



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

Internal Audit Progress Report 2016/17

September 2016

Presented to the Joint Audit, Risk & Assurance Panel meeting of: 19th September 2016

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01 Introduction

- 1.1 The purpose of this report is to update the Joint Audit, Risk & Assurance Panel (JARAP) as to the progress in respect of the 2016/17 Internal Audit Plan which was considered and approved by the JARAP at its meeting on 22nd February 2016.
- 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 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 As reported in the last progress report, as part of the 2015/16 Internal Audit Plan, Internal Audit were tasked with undertaking four audits of collaborative arrangements across the region. Further to the last progress report, where we had issued one final collaborative report in respect of Forensics, we have now issued the final reports in respect of the other three audits. Further details are provided in Appendix 1, whilst a summary is provided below.

Collaboration 2015/16 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Forensics	Final	Satisfactory	-	3	2	5
Officers in Kind	Final	Significant	-	-	3	3
Covert Payments	Final	N/A	-	2	1	3
PCC Board Governance	Final	N/A	-	3	4	7
Total			-	8	10	18

- 2.2 We have issued one final report in respect of the 2016/17 plan since the last progress report to the JARAP, this being in respect of Complaints Management. Additionally, a draft report has been issued in respect of Vetting Procedures and we await management's response. Further details are provided in Appendix 2.

Leicestershire 2016/17 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Business Continuity	Final	Significant	-	-	3	3
Complaints Management	Final	Satisfactory	-	3	-	3
Vetting Procedures	Draft					
Total			-	3	3	6

- 2.3 We are in the process of agreeing the scope of a number of audits that will be carried out over the coming months. These include the Core Financial Systems, Pensions Provider, Information Technology and Victims Code of Practice. Further details are provided within Appendix A3.
- 2.4 Following discussions between the OPCC Chief Financial Officers and the Chairs of the joint committees, five specific areas have been identified in terms of the collaborative audits for 2016/17. In each case a lead officer (OPCC CFO) has been identified as a single point of contact. The initial reviews will look at the business plan and S22 agreement in terms of whether it is being delivered and is fit for purpose going forward; the scope will also include value for money considerations and arrangements for managing risk. The areas of collaboration that will form the focus of these initial reviews are:
- EMCHRS Transactional Services
 - EM Legal Services
 - EMOpSS
 - EMS Commercial Unit
 - EMSOU

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 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 JARAP	As agreed with the Client Officer	N/A
2	Annual Operational and Strategic Plans to the JARAP	As agreed with the Client Officer	Achieved
3	Progress report to the JARAP	7 working days prior to meeting.	Achieved
4	Issue of draft report	Within 10 working days of completion of final exit meeting.	100% (3/3)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (2/2)
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% (6/6)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	N/A

Appendix A1 – Summary of Collaboration Reports 2015/16

Below we provide brief summaries of the three collaboration final audit reports that were in draft at the time of the previous progress report:

Officers in Kind

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

The East Midlands Specials Operation Unit (EMSOU) is a regional tasking structure where officers from each of the five forces can be assigned to EMSOU on an ad hoc basis to investigate certain crimes. The resources for EMSOU are separated into two types of posts:

- Funded Posts
- Officers in Kind

The salary costs of Force Officers in funded posts will be reimbursed to the forces from EMSOU's budget whilst the salary costs of 'in kind' posts will be borne by each individual force.

The Section 23 Collaboration agreement that is in place states that the funding of these 'in kind' posts are to be attributed to each force based on the formula grant that each force received as a percentage of the total of the five forces grant combined.

However, as the number of officers seconded to work for EMSOU may not precisely reflect the above split, the agreement states that year-end adjustments are to be made to account for forces that have provided officers above or below their allocation. The adjustments take into account actual staffing costs incurred by Forces taking into account the ranks of officer provided.

Our audit considered the following area objectives:

- There are clear and agreed procedures in place between EMSOU and each regional force with regards the funding model for officers in kind.
- Costings in respect of officer in kind funding are understood, accurate, supported by a clear funding model and are communicated to the regional forces in a timely manner.
- Estimates of each forces contribution are given at the outset and supported by monthly outturn projections.
- Charges made to the regional forces are supported by clear documentation / funding assumptions.
- Variations to the number and grade of officers provided by each regional force are taken into account within the funding model, including year-end adjustments.
- There is clear, timely and complete management information in place to support the funding model and to enable forces to manage their budgets.
- Each regional force has sound budget processes in place that enable them to manage officer in kind payments, including projected year-end adjustments.
- The current accounting procedure and process for the treatment of Officers in Kind is an efficient and effective model for the secondment of officers working in regional units.

