



# Office of the Police & Crime Commissioner for Lincolnshire and Lincolnshire Police

## Internal Audit Progress Report 2015/16

March 2016

Presented to the Joint Independent Audit Committee meeting of: 23<sup>rd</sup> March 2016

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## 01 Introduction

- 1.1 The purpose of this report is to update the Joint Independent Audit Committee (JIAC) as to the progress in respect of the Operational Plan for the year ended 31<sup>st</sup> March 2016. The plan was considered and approved by the JIAC at its meeting on 9<sup>th</sup> June 2015.
- 1.2 The Police and Crime Commissioner and Chief Constable are responsible for ensuring that the organisations have proper internal control and management systems in place. In order to do this, they must obtain assurance on the effectiveness of those systems throughout the year, and are required to make a statement on the effectiveness of internal control within their annual report and financial statements.
- 1.3 Internal audit provides the Police and Crime Commissioner and Chief Constable, through the Joint Independent Audit Committee, with an independent and objective opinion on governance, risk management and internal control and their effectiveness in achieving the organisation's agreed objectives. Internal audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control. The work of internal audit, culminating in our annual opinion, forms a part of the OPCC and Force's overall assurance framework and assists in preparing an informed statement on internal control.
- 1.4 Responsibility for a sound system of internal control rests with the Police and Crime Commissioner and Chief Constable and work performed by internal audit should not be relied upon to identify all weaknesses which exist or all improvements which may be made. Effective implementation of our recommendations makes an important contribution to the maintenance of reliable systems of internal control and governance.
- 1.5 Internal audit should not be relied upon to identify fraud or irregularity, although our procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control will not necessarily be an effective safeguard against collusive fraud.
- 1.6 Our work is delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

## 02 Summary of internal audit work to date

- 2.1 We have issued six final reports since the last progress report to the JIAC, these being in respect of Budgetary Control, Cash, Bank & Treasury, General Ledger, Asset Management, Income & Debtors and Payment & Creditors. Further details, and scheduled work for the rest of the year, are provided in Appendices A1 and A2 respectively.

Auditable Area	Report Status	Assurance Opinion		Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Firearms Licensing	Final	Satisfactory		-	4	4	8
Procurement	Final	Satisfactory		-	2	-	2
Estates Management	Final	Satisfactory		-	2	4	6
Risk Management	Final	Force - Satisf	OPCC – Signif	-	-	3	3
Governance	Final	Satisfactory		-	1	3	4
Budgetary Control	Final	Satisfactory			1		1
Cash, Bank & Treasury	Final	Significant				1	1
General Ledger	Final	Satisfactory			1		1
Asset Management	Final	Satisfactory			2	1	3
Income & Debtors	Final	Significant				2	2
Payment & Creditors	Final	Significant				5	5
Total				0	13	23	36

- 2.2 Work in respect of Pensions and the Victims Code is currently in progress, whilst we are shortly to commence audits in respect of Benefits Realisation, Stock and T-Police User Acceptance & Change Control.

2.3 There has been one change to the plan since the previous progress report. At the previous meeting of the JIAC we reported that the audit of Delivery of Partner Outcomes – LCJB be replaced with an audit of another of the Partnership Arrangements. Management have recently requested that this be deferred to 2016/17.

2.4 As an additional piece of work Mazars were asked to support the Force and OPCC in addressing its fraud and bribery risks. As a consequence, the scope of the proposed work was agreed and included the following:

- The production of a staff survey which will aim us to gain an understanding of current fraud and bribery knowledge amongst staff.
- An assessment, from a counter fraud perspective, of policies and procedures in respect of fraud and bribery.
- A fraud workshop with the Risk Management group and any other relevant staff.
- Support for in-house training.

At the time of writing we have been liaising with the Head of Professional Standards to identify the questions to be included in the Fraud Perception Survey which will be issued across the Force. While we have agreed the layout and the majority of the questions to be included, there are a few amendments and we are working with the Head of Professional Standards to ensure these are addressed. Once this is complete, we will arrange for the survey to be issued.

