POLICE & CRIME COMMISSIONER FOR LEICESTERSHIRE JOINT AUDIT, RISK & ASSURANCE PANEL

PAPER MARKED

C

Report of	**OFFICE OF POLICE & CRIME COMMISSIONER**
Subject	**INTERNAL AUDIT ANNUAL REPORT 2012/13**
Date	**WEDNESDAY 26 JUNE 2013 – 2.45 P.M.**
Author :	**CHIEF FINANCE OFFICER**

Purpose of Report

1.   The annual report contains the Internal Audit Assurance Statement which provides the Chief Finance Officers with evidence to be presented within the Annual Governance Statements. This is contained within the Statement of Accounts and is an important aspect of corporate governance.

Recommendation

2.   The Panel is recommended to note the report.

Background

3.   The internal audit plan for 2012/13 was approved by the previous Audit and Risk Committee in March 2012.

4.   Progress reports have been presented throughout the year summarising the opinions and high level findings of final audit reports.

Internal Audit Opinion 2012/13

5.   For the 12 months ended 31 March 2013, based on the work we have undertaken, our opinion is that the Office of the Police & Crime Commissioner for Leicestershire and Leicestershire Police had adequate arrangements for governance, risk management and control.

6.   Since November 2012, when the PCC took up post, we have completed reviews of risk management and a number of assurance reviews, which have indicated some areas for improvement.   It is acknowledged that the Organisations are in a process of change and our recommendations, where applicable, are reflective of the changing environment.

Implications
Financial: none.
Legal: none.
Equality Impact Assessment: none.
Risks and Impact: none.
Link to Police and Crime Plan: none

List of Attachments / Appendices
Appendix 1: Internal Audit Annual Report

Background Papers
Internal Audit Strategy 2012/13 presented to the Audit and Risk Committee in March 2012, in addition Progress reports have been presented throughout the year summarising audits reports and reports are finalised.

Persons to Contact
Mr P Lewis, Chief Finance Officer – tel 0116 229 8980
Email: peter.lewis@leics.pcc.pnn.gov.uk

Mr D Harris, RSM Tenon - tel 07792948767
Email: daniel.harris@rsmtenon.com

Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police

Internal Audit Annual Report

Year ended 31 March 2013

Presented at the Audit Committee meeting of: 28 June 2013

Daniel Harris
Head of Internal Audit

1 INTERNAL AUDIT OPINION

1.1 Context

As the provider of the internal audit service to Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police we are required to provide the Section 151 Officer and the Audit Committee an opinion on the adequacy and effectiveness of the organisation's 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 Office of the Police and Crime Commissioner (OPCC) 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 2012/13 which saw the abolition of the Police Authority and the creation of the PCC.

As your internal audit provider, the assurance and advisory reviews that RSM Tenon provides during the year are part of the framework of assurances that assist the PCC and Chief Constable prepare an informed annual governance statement.

1.2 Internal Audit Opinion 2012/13

> **For the 12 months ended 31 March 2013, based on the work we have undertaken, our opinion is that the Office of the Police & Crime Commissioner for Leicestershire and Leicestershire Police had adequate arrangements for governance, risk management and control. Since November 2012, when the PCC took up post, we have completed reviews of risk management and a number of assurance reviews, which have indicated some areas for improvement. It is acknowledged that the Organisations are in a process of change and our recommendations, where applicable, are reflective of the changing environment.**

1.3 The Basis of the Opinion

1.3.1 Governance

Early in 2012/13 we undertook 3 governance reviews focussing on the transitional arrangements. The audits focussed on Work Stream Management (reasonable assurance opinion), Commission, Partnerships and Communications (substantial assurance) and Preparation for day one of the PCC (Advisory review).

We considered that effective controls were predominantly in place and being applied to effectively manage the transition governance arrangements and mitigate the risks associated with the transition. Our recommendations were aimed at enhancing these controls and they were accepted by management.

