BAKER TILLY

The Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire

Internal Audit Annual Report – Year ended 31 March 2014

1 Internal Audit Opinion

1.1 Context

As the provider of the internal audit service to the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire we are required to provide the Section 151 Officers and the Joint Independent Audit Committee an opinion on the adequacy and effectiveness of the organisations' governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In line with the Financial Management Code of Practice published by the Home Office, both the Police and Crime Commissioner (PCC) and the Chief Constable must have an internal audit service, and there must be an audit committee in place (which can be a joint committee). This annual report is therefore addressed to both the PCC and the Chief Constable, and summarises the work undertaken during 2013/14.

As your internal audit provider, the assurance and advisory reviews that Baker Tilly Risk Advisory Services LLP (Baker Tilly) provides during the year are part of the framework of assurances that assist the PCC and Chief Constable prepare informed annual governance statements.

1.2 Internal Audit Opinion 2013/2014

The Police and Crime Commissioner for Lincolnshire

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of the Police and Crime Commissioner for Lincolnshire's arrangements.

In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2014 the Police and Crime Commissioner for Lincolnshire has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

The Chief Constable for Lincolnshire

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Lincolnshire Police's arrangements.

In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2014 Lincolnshire Police has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

1.3 The Basis of the Opinion

1.3.1 Governance

As part of our planned audit work we undertook a review of the PCC and the Force's Governance Framework. The Police and Crime Commissioner for Lincolnshire took office on 22 November 2012 and once in post approved the governance framework.

The Office of the PCC had prepared a Code of Corporate Governance which was updated in June 2013 and is in line with CIPFA guidance. The Chief Constable had also prepared a Code of Corporate Governance which, although in line with CIPFA guidance, required some updating for the new accountabilities. The Joint Independent Audit Committee had suggested that a joint Code could be produced, we made a recommendation to support this suggestion.

The governance framework also included the Police and Crime Plan, a Risk Management Strategy, and a Scheme of Arrangements for the Discharge of Functions, all of which were up to date. In addition, a programme of operational and executive meetings had been agreed, and performance information was published regularly.

We concluded that the governance arrangements in place for both the PCC and the Force were adequate and effective.

1.3.2 Risk Management

We undertook a review during the year of the Risk Management arrangements in place at the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire. We were able to provide reasonable assurance on the arrangements in place for both organisations. The current risk management processes were embedded and were operating effectively. There was a consistent approach to identifying, measuring, recording and reviewing risk which was supported and facilitated by the present Excel system. Both a Force Risk Register and a Confidential Risk Register (with restricted access) were maintained by the Force, and a Risk Register was also maintained by the Police and Crime Commissioner, with access restricted to PCC staff. There was, however, no formal assurance process in place to provide the Force with appropriate evidence to validate that controls to manage/mitigate a risk were operating effectively, and whilst there was an assurance framework in place for the PCC, this was not fully mapped to the Risk Register, and we made medium priority recommendations in this area.

We concluded that the risk management arrangements in place for both the PCC and the Force were adequate and effective.

1.3.3 Control

A total of 13 other assurance reports and one advisory report were issued during the year, 12 with positive assurance opinions including 4 Green (substantial assurance), 4 Amber / Green (reasonable assurance) and 4 Amber Red (some assurance). For the remaining audit (Payments and Creditors) we provided a negative opinion Red (cannot provide assurance) due to the significant compliance issues identified with the control framework including the following:

- T-Police did not electronically enforce a segregation of duties between the Officer authorising a purchase order and the employee receiving the goods or services on the system, as a result there was a potential that payments could be made without any segregation of duties. This had been identified by management but without segregation of duties, there was an increased risk of fraudulent behaviour and inappropriate payments being made resulting in loss the organisation.
- Testing during this review found that in the cases of 7 of the 25 supplier amendments sampled (one bank detail change and six other detail changes); we could not find a written request from the supplier to amend their details. The Finance team have not been using an independently sourced contact number to verify amendments to supplier bank details. Testing could not in 5 out of the 11 bank changes sampled, confirm that a verification was undertaken. There is a risk of financial loss to the Force if amendments to supplier bank details are not verified appropriately prior to actioning.

We undertook one advisory audit during the year on the procurement of Legal Services.

We were due to undertake a review of IT Change Management during 2013/14, however, it was agreed with management that to address key risk areas within the Force, the scope of this review would be amended to cover a further review of t-Police and the IT Change Management audit would be delayed until 2014/15. Due to the workload in implementing t-Police and other projects we were unable to agree a convenient date when the relevant people would be available until May 2014, therefore this review will be included early within the 2014/15 audit programme.

We concluded that the internal control arrangements in place for both the PCC and the Force were adequate and effective.

Further information on these can be found within Appendix A.

1.3.4 Acceptance of Recommendations

All except one recommendation has been agreed by management, we have accepted management's response in this area.