2.5 As reported in the last progress report, Baker Tilly had been commissioned to undertake assurance mapping exercises across a number of regional collaboration arrangements, the output of which would inform the internal audit plan. At the time of writing we have not had sight of the output from this work. However, the OPCC Chief Finance Officer group have requested that Internal Audit, in the meantime, undertake regional audits in the following areas:

- Officers in kind
- Forensics
- Covert Payments
- Terms of Reference for the PCC Board

Audit are currently in discussions to agree the scope of each audit, with the aim of carrying out the work as part of the 2015/16 audit plan.

## 03 Performance

- 3.1 The following table details the Internal Audit Service performance for the year to date measured against the key performance indicators that were set out within the Audit Charter. This list will be developed over time, with some indicators either only applicable at year end or have yet to be evidenced.

No	Indicator	Criteria	Performance
1	Annual report provided to the JIAC	As agreed with the Client Officer	N/A
2	Annual Operational and Strategic Plans to the JIAC	As agreed with the Client Officer	Achieved
3	Progress report to the JIAC	7 working days prior to meeting.	Achieved
4	Issue of draft report	Within 10 working days of completion of final exit meeting.	91% (10/11)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (11/11)
6	Follow-up of priority one recommendations	90% within four months. 100% within six months.	N/A
7	Follow-up of other recommendations	100% within 12 months of date of final report.	N/A
8	Audit Brief to auditee	At least 10 working days prior to commencement of fieldwork.	100% (15/15)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (4/4)

## Appendix A1 – Summary of Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the reports issued to date are provided below:

### Budgetary Control

Assurance Opinion	Satisfactory
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	1
Priority 3 (Housekeeping)	-

Our audit considered the following control objectives:

- Regulatory, organisational and management requirements;
  - All staff act in compliance with appropriately documented management and regulatory requirements and duties are conducted in a consistent, economic, efficient and effective manner.
  - Management expectations of budget holders are clear and have been effectively communicated.
  - The skills and capacity of budget holders are kept under review and training and support provided where appropriate.
- Budget Setting;
  - Budgets are set and funds allocated so as to achieve the strategic and operational objectives.
  - Budget holders are involved in the budget setting process and take ownership of their allocated budget.
- Budget upload;
  - Approved budgets are completely, accurately, validly and timely communicated to budget holders and loaded onto the financial management system to allow effective monitoring by budget holders.
- Budget Monitoring;
  - Budgets are regularly monitored and variances analysed and communicated so as to minimise the risk of budget under/overspend.
  - Effective and consistent budget management routines are applied by budget holders and which are supported by best practice tools.
- Alterations and Virements;
  - Budget alterations and virements are completely, accurately and validly processed in a timely manner.
- Financial and Performance Management Reporting; and
- Budget information is completely, accurately, validly and timely produced and secured to allow for effective monitoring, decision making and reporting in line with management and regulatory requirements as part of a comprehensive performance management system.

We raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. This relates to the following:

Recommendation	<p>Comprehensive guidance on budget management should be developed in consultation with budget holders. This reference document for budget holders should be issued to existing budget holders and new budget holders when they come into position.</p> <p>Training for budget holders on the T-Police finance system, OBIEE (a data interrogation tool), and its capabilities should be performed. This should include training on how budget holders can write their own reports and interrogate data. Discussion with budget holders suggested that workshops to help them develop the management information currently available would be well received.</p>
Response	<p>a) This is covered by the CIPFA FM review and as such the action plan for that will deal with the recommendations here. The action plan progress will be reported to P&amp;D Board and the JIAC quarterly.</p> <p>b) Send out a link to all budget holders when the 2016/17 budget book is published to alert them to its existence and location.</p>
Timescale	<p>a) See CIPFA FM action plan</p> <p>b) April 2016 / DCFO Gillian Holder</p>

### Cash, Bank & Treasury

Assurance Opinion	Significant
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Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	-
Priority 3 (Housekeeping)	1

Our audit considered the following control objectives:

- Policies and procedures are in place and clearly state the procedures to be followed for receipting of payments and banking and reconciliation of those payments;
- All transactions received are recorded accurately, completely and in a timely manner, and are posted and reconciled to the appropriate accounts;
- All monies received are held securely and banked in a secure, accurate and timely manner;
- Procedures and controls are in place to process returns, unpaid or post-dated cheques in a timely manner;
- Cash flow information is accurately, completely, validly and timely produced and secured to allow for effective monitoring of decision making in line with the Investment Strategy and strategic requirements;
- Available funds are completely, accurately, validly and timely placed with fund managers or financial institutions and funds are safeguarded in line with the Investment Strategy and strategic requirements; and
- Cost effective loans are completely, accurately, validly and timely received from fund managers or financial institutions in line with the Investment Strategy and strategic requirements.
- It is clear who signatories are and the list is up to date, both internally and on the bank mandate.



