

Scottish Police Authority

Annual Report on the 2012/13 Audit



Prepared for the Scottish Police Authority and the Auditor General for Scotland
November 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Introduction

1. The Scottish Police Authority (SPA) did not become fully operational until 1 April 2013. However, as a consequence of a Direction from Scottish Ministers, a set of financial statements was required for 2012/13 to record and report initial costs that have been borne in the period to 31 March 2013.
2. This report is the summary of our findings arising from the audit of the SPA 2012/13 financial statements. The purpose of the report is to summarise our opinion on the financial statements and conclusions on significant issues arising.
3. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. However this is of limited application to the SPA for the period ended 31 March 2013.
4. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the SPA and no responsibility to any third party is accepted.
5. This report also reflects findings from the audit of the Scottish Police Services Authority (SPSA) and the Scottish Crime and Drug Enforcement Agency (SCDEA) both of which were in operation in 2012/13 and which ceased on 31 March 2013. Their operations are now part of to the new SPA. A set of financial statements were produced for both and published as one document.
6. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audits. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the SPA understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
7. [Appendix B](#) lists all our outputs issued to senior officers for SPA, SPSA and SCDEA during 2012/13.
8. This report is also addressed to the Auditor General for Scotland and will be published on our website (www.audit-scotland.gov.uk) after consideration by the Audit and Risk Committee.

Financial statements

Conduct and scope of the audit

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit were outlined in the SPA Annual Audit Plan presented to the Audit and Risk Committee on 20 June 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
10. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and we did not carry out any additional work outwith our planned audit activity.

Audit opinion & accounting issues

11. We have given an unqualified opinion that the financial statements of the SPA for 2012/13 give a true and fair view of the state of the body's affairs and of its total comprehensive expenditure for the period. The audit opinion was formally issued and signed on 7 November 2013.
12. In June 2013, it was agreed with Scottish Government that, due to the timing of key personnel appointments, the 2012/13 SPA financial statements would incorporate all associated pay and benefits costs, including accumulated pension liabilities. Actuaries were contacted for the preparation of an actuarial valuation in line with IAS19 requirements. This contributed to a delay in the production of the draft accounts and the audit commenced on 9 September.
13. The supporting working papers were of a good standard and the staff provided good support to the audit team to enable completion of on-site fieldwork on 20 September 2013.

Significant findings

14. In accordance with International Standard of Auditing 260 (ISA 260), we are required to report any significant issues we identify in the course of the audit with respect to: the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. Such a report ought to be submitted prior to sign off of the financial statements and this was achieved, through submission of that report to the Audit and Risk Committee on 30 October 2013. The matters raised are summarised below.
15. **Senior Manager Review** - Due to SPA being in a period of transition, the draft accounts had not been subject to the level of management review we would normally expect. Consequently a number of presentational changes were required. Management review is an important

internal control; without it there is a risk of error and incompleteness in the financial statements.

16. Looking ahead to 2013/14, when the financial statements will report the financial results which incorporate the operations of 10 historic/legacy organisations, and in compliance with central government financial reporting requirements instead of local government financial reporting requirements, which has been the case for the majority of predecessor public bodies, it is important that management review is scheduled as an important stage in the chronology for the preparation of the 2013/14 financial statements, including in the preparation of a set of shadow accounts well in advance of year end.

Refer Action Plan, point 1

17. **IAS19 pension liability** - At £12,350k this is a significant liability in the 2012/13 accounts of SPA. It represents the cumulative pension liability for those officers in the employment of Police Service of Scotland (PSoS) at that time. The figures have been prepared by Hymans Robertson for inclusion in the 2012/13 accounts. As a consequence of the pension liability the SPA has an overall negative financial position at 31 March 2013. Due to the on-going funding commitment by the Scottish Government the SPA was able, however, to prepare the 2012/13 accounts on a going concern basis.
18. Looking ahead to 2013/14, when the financial statements will report the financial results of the previous 10 organisations, the IAS pension liability will be a very large figure, significant at a national level. It is important that SPA anticipate how this will be reported and what narrative will be included in the 2013/14 financial statements to inform readers that it is appropriate for the financial statements to be prepared on a going concern basis.