1.3.5 Progress made with previous internal audit recommendations

Our follow up of the recommendations made previously, including those that were outstanding from previous years, showed that the organisation had made good progress in implementing the agreed recommendations, as summarised below:

Recommendation Priority	Number made in 2012/2013	Of which:	
		Addressed	Not implemented or still in progress
High	4	4	0
Medium	13	12	1
Low	13	13	0
Totals	30	29	1

In addition we verified that the status of implementation of recommendations, as reported to the Joint Independent Audit Committee via the internal recommendation tracking process, was accurate for the audits reviewed.

1.3.6 Reliance Placed Upon Work of Other Assurance Providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

2 Our Performance

2.1 Wider value-adding delivery

As part of our client service commitment, during 2013/14 we have:

- Issued client updates and general briefings during the year.
- Provided benchmarking within our reports on the number and category of recommendations and assurance opinions across organisations similar to yourselves.
- Undertaken joint reviews across the East Midlands Police Forces including the Governance Framework to provide a joint assurance opinion.
- Undertaken both advisory and assurance reviews across both Corporations Sole as part of the establishment of the new Governance and Risk Management arrangements and also sharing practice across the sector through our work.
- We have made suggestions throughout our audit reports based on our knowledge and experience in the public sector to provide areas for consideration.
- Regular meetings with the Chief Financial Officers and the provision of timely advice and assurance.
- Regular attendance at the Anti-Fraud and Corruption Meetings.
- Attended the Chief Finance Officers meeting of the East Midlands Collaboration to discuss and agree joint working.

2.2 Conformance with Internal Audit Standards

Baker Tilly affirms that our internal audit services to the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire designed to conform with the Public Sector Internal Audit Standards (PSIAS) which came in to effect from 1 April 2013.

Under the standards, internal audit services are required to have an external quality assessment at least once every five years. During 2011 our Risk Advisory service line commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA). The PSIAS are based upon the IPPF, and therefore we are confident that the results of this review apply to our continuing services in the sector.

The external review concluded that *"the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner".*

2.3 Conflicts of Interest

We (Baker Tilly) have not undertaken any work or activity during 2013/14 that would lead us to declare any conflict of interests.

Appendix A: Internal Audit Opinions and Recommendations 2013/14

Audit	Opinion	Actions Agreed (by priority)		
		High	**Medium**	**Low**
Audits to address a specific risk				
HR - Absence Management *Risk that inaccurate recording and ineffective management within Service Areas / Departments could lead to increased levels of reported absence.*	Green	0	0	4
VfM - Resource Management *Risk of failure to oversee and ensure maximum workforce productivity.*	Green	0	0	2
Medium Term Financial Planning *Risk of failure to manage finances effectively.* *Risk of failure to address the residual budget deficit in year 4 of the Spending Review period.* *Risk of inability to bridge the funding gap leading to the new Comprehensive Spending Review.*	Green	0	0	0
Service Expectations - Strategic Policing Requirement Project *The Lincolnshire Police Force does not meet the obligation for its Strategic Policing Requirement as imposed by the Police Reform and Social Responsibility Act 2011.*	Amber / Green	0	2	4
Procurement of Legal Services *Risk that the volume and cost of such procurement is not justified and does not represent value for money for the Force.*	Advisory	1	2	1
G4S - Processing Income and Expenditure *Risk that there are inadequate financial arrangements underpinning the contractual relationships between Lincolnshire and G4S.*	Amber / Red	1	7	4
Collaboration - Governance & Financial Framework (Completed as joint review with East Midlands with allocation from each audit plan)	Amber / Red	0	5	3
Audits to address Regulatory Requirements, core financial controls and external audit reliance				
Governance Framework	Green	0	1	2
Risk Management	**PCC** Amber / Green **Force** Amber / Green	0	2	2

Audit	Opinion	Actions Agreed (by priority)		
		High	**Medium**	**Low**
Cash, Banking & Treasury Management	Amber / Red	1	3	2
Payroll	Green	0	0	3
Payments and Creditors	Red	2	2	2
Asset Management (Draft)	Amber / Green	0	2	3
Income and Debtors (Draft)	Amber / Red	1	1	3
General Ledger	Amber / Green	0	2	5
Other Internal Audit Input				
t-Police Implementation	Amber / Green	0	3	1
Follow-up of Previous Internal Audit Recommendations	Good Progress	0	0	0
	Total	**6**	**32**	**41**

We use the following levels of opinion classification within our internal audit reports:

Red	Amber / Red	Amber / Green	Green
Taking account of the issues identified, the PCC & Force cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.	Taking account of the issues identified, whilst the PCC & Force can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	Taking account of the issues identified, the PCC & Force can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	Taking account of the issues identified, the PCC & Force can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at http://www.icaew.com/en/members/regulations-standards-and-guidance.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the PCC & CC which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

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