In reviewing the above risks, our audit considered the following areas:

- Investment & Borrowing Strategy
- Physical Security at Headquarters
- Systems inputting
- Bank Reconciliation
- Performance Reporting

We raised one priority 3 recommendation of a more housekeeping nature in respect of the periodic changing of the alarm code and maintenance of a record of the staff who know the code. (Implementation – April 2016)

### General Ledger

Assurance Opinion	Satisfactory
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	1
Priority 3 (Housekeeping)	-

Our audit considered the following control objectives:

- Procedures and policies are in place to support the effective administration of the function and are communicated to all relevant staff;
- Systems and data are adequately protected to reduce the risk of them being open to abuse;
- Accounting transactions and manual adjustments, for example journals, are completely, accurately, validly (particularly supporting documentation) and timely allocated and recorded in the accounts;
- Financial and Performance Management Reporting - general ledger information is completely, accurately, validly and timely produced and secured to allow for effective monitoring of the current financial position, decision making and reporting; and
- Feeder system reconciliations are undertaken within a timely manner of month end, with any balancing items investigated to ensure the integrity, reliability and accuracy of the main accounting system.
- Identification of areas where controls are or are not adequately designed, and testing of their application/compliance.

In reviewing the above risks, our audit considered the following areas:

- Governance arrangements
- Systems Access Controls
- Roles & Responsibilities
- Journal Processes
- Financial Management Reporting.

We raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. This relates to the following:

Recommendation	A regular reconciliation of leavers to current t-Police users should be undertaken to ensure that the process is operating as intended and users who have left the organisation are removed from the t-Police system.
Response	Agreed that this process appears not to be working and discussions will be held between HR and ICT to ensure that the controls can operate as intended.  There are compensating controls in place as leavers should have no access to get onto the network and in most cases would physically need to be in a building to do this and this access should be removed during the leaver process. Additionally, none of the leavers were in Finance so would have read only access to the system and this could not make amendments to the system.
Timescale	Steve Morley Head of HR / April 2016

## Asset Management

Assurance Opinion	Satisfactory
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Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	2
Priority 3 (Housekeeping)	1

Our audit considered the following control objectives:

- There are effective governance arrangements in place between the Force, OPCC and G4S for the management of assets. This includes roles and responsibilities, reporting, decision making, etc.
- There is a comprehensive and approved Asset Management Strategy in place which is aligned with strategic and medium / long term objectives of the OPCC and Force.
- An up to date Asset Register is maintained, including all relevant information, which recognises all Force assets and includes effective controls for the tracking / monitoring of assets.
- Assets are managed effectively at an operational level to ensure they are maintained, monitored and controlled in line with force requirements and relevant legislation.
- Capital expenditure in terms of assets is adequately controlled and in line with the approved budget and Force approval processes including the agreed scheme of delegation and referral to the OPCC where applicable.
- Asset disposal procedures are clearly defined and adhered to.
- Management information and reporting processes are in place to enable the Force to monitor performance of asset management.

In reviewing the above risks, our audit considered the following areas:

- Governance arrangements
- Asset Management Strategies
- Asset Maintenance
- Capital Expenditure.

We raised two priority 2 recommendations where we believe there is scope for improvement within the control environment. These relate to the following:

Recommendation 1	<p>The Force should ensure that once the list has been completed appropriate arrangements are put in place including roles and responsibilities for maintenance of the inventory list.</p> <p>The Force should ensure that once the list has been completed, Finance review the list to ensure that the listed items have been accounted for correctly.</p>
Response	<p>Whilst the list is being completed discussions will continue between G4S and the CPT on the responsibilities that should be assigned to monitor and maintain it.</p> <p>The inventory list that is being completed should have little or no impact on the balance sheet as most items will have been accounted for under revenue expenditure but once it has completed it should be reviewed by finance to ensure this is the case.</p>
Timescale	G Bradshaw / 30/06/16