Refer Action Plan, point 2

Financial position

2012/13 Outturn

19. The main financial objective for the SPA is to ensure that the financial outturn for the period is within the resource budget allocated by Scottish Ministers. The SPA operated within the resource budget for 2012/13 as detailed in Table 1.

Table 1: 2012/13 SPA Resource Budget v Outturn

	Initial Budget (£'000)	Final Budget (£'000)	Actual Outturn (£'000)	Under / (Over) spend
Resource DEL	1,282	1,282	966	316
Capital DEL	0	0	0	0
Non Cash DEL	0	0	0	0
Total	1,282	1,282	966	316

Source: 2012/13 Grant in Aid letter

20. The 2012/13 settlement from the Scottish Government was based on a budget proposal prepared and submitted in March 2013. The under-spend relates to a delay in the time taken for some senior police officers to take up posts, a lower number of interim secondments than anticipated, lower accommodation charges (due to non-occupation of Bremner House), and lower professional fees than anticipated.
21. Board Members costs (allowances and expenses) however, were approximately £100,000 higher than budget due to greater time involvement than had been anticipated. A review of the arrangements for these payments was carried out as part of our audit. Whilst the overall cost incurred was satisfactory, we identified and reported to the Audit and Risk Committee a number of areas where policies and procedures could be strengthened. All recommendations were accepted by management.

Financial planning

22. The 2013/14 revenue budget for the SPA, a figure of approximately £1 billion, reflects that from 1 April 2013 10 legacy organisations have become two statutory bodies, SPA and Police Scotland, and for which there shall be one set of financial statements. The budget is split approximately 4% for SPA and 96% for Police Scotland. The SPA Budget Allocation for 2013/14 was approved by the Board on 28 March 2013. Monthly financial outturn reports are submitted to each meeting of the SPA Board and the Finance and Investment Committee.
23. A revenue budget of this size requires highly experienced financial professionals to contribute to the strategic direction of SPA and Police Scotland, to ensure efficiency and effectiveness at an operational level, in respect of financial systems, and to ensure meaningful management information is presented to decision-makers on a timely basis to help them to manage the business. This is an area which we will be reviewing as part of the planning process for the 2013/14 audit.

Corporate governance and systems of internal control

Corporate governance arrangements

24. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. Corporate governance arrangements were in their infancy in SPA in 2012/13. The SPA Board was the only governance committee formally in place and, due to the volume of decisions that had to be progressed prior to 'Day One' (1 April 2013) met every two weeks. Going forward, the Board will meet every six weeks and then quarterly in due course.
25. The terms of reference for the Audit and Risk Committee were drafted in April 2013 and approved at the first Audit and Risk Committee on 20 June 2013. The Finance and Investment Working Group and/or the Board dealt with any scrutiny items emerging prior to this period.

Register of interests

26. During our audit testing in 2012/13 we concluded that arrangements for recording the interests of Board Members are satisfactory; there is a Register of Members' Interests. However there is no equivalent in respect of senior officers in SPA or Police Scotland. On grounds of transparency and public accountability it is considered good practice for a register of interests of senior officials and key staff to be maintained.

Refer Action Plan, point 3

Recruitment and selection

27. Public bodies are expected to have decision making processes that are open, transparent and informed by the needs of stakeholders, the public, customers and employees.
28. In 2012/13 we are aware of at least one instance where a temporary six month post has been awarded where the post has not been advertised internally or externally. Scottish Government guidance requires transparency and openness when conducting recruitment. As at October 2013 the temporary staff member is still employed by SPA.

Refer Action Plan, point 4

Accounting and internal control systems

Internal control

29. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.

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30. During 2012/13, SPA's transactions were processed through the SPSA's financial ledger (e-financials). As a result, we are able to use and rely on the work completed by the auditor of the SPSA (Audit Scotland). This involved reviewing the quality of the internal audit service provided by PwC and a detailed review of PwC's work on individual systems such as:
- Accounts payable
 - Accounts receivable
 - Payroll
31. Overall the systems of internal control regarding SPSA's systems were operating effectively during 2012/13. This enabled us to take the planned assurance on these systems for the audit of the SPA's financial statements.