Since the introduction of the Police and Crime Commissioner for Leicestershire, we have not undertaken any reviews specifically focused on the new Governance arrangements. However, as part of our follow up work we obtained an update on the Governance arrangements where we found that the governance framework was drawn up based on APACE guidance and model documents had been localised and based on the needs of the PCC. It was acknowledged that the governance framework was initially set up early in December 2012 and a new Force Executive Board has been established, with Terms of Reference which had been agreed. These meetings were chaired by the PCC and were intended on setting the strategic direction for Leicestershire Police and monitoring progress against the Police and Crime Plan. Meetings are also held in public with the aim of providing greater transparency.

1.3.2 Risk Management

We undertook a review during the year of the Risk Management arrangements in place for the Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police which resulted in an Amber/Green (reasonable assurance) opinion.

RSM Tenon
Connected for Success

We found that the Organisational Risk Management Policy had been updated, however, it had not been officially authorised by the Strategic Organisational Risk Board. A separate PCC Risk Strategy document had also been drafted and endorsed by the Joint Audit, Risk and Assurance Panel in December 2012. Risk management reporting was found to be regular and sufficient.

Work to identify and document sources of assurance (potentially via ORCHID) was underway and we carried forward a recommendation from 2011/12 until this recommendation is fully implemented.

1.3.3 Control

Eight other assurance audit reports were issued, which comprised of five Green (substantial assurance) and three Amber Green (reasonable assurance); Key Financial Controls (EMSOU), Transition Asset Management and Performance Management.

In addition, we have completed five advisory reviews where recommendations have been made to improve the control environment.

1.3.4 Acceptance of Recommendations

All of the recommendations made during the year were accepted by management.

1.3.5 Progress made with previous internal audit recommendations

We undertook two follow up reviews within the year, the first showed that little progress had been made in implementing previously agreed recommendations, as summarised below. The three High recommendations outstanding related to the Seized and Lost Property review where we found that 2 were in progress and one was not due at the time of our review.

Recommendation Priority	Number followed up	Of which:	
		Addressed	Not implemented or still in progress
High	3	0	3
Medium	15	5	10
Low	13	8	5
Totals	**31**	**13**	**18**

The second showed that adequate progress had been made in implementing the agreed recommendations, as summarised below.

Recommendation Priority	Number followed up	Of which:	
		Addressed	Not implemented or still in progress
High	0	0	0
Medium	18	11	7
Low	8	6	2
Totals	**26**	**17**	**9**

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

Below are just a few of the areas where we have provided added value services during the course of 2012/13:

- Client briefings throughout the year.

RSM Tenon
Connected for Success

- Sharing of best practice through areas such as Governance through the Transition to the Police and Crime Commissioner.

- Risk Management training and workshop with Senior Management Team and Joint Audit, Risk and Assurance Panel.

- Review of the Corporate Governance Framework document and feedback on the content of the document at the JARAP.

2.2 Conformance with Internal Audit Standards

RSM Tenon affirms that our internal audit services to Office of the Police and Crime Commissioner and Leicestershire Police are designed to comply with the CIPFA Code of Practice for Internal Audit and the International Standards published by the Global Institute of Internal Auditors (IIA).

Under the standards, internal audit services are required to have an external quality and review at least once every five years. During 2011 RSM Tenon 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 IIA.

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".*

In this year we have reviewed our processes to ensure we will be conformant with the Public Sector Internal Auditing Standards when they are introduced in 2013/2014.

2.3 Conflicts of Interest

During 2012/13 our Business Advisory Department has provided support to the Office of the Police and Crime Commissioner in relation to Governance, Commissioning and recruitment of members of the JARAP. We (RSM Tenon) do not consider this would lead us to declare any conflict of interests as these have been completed under separate engagement letters and Engagement Partners.

INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2012/13

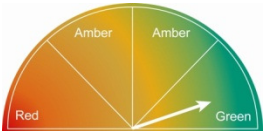| Audit	Opinion	Actions Agreed (by priority)		
		High	**Medium**	**Low**
Audits to address specific risks				
Transition Governance - Work Stream Management *Failure to have appropriate governance structures in place to establish monitor and implement the transitional arrangements*	Amber Green	0	2	0
Governance - Transition (Commissioning, Partnerships and Communications *Failure to progress and deliver plans for the transition to the PCC, in accordance with the required timescales.*	Green	0	1	0
Governance - Transition Preparation for Day One of the PCC *Failure to progress and deliver plans for the transition to the PCC, in accordance with the required timescales leading to failure to operate on day one.*	Advisory	0	0	0
IT Disaster Recovery (DR) Control Framework (Draft) *An absence of a satisfactory IT DR control framework resulting in a loss to systems operations.*	Green	0	1	0
Audits to address External Audit Reliance or to meet Regulatory Requirements				
Follow Up Part 1	Little Progress	0	10	6
Key Financial Controls (EMSOU)	Amber Green	0	3	9
Transition Asset Management	Amber Green	0	1	0
Income and Debtors	Green	0	0	3
Cash, Banking and Treasury Management	Green	0	0	2
Key Financial Controls	Green	0	0	0
Risk Management	Amber Green	0	2	3
Follow Up Part 2	Adequate Progress	0	2	1
Other Internal Audit Input				
Winsor Review - Advisory	Advisory	1	0	2
Advisory Review of Efficiency Savings Plan	Advisory	2 (not categorised)		

RSM Tenon
Connected for Success
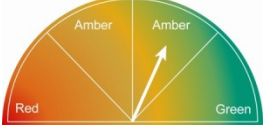
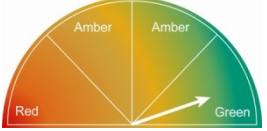|				
Performance Management	Amber Green	0	0	3
Ebay Procedures	Advisory	0	7	0
Payroll Provider Review	Green	0	0	0
HR – Regional Review – Occupational Health	Advisory (Draft)	11 (not categorised)		
HR – Regional Review – Learning and Development	Advisory (Draft)	8 (not categorised)		
	Total	**1**	**29**	**29**

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 Board 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 Board 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 Board 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 Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

RSM Tenon
Connected for Success

Assignment: Payroll Provider Review	Opinion: Green	

Headline Findings:

We found that the design and application of the control environment was adequate and effective with no High or Medium recommendations being made.

Assignment: Transition Governance – Work Stream Management	Opinion: Amber / Green	

Headline Findings:

We found that the design of the control environment was adequate however we raised 2 medium priority recommendations with regards to its application. These were in relation to the tasks and work required and assigned to the Chief Executive / Treasurer.

We were advised that the work streams assigned to this post covered a significant number of tasks and raised our concerns as to whether the level of work required was achievable given the resources available as well as the need to carry out on-going day to day responsibilities. We were advised that this matter had been discussed and we were advised that a 'paper' was to be submitted to the Transition Board meeting on the 15th May 2012 to gain additional resources to help to administer and assist in completing the tasks required in preparation for the incoming Police and Crime Commissioner (PCC).

Assignment: Governance - Transition (Commissioning, Partnerships and Communications)	Opinion: Green	

Headline Findings:

We found that the control environment had been adequately designed with only 1 medium priority recommendation being raised. Our testing did not identify any issues with regards to the application of controls. The one medium priority recommendation relating to the design of the control framework related to:

- The terms of reference for completion (of the PDD Brochure) did not clearly set out exact elements / requirements for the task with clear timelines for completion of key elements of the project so that those responsible were aware of the stages / timelines for submission (other than the final due date for full completion of the task).

Assignment: Winsor Review		**ADVISORY**

Headline Findings:

This was an advisory audit and did not result in a formal assurance opinion being provided. However we raised 1 high priority recommendations to address the following:

- The first payment run had only just been completed at the time of our review and we were advised that Finance would be meeting with PSD to determine what management information reports would need to be produced to decide what checks / processes would established to gain the required assurances over the management arrangements going forward.

Assignment: Follow Up – Part 1

LITTLE PROGRESS

Headline Findings:

The audits considered as part of the follow up review were:

- Business Continuity (Non IT)
- Business & Strategic Planning - Community
- Engagement and Communications
- Seized / Found Property
- Fire Arm Licensing
- Covert Human Intelligence Source (CHIS) Payments
- Follow Up

This audit concluded that **little progress** had been made in implementing actions agreed to address internal audit recommendations. We found that 45% of recommendations had been implemented or superseded. The remaining recommendations were either in the process of being implemented or had not been implemented.