Recommendation 2	<p>Management should consider developing a combined asset management strategy clearly assigns the roles and responsibilities of the asset management process. This strategy should include reporting of performance against the strategy.</p> <p>A disposals policy or clear guidance should be in place and shared across the Force to ensure that a clear and safe process for the disposal of assets is adhered to.</p>
Response	<p>a) The four departmental strategies cover the largest and most material of the forces assets but clarity will be sought over the assets that do not clearly fall into these categories and an expansion of the Estates Strategy to include these items will be considered. Moreover, once the inventory list has been completed this may facilitate the need to dispose of some surplus items and a disposals policy will be considered at this time.</p> <p>b) Disposals Procedure to be written and update the Financial Regulations in this area.</p>
Timescale	<p>a) G Bradshaw / 30/09/16 (aligned to the date that draft 17/18 strategies will be submitted)</p> <p>b) DCFO G Holder / July 2016</p>

We also raised one priority 3 recommendation of a more housekeeping nature. This was in respect of consideration being given to agreeing G4S's asset register on a regular basis to ensure that if the contract ended it was clear on which assets would transfer back into the ownership of the Force. (Implementation – April 2016)

## Income & Debtors

Assurance Opinion	Significant
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	-
Priority 3 (Housekeeping)	2

Our audit considered the following control objectives:

- Procedures and policies support the income and debtor process and have been communicated to all relevant staff;
- Systems and data are adequately protected to reduce the risk of them being open to abuse;
- Additions, deletions and amendments to debtor standing data are completely, accurately and validly processed in a timely manner;
- Invoices are completely, accurately, validly and timely raised and recorded in the accounts in respect of fees and charges for goods / services delivered and other income streams;
- Invoices are completely, accurately and validly raised in line with management and regulatory requirements;
- Fees, charges and other income streams are completely, accurately, validly and timely collected, allocated and recorded in the accounts in line with management and regulatory requirements;
- Credit notes or refunds for incorrectly raised debts and/or overpayments are completely, accurately and validly paid, allocated and recorded in the accounts in a timely manner;
- All appropriate action to recover overdue fees and charges is taken in a timely manner and only uneconomic and irrecoverable outstanding amounts are validly written off;
- Debtor control account reconciliations are undertaken within a timely manner of month end, with any balancing items investigated to ensure the integrity, reliability and accuracy of the Debtors system;
- Performance information is monitored and under-performance addressed where necessary.

We raised two priority 3 recommendations of a house-keeping nature in respect of the following:

- The T-Police system provider, Capgemini, should be contacted to see if new role ID's can be created on the system to provide a stronger control environment. (Implementation – Sept 2016)
- Finance staff should be reminded to follow the matrix when processing requests to raise invoices and the matrix should be updated to ensure it is in line with current Force structure. (Implementation – May 2016)

## Payment & Creditors

Assurance Opinion	Satisfactory
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	-
Priority 3 (Housekeeping)	5

Our audit considered the following control objectives:

- Procedures and policies support the creditor payment process and have been communicated to all relevant staff;
- Systems and data are adequately protected to reduce the risk of them being open to abuse;
- New and amended vendor details can only be processed by authorised officers and these are subject to a secondary check;
- Goods and services are adequately receipted and supported by adequate documentation;
- Payments are made following the receipt of a valid supplier invoice and payments made agree to the supplier invoice;
- There are effective controls in place for the approval of non-purchase order invoices;
- Urgent payments are only made for bona fide expenditure after proper approval;
- There are effective procedures in place with regards the use and administration of corporate credit cards;
- The payments system is regularly reconciled with the general ledger;
- There are effective processes in place for the administration of tax and liaison with HMRC;
- Appropriate segregation of duties in the processing of the BACS file;
- Performance against the target payment policy is monitored and under-performance addressed where necessary.