Internal audit

32. Due to the nature of the organisation and level of transactions in 2012/13 there was no internal audit work undertaken and this we consider to be reasonable in those circumstances.
33. Internal audit is an important element of the governance structure of any public body. The predecessor bodies had a variety of different arrangements. The internal audit requirements of the new body were largely unresolved by 'Day One' (1 April 2013) and it was left to the one, small in-house team which transferred in to SPA to draw up strategic and operational audit plans. There has subsequently been recognition of the need to address the resource shortfall in this area and delivery of a revised operational internal audit plan will largely take place in the last six months of 2013/14, with additional external resource being purchased.
34. It is imperative that for 2014/15 there is an internal audit function in place in order to provide the Accountable Officer with the assurances required on SPA's risk management, internal control and governance arrangements.

Refer Action Plan, point 5

SPSA & SCDEA

35. 2012/13 was the final year for both the Scottish Police Services Authority (SPSA) and the Scottish Crime and Drug Enforcement Agency (SCDEA). Two sets of financial statements were produced and these were subject to external audit. The main findings from those audits are reported in this report.

Financial Statements

36. We have given an unqualified opinion that the financial statements for SPSA and SCDEA for 2012/13 give a true and fair view of the state of the bodies' affairs and of their total comprehensive expenditure for the year. The audit opinion was formally issued and signed on 10 September 2013.
37. We received the unaudited financial statements on 1 July 2013, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 26 July 2013.
38. The only significant finding arising from the audit of both financial statements is outlined below together with the resolution.
39. **Director's Severance 2012/13** - Four Directors in SPSA were offered severance pay on 27 and 28 March 2013, thus requiring a provision in the accounts to recognise the legal and contractual obligation of the expense. We requested SPSA to include this as an additional provision, £487,000 in the 2012/13 accounts and the accounts were duly amended. The sums will be paid out in 2013/14 by the new Scottish Police Authority.

2012/13 Outturn

40. The main financial objective of SPSA was to ensure that the financial outturn for the year was within the resource budget allocated by Scottish Ministers. SCDEA was a maintained entity within SPSA and as a result they received a combined Grant in Aid (GiA) settlement from the Scottish Government.
41. For 2012/13 the settlement for both bodies was £101 million against which they recorded expenditure of £100 million, resulting in an under-spend of £1 million. Table 2 summarises the SPSA and SCDEA resource budget against outturn.

Table 2: 2012/13 SPSA/SCDEA Resource Budget v Outturn

	Initial Budget £'000	Final Budget £'000	Actual Outturn £'000	Under / (Over) spend £'000
Resource DEL	88,410	94,018	93,188	830
Capital DEL	0	0	0	0
AME	0	0	0	0
Non Cash DEL	6,908	6,908	6,816	92
Total	95,318	100,926	100,004	922

Source: 2012/13 Grant in Aid letter and subsequent funding correspondence from the Scottish Government

42. The SPSA Statement of Financial Position presented a net liability position of £23.3 million. This is largely due to the pension liability of £26.8 million. SCDEA reported a year-end net asset position of £0.4 million. The closing asset and liability balances listed for SPSA and SCDEA transferred to SPA on 1 April 2013 along with the closing balances for the eight former regional police forces.

Corporate governance and systems of internal control

43. As stated previously ([paragraph 29](#)) SPSA's internal auditors PwC provided good coverage of the payroll, accounts payable and accounts receivable financial systems which we were able to place reliance upon.
44. During our substantive testing of vehicle sales for both SPSA and SCDEA we found that the VAT received (output VAT) from these transactions had not been correctly included on VAT returns. An exercise was undertaken by SPSA staff to determine the amount omitted from VAT returns and to correct the financial statements. The financial statements were duly amended, prior to approval, and VAT returns corrected for resubmission.
45. Going forward there will be a large volume of transactions involving vehicles and it is important that experienced and competent personnel are involved, ensuring transactions are accounted for accurately, on a timely basis and meeting the requirements of HMRC.