Assignment: Advisory Review of Efficiency Savings Plan

ADVISORY

Headline Findings:

RSM Tenon was engaged to undertake a review of the Efficiency Savings Plan. This review considered the following aspects:-

- The method by which the benefits of the schemes have been determined

- Do the benefits link directly to specific budget lines

- What project plan is in place to deliver the scheme

- Whether a named individual is responsible for delivery of the benefits

In addition to reviewing the schemes we also mapped the governance arrangements in place to provide assurance to the organisation during the delivery phase and the method by which risks and issues would be escalated where necessary and resolved. This was a key element of delivery of a large scale efficiency programme.

Assignment: Key Financial Controls (EMSOU)

Opinion: Amber / Green
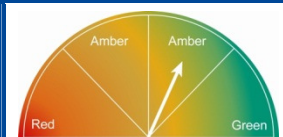
Headline Findings:

The review focussed on 11 areas of key financial controls; these were:
1. Purchasing and creditor management;
2. Debtors;
3. Cash and bank;
4. Overtime claims and processing;
5. Travel and expense claims;
6. Credit cards;
7. General ledger journals;
8. Management of covert expenditure;
9. Financial Management and information processes;
10. Budgeting; and

RSM Tenon
Connected for Success

11. Financial reporting.

We confirmed in most cases the control framework was adequately designed and had been applied effectively. However, we have made a total of three medium priority recommendations in the Purchasing & Creditor Management area and the Financial Management and Information processes areas. These are detailed below:

- There was a procedure in place for the raising of purchase orders to ensure that all expenditure was approved and recorded as committed before goods and services were ordered; however testing identified one instance where an order was raised after the services had been received. We also confirmed that purchase invoices were not matched to orders for Occupational Health due to the orders being raised within the Occupational Health departments but the invoices being processed by EMSOU Business Support.
- A three way matching process was in place for purchase orders, goods received notes and purchase invoices, however where no goods received note was received, evidence that the goods were confirmed as received was not always documented. We also identified that invoices without a purchase order were not always signed in line with the limits established in the Authorisation/Credit Card Limits.
- We were unable to confirm the authorisation for all ad hoc cheque payments reviewed.

Assignment: Transition – Asset Management	Opinion: Amber Green
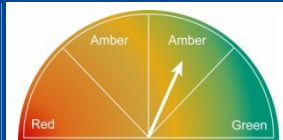
Headline Findings:

We raised 1 medium priority recommendation with regard to the design of the control framework. We found that the application of the existing control framework had been adequate. The specific issue leading to the recommendation was:

- The process agreed to complete searches via Land Registry records to ensure that properties owned by the organisation were appropriately registered was not complete at the time of our review.

| Assignment: Governance - Transition: Preparation for Day One of the PCC	**ADVISORY**

Headline Findings:

- From the 27 single points of failure reviewed we made nine recommendations whereby further action was required to limit the risk of realisation of these single points of failure on day one of the PCC's office.
- The main issue identified within the report which impacted on several areas was that Force policies required security clearance for an employee to be issued with a collar number, IT access and building access; but there was no requirement for the PCC to be vetted. Therefore, special dispensation needed to be obtained from the Chief Constable to bypass these policies. The PCC could agree to be vetted however, if vetting returned anything that would usually render a candidate unemployable, there was nothing that the Force can do other than limit access to buildings and IT to levels which would be appropriate for the PCC to undertake their duties.

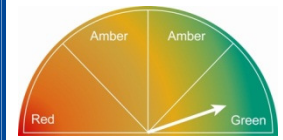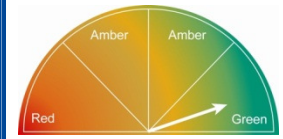| Assignment: Income and Debtors	Opinion: Green
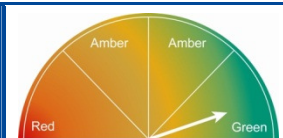
Headline Findings:

We found that the design and application of the control environment was adequate and effective with no High or Medium recommendations being made.