We raised five priority 3 recommendations of a house-keeping nature in respect of the following:

- The T-Police system provider, Capgemini, should be contacted to see if new role ID's can be created on the system to provide a stronger control environment. (Implementation – Sept 2016)
- The current arrangement for the cardholder should be reviewed to ensure there remains a business need to continue with it. (Implementation – April 2016)
- Cardholder guidance should be agreed and circulated to all cardholders, with the new updated cardholder agreements signed by cardholders. (Implementation – August 2016)
- The G4S Finance department should hold a list of BACS cardholders to ensure that appropriate individuals have cards. (Implementation – May 2016)
- The current signatory list should be reviewed and updated. (Implementation – May 2016)

## Appendix A2 Internal Audit Plan 2015/16

Auditable Area	Planned Fieldwork Date	Draft Report Date*	Final Report Date*	Target JIAC	Comments
<b>Core Assurance</b>					
Governance	Aug / Sept 2015	A - Oct 2015	A - Nov 2015	Nov 2015	Final report issued.
Procurement	Aug 2015	A - Aug 2015	A - Sept 2015	Sept 2015	Final report issued.
Risk Management	Aug 2015	A – Oct 2015	A – Nov 2015	Nov 2015	Final report issued.
<b>Core Financial Systems</b>					
Budgetary Control	Sept 2015	A - Jan 2016	A – Feb 2016	March 2016	Final report issued.
Cash, Bank & Treasury	Nov / Dec 2015	A - Jan 2016	A - Jan 2016	March 2016	Final report issued.
Payroll	Feb 2016	P - March 2016	P - April 2016	July 2016	Scope agreed and starts 21 <sup>st</sup> March. Delay agreed with DF 01/02/16
General Ledger	Nov / Dec 2015	A - Jan 2016	A – Feb 2016	March 2016	Final report issued.
Income & Debtors	Feb 2016	A - Feb 2016	A - March 2016	March 2016	Final report issued.
Payment & Creditors	Feb 2016	A - Feb 2016	A - March 2016	March 2016	Final report issued.
Asset Management	Nov / Dec 2015	A - Jan 2016	A – Feb 2016	March 2016	Final report issued.

Auditable Area	Planned Fieldwork Date	Draft Report Date*	Final Report Date*	Target JIAC	Comments
<b>Strategic &amp; Operational Risk</b>					
Code of Practice for Victims of Crime	Feb 2016	P – March 2016	P - March 2016	July 2016	Scope agreed and starts 29 <sup>th</sup> February.
Delivery of Partner Outcomes – LCJB					Audit postponed on management's request. Whilst other Partnership Arrangements were being considered, management have requested this be deferred to 2016/17. Agreed with DF10/02/16
Benefit Realisation Evaluation	March 2016	P - April 2016	P - April 2016	July 2016	Scope agreed and starts 7 <sup>th</sup> March.
T-Police – User Acceptance / Change Control	March 2016	P – April 2016	P - April 2016	July 2016	Scope agreed and starts 16 <sup>th</sup> March.
HR – Flexible Working					Audit deferred until 2016/17 on management's request and replaced with 'Pensions'.
Stock	March 2016	P – April 2016	P - April 2016	July 2016	Additional request; scope currently being agreed. Agreed with DF 01/02/16
Pensions	Feb 2016	P - Feb 2016	P - March 2016	July 2016	Work is currently in progress.
Firearms Licensing	July 2015	A - Aug 2015	A - Sept 2015	Sept 2015	Final report issued.
Estates Management	Sept 2015	A - Sept 2015	A - Oct 2015	Nov 2015	Final report issued.
<b>Collaboration</b>					
Collaboration	On-going	On-going	On-going	On-going	See paragraph 2.5.

\* P – Planned Date; A – Actual Date

## Appendix A3 – Definition of Assurances and Priorities

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
<b>Significant Assurance:</b>	There is a sound system of internal control designed to achieve the Organisation's objectives.	The control processes tested are being consistently applied.
<b>Satisfactory Assurance:</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the Organisation's objectives at risk.	There is evidence that the level of non-compliance with some of the control processes may put some of the Organisation's objectives at risk.
<b>Limited Assurance:</b>	Weaknesses in the system of internal controls are such as to put the Organisation's objectives at risk.	The level of non-compliance puts the Organisation's objectives at risk.
<b>No Assurance</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse.	Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Definitions of Recommendations	
Priority	Description
<b>Priority 1 (Fundamental)</b>	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
<b>Priority 2 (Significant)</b>	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
<b>Priority 3 (Housekeeping)</b>	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.



## Appendix A4 - Contact Details

### Contact Details

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## A5 Statement of Responsibility

### **Status of our reports**

*The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.*

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