify any risks to achieving the agreed target dates.

Exhibit 8 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	20 June 2022
Latest date for final clearance meeting with the Chief Financial Officer	19 August 2022
Agreement of audited unsigned annual report and accounts	26 August 2022
Issue of annual audit report, letter of representation and proposed independent auditor's report	2 September 2022
Consideration of audited annual report and accounts by the Audit, Risk and Assurance Committee	15 September 2022
Signed independent auditor's report after approval by the Board (29 September 2022)	By 30 September 2022
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

31. The agreed audit fee for the 2021/22 audit of Scottish Police Authority is £210,280 (2020/21: £206,310). 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.

32. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

33. International standards on Auditing (UK) 610: Considering the work of internal audit requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

34. From our initial review of the internal audit plans, we plan to consider the findings of Internal Audit across a range of work including: IFRS 16 Readiness; Overtime and expenses; Staff Pay and Reward Modernisation (SPRM); Legal claims handling; Estates management and Strategic planning.

Independence and objectivity

35. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

36. The engagement lead (i.e. appointed auditor) for Scottish Police Authority is Gillian Woolman, Audit 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

37. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

38. 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 (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

39. 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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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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