RSM Tenon
Connected for Success

| Assignment: Cash, Banking and Treasury Management | Opinion: Green | |

Headline Findings:

We found that the design and application of the control environment was adequate and effective with no High or Medium recommendations being made.

| Assignment: Key Financial Controls | Opinion: Green | |

Headline Findings:

The areas covered in this audit were:

- General Ledger,
- Payroll,
- Creditors and Payments, and
- Budget Control.

Sample testing was carried out in each of the areas to satisfy the requirements under the external audit protocol. We found that the design and application of the control environment was adequate and effective with no High or Medium recommendations being made.

| Assignment: Performance Management | Opinion: Amber / Green | |
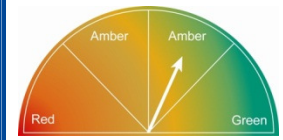
Headline Findings:

Whilst some areas of weakness were identified, we found that adequate management action was being taken to address and progress these areas including the development of the new Performance Dashboard therefore we did not repeat these recommendations within the report (made in a previous review), but these did impact the overall assurance level provided.

| Assignment: Follow Up – Part 2 | | **ADEQUATE PROGRESS** |

Headline Findings:

The audits considered as part of the follow up review were:

- 19.11/12 IT Strategic Controls
- 20.11/12 Follow Up - Health & Safety
- 3.12/13 Governance - Transition (Commissioning, Partnerships and Communications)
- 5.12/13 Follow Up
- 8.12/13 Transition Asset Management
- In addition, we have provided an update on the Governance Framework
- In addition, as a follow up to the Transition Governance reviews undertaken in 2011/12 and 2012/13, we

have undertaken a high level review of the current governance framework for the Office of the Police and Crime Commissioner and to establish the progress made and identify any significant gaps.

This audit concluded that **adequate progress** had been made in implementing actions agreed to address internal audit recommendations. We found that 65% of recommendations had been implemented or superseded. The remaining recommendations were either in the process of being implemented or had not been implemented.

Assignment: Risk Management	Opinion: Amber / Green	
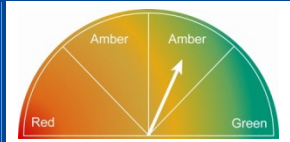
Headline Findings:

The review identified issues with both the design and application of the control environment resulting in 2 medium priority recommendations being raised. Specifically the issues identified were:

- Assurances on the control in place to manage risk were required to be identified, documented and used to inform the risk management process. Enhancements to the arrangements on risk management were required to be progressed to provide feedback to the OPCC for the production of the annual statements. We were advised this matter was to be taken forward by the OPCC as part of the year end process, but the Force had made little progress to implement recommendations made in our previous review on this issue.

- The Force were required to determine how the departmental interface and risk management arrangements with departments/ directorates could best be served, setting out the requirements, tasks and responsibilities to be followed to increase the level of involvement on risk management matters at the departmental level across the Force.

| Assignment: Ebay Procedures		**ADVISORY**

Headline Findings:

This was an advisory audit and therefore no assurance opinion was provided. We did however raise 7 medium priority recommendations addressing both the design and application of the control environment. The issues identified were:

- Procedures were required to be developed for the use of Ebay to provide greater assurances that the work of the team could continue in the correct manner in event of any prolonged absences and to provide the team a framework to illustrate that a clear and transparent process had been followed.

- Further restrictions were required to be established over access to the PayPal account and to consider options to limit the onward transfer of funds to specific accounts only.

- In order to provide assurance that only bonafide transactions were completed when transfers of funds were made, reports were required to be run and be subject to independent checks for assurance purposes.

- The PayPal account provided the means to effect secure payment facilities for buyers. We found that the account was being used as a 'holding' account for income to the organisation until such time as the POCA cases were deemed to be closed and this could have been held for a number of months. Therefore, we considered that a separate bank account was required to be opened and regular transfers made from the PayPal account into a specific Economic Crime Unit (ECU) account to avoid leaving any significant balances in the account.

- There was a need to ensure that arrangements were set up and carried out to reconcile the bank account on a regular basis and that once completed were required to be subject to an independent review / sign off.

- Any wholesale transfer from the PayPal account to a new bank account was required to be reconciled and evidence retained to confirm the balances / items were deemed to be accurate and that all monies were accounted for.