Refer Action Plan, point 6

46. The SPSA Audit Committee met for the final time on 20 March 2013. A recurring item at these meetings has been the level of contracts (relating to IT and HR) which had been awarded without a competitive process having been followed by Scottish forces. The final report to the SPSA Audit Committee, for the third quarter of 2012/13, listed seven contracts that had been awarded/renewed which had not been subject to the appropriate level of competition. The

contracts are worth a combined value of £1.8 million. This issue has a direct impact for SPA going forward as it represents an on-going risk of exposure to external challenge and contracts which have not been subject to competitive tender may not represent best value.

Refer Action Plan, point 7

Acknowledgements

47. We would like to express our thanks to the staff of the SPA for their help and assistance during the audit of the 2012/13 financial statements.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action - SPA

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
1	16	<p>There was no evidence of management review of the 2012/13 SPA draft accounts submitted to audit.</p> <p>Without management review, an important internal control, there is a risk of error in, and incompleteness of the financial statements.</p>	<p>The new interim Director of Finance has acknowledged that there ought to have been more management review. Appropriate arrangements will be put in place as part of the 2013/14 accounts preparation process.</p>	<p>Director of Finance, as part of the 2013/14 accounts preparation process.</p>
2	18	<p>The size of the pension liability is significant and impacts on the overall financial position of the SPA.</p> <p>This needs to be anticipated in the preparation of the 2013/14 financial statements.</p>	<p>The interim Director of Finance will oversee arrangements for the preparation of the IAS 19 pension calculation. Furthermore he will liaise with the Scottish Government on any consequent implications this may have for the annual accounts of the Scottish Government.</p>	<p>Interim Director of Finance 31 December 2013</p>
3	26	<p>There is currently no Register of Interests in respect of senior officers and key staff.</p> <p>There is a risk of lack of transparency and public accountability.</p>	<p>This will be delegated to an Executive Assistant - currently undertaken by Karen Geddie/Laura Mackenzie.</p>	<p>Sarah Jane Hannah 31 December 2013</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
4	28	If there is non-compliance with recommended Scottish Government guidance on recruitment there is a risk that processes followed are not open, fair and transparent.	This has been passed to the interim Director of Human Resources.	Gillian Campbell 20 November 2013
5	34	Without formalised arrangements for resourcing and delivering internal audit plans the Accountable Officer and Board will have no independent assurance that SPA's risk management, internal control and governance arrangements are adequate and effective.	Management is progressing plans for the formal establishment of Internal Audit arrangements at the commencement of 2014/15.	Executive Team, before 31 March 2014.
6	45	Without competent and experienced staff engaged in complex accounting transactions there is a risk of error in both the financial records and in meeting HMRC obligations.	Audit Scotland had never noticed this error previously, as it was treated wrongly historically. Reminder sent to staff regarding treatment of VAT. Going forward management will ensure that, underpinning the workforce strategy, there is a matching of skills and experience to business need.	Harry Boswell 21 November 2013 Executive Team.
7	46	Where contracts have been awarded without the appropriate level of competition this contravenes the Scottish Procurement Policy Handbook and may result in procuring supplies	Dedicated procurement team is now in place. A review of contracts has also been carried out.	Colin Heppenstall 21 November 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
		or services at excessive cost. This impacts on SPA as many of these contracts expire after March 2013.		

Appendix B: Audit Reports

External audit reports and audit opinions issued for 2012/13 - SPA

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
SPA Annual Audit Plan 2012/13	14 May 2013	20 June 2013
ISA 260 Report to those charged with governance	9 October 2013	30 October 2013
Audit opinion on the 2012/13 financial statements	9 October 2013	30 October 2013
Management letter regarding governance arrangements for processing Board Members' expenses	23 October 2013	30 October 2013
Annual Audit Report on 2012/13 audit	22 November 2013	3 December 2013

External audit reports and audit opinions issued for 2012/13 - SPSA/SCDEA

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
SPSA/SCDEA Annual Audit Plan 2012/13	12 February 2013	20 March 2013*
ISA 260 Report to those charged with governance	9 September 2013**	Not presented**
Audit opinion on the 2012/13 financial statements	9 September 2013**	Not presented**
Annual Audit Report on 2012/13 audit		

* This was presented to the SPSA/SCDEA Audit Committee

** This was provided to the Interim Chief Executive (Accountable Officer) and Chair of SPA under the instructions of the Chair