- There was a need to ensure that fees charged by Ebay were subject to regular checks to ensure these were being accurately charged.

RSM Tenon
Connected for Success

| Assignment: IT – Disaster Recovery (DR) Control Framework | Opinion: Green (Draft) | |
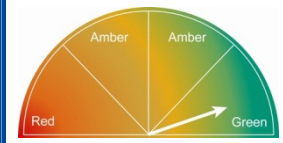
Headline Findings:

We found that the design of the control framework was largely adequate. However we did raise 1 medium priority recommendation relating to the following issue:

- The design of the IT Business Continuity Plan was found to include all primary areas of good practice. However, a comparison of the Recovery Time Objectives (RTO) entered in the Activity Summary and RTO section of the Business Continuity Plan with the recovery timeframes agreed in the Service Summary Sheet found that some RTOs shown on the Activity Summary did not agree with the RTO timeframes available in the Summary Sheet, with inconsistencies in RTO times.

| Assignment: HR – Regional Review – Occupational Health | | **ADVISORY** |

Headline Findings:

Our review was undertaken as an advisory piece of work and did not therefore result in a formal assurance opinion on the process.

The OH Unit had a slower than planned start due to recruitment issues and the focus had to be on the delivery of the core services which had resulted in the revision/harmonisation of some back office functions being behind schedule. The delay in the implementation of the new document management system had also added to operating difficulties. Savings had been achieved, although in year 1 these have been less than anticipated due to the delays over the establishment restructure.

We raised recommendations relating to the following issues:

- The net result of the delays in putting the new structure in place meant that to continue offering the services there were cases where the Clinical Lead herself had to take clinics due to the lack of nurses, some work had to be sub contracted out to Leicestershire Fire and Rescue Service and administrative duties such as harmonising policies and procedures had to be put on hold.
- We noted that whilst the Service Plan for 2012/13 contained the revised figures and the impact of these in coming years it did not contain any commentary as to why or how these have changed from the original Business Case and without assistance from the Business and Finance Manager we would have been unable to reconcile figures in the Service Plan to the Business Case to the budget presented.
- It was accepted that given the issues and delays with staffing the Unit appropriately and those encountered as a result of the electronic document management system not being up and running the focus on the Unit had been very much to ensure that the general service delivery had been maintained and this had resulted in some back office functions, such as identifying, harmonising and issuing standard policies and procedures taking a back seat.
- We were advised a new Referral Triage Template had been introduced for completion by the OH Nurse that ensures that where the Nurse had identified on initial receipt that further information and or clarification of information recorded was required this could be recorded so as to provide a log of actions and times taken. We would comment that the form was required to be enhanced to record the date received, the date the Nurse undertook the evaluation and the date it was passed back to the Administration Team to enable more accurate recording of dates for performance targets.

| Assignment: HR – Regional Review – Learning and Development | | **ADVISORY** |

Headline Findings:

Our review was undertaken as an advisory piece of work as it is considered that this is still in the stages of

RSM Tenon
Connected for Success

development and as such we have not provided a formal assurance opinion on the process.

There were slight delays in the establishment of the new structure which has created additional one-off savings in year 1, although it is anticipated that all posts will be filled by the end of May 2013.

We raised recommendations in the following areas:

- Due to the lack of budget information in the Business Plan for 2012/13 and in the draft 2013/1/4 version we were unable to verify that anticipated savings had been taken into account as originally detailed in the Business Case.

- We confirmed that the budget for 2013/14 was presented to the December 2012 meeting of the Management Board and noted that whilst there was discussion around the budget there was no explicit note that the budget had been approved and at what level.

- Due to the slight delay in getting the final management structure up and running it was accepted that there was still work to be done to identify and harmonise L&D related policies and procedures from the four Forces.

- We considered that there was a need to re-align the questions in the course evaluation form to 'fit' the KPIs.

- We noted during testing that whilst the number of forms returned was recorded there was no record as to how many were actually handed out. For example, if only two forms were returned and both met the KPIs then on the face of it the course was well run however if there had have been 20 students on the course and only 2 submissions this might question the validity of the outcomes.

RSM Tenon
Connected for Success