We raised three priority 3 recommendations of a housekeeping nature. These are set out below:

- A timetable for the year should be agreed and shared with the Forces to give them more notice of when their Officers in Kind returns are due.
- Once SMT have reviewed the Officer in Kind forecasts they should be emailed to the Forces to assist them by having a monthly update rather than await the quarterly meeting.
- The current year-end adjustments made under the Officers in Kind funding model should be reviewed with alternative approaches considered, including:
 - Removing the year-end adjustments for Officers in Kind contributions, accepting that some Forces will over allocate and some will under allocate but across all East Midlands collaboration work the costs are fairly spread.
 - Agreeing with the five forces a different methodology for the current ratios of resources expected e.g. use other indicators outside of the size of formula grant.

Management confirmed that most actions will be undertaken by 31st August, although some may take to the end of the financial year.

Covert Payments

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

The East Midlands Specials Operation Unit (EMSOU) is a regional tasking structure where officers from each of the five forces can be assigned to EMSOU on an ad hoc basis to investigate certain crimes.

The Covert Unit is one of the branches of EMSOU and due to the sensitive nature of their work it has a variety of separate systems in place to protect the identity of Covert Officers, the locations in which they operate and the payments made in relation of their work.

The Covert Unit have a small Finance and Admin Team who manage the finances of the unit using SAGE accounting software however it is not operated like a standard financial system with supplier set up and payments made out of it. Instead, a series of designated bank accounts are set up with transfers made via internet banking, with the transactions entered in the SAGE system to account for movement of funds.

The audit review 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.
- There are clear and understood procedures in place for the authorization and setting up of bank accounts.
- Transfers between bank accounts are approved and documented.
- 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.
- There are agreed and effective processes in place for the authorisation of covert payments.
- Payments made in respect of covert activities are valid and appropriate.
- There are effective controls in place with regards accounting for covert payments.

- Timely and accurate management / payment information is available to support the delivery of covert activities.

We raised two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below

- EMSOU should research the possibility of utilising business online banking where segregation of duty for authorising payments is possible.
- A regular review of payees on the bank accounts should be completed to ensure that no inappropriate amendments or additions of payees have been made on the covert bank accounts.

We also raised a housekeeping issue with regards signing and dating invoices.

Management confirmed that all actions will be undertaken by the end of October 2016.

PCC Board Governance

Assurance Opinion	N/A
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	3
Priority 3 (Housekeeping)	4

The East Midlands Police and Crime Commissioners Board was established in 2012. Membership of the Board comprises the Police and Crime Commissioners, Chief Constables, the Regional Deputy Chief Constable and Office of the Police and Crime Commissioner (OPCC) Chief Executives. The Board meets on a bi-monthly basis with the Chairmanship held by one of the five PCC's and rotated on an annual basis.

The Boards initial remit (as per the 2012 Terms of Reference) included the review of financial and performance reports at each of its meetings and oversee the development of strategic collaborations and ensure appropriate financial and administrative infrastructures are in place to support regional activities.

Our audit considered the following area objectives:

- *Governance Arrangements* - There are defined arrangements for the Board with documented roles and responsibilities, accountability and decision making processes. Structure of meetings is effective and outcomes, actions and decisions are well documented.
- *Collaboration Arrangements* - There is effective oversight of Section 22 collaboration arrangements to ensure the effective use of resources and delivery of required outcomes.
- *Decision Making* - Decision making processes are clearly defined and operate effectively to ensure transparency in terms of value for money and effective use of resources.
- *Change Management* - Horizon scanning is undertaken to ensure informed change managements. Considerations of changes in responsibility and 'churn' of officers is embedded with the board operations.
- *Performance Management and Accountability* - There is a consistent approach to performance management and ensuring accountability of Chief Constables. Financial planning and budget approval for regional collaboration is consistent and effective.

We raised three priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below

- A Governance Framework should be produced to support the operation of the PCC Board. This should define and consider, as a minimum,:
 - Objective, role and purpose of the Board;
 - Strategic oversight arrangements;
 - Reporting requirements (operational and financial);
 - Clear accountability and delegations for collaboration activity;
 - Compliance management procedures
 - Decision making processes; and
 - Risk management processes.
- A Strategic Plan should be produced to provide oversight of the current collaboration arrangements, associated activity and future direction or creation of new collaborations.

It would be beneficial for the strategic plan to illustrate a high level overview of each existing collaboration alongside, for example, key targets and milestones, financial budgets/ associated costings, any required efficiency savings and any significant change or transformation considerations.

There is also an opportunity for the plan to be supported by a Strategic Risk Register developed as part of the Controls Assurance Statement work being progressed with RSM.

The plan and risk register should be updated on a quarterly basis and presented to the PCC Board to enable oversight of all collaborative activity in a consistent and regular format.

- The current performance reports should be reviewed by the Board to establish:
 - High level aims and objectives of each collaboration;
 - Quantifiable targets to support these aims and objectives;
 - Reporting of targets against aims and objectives; and
 - Value for money assessments.

Where collaborations are operating as business as usual, a high level performance reporting template should be used to evidence that operations are meeting their aims and objectives.

We also raised four housekeeping issues with regards the Board's Terms of Reference and Work Programme, the decision making process and value for money.

Management confirmed that all actions will be undertaken by the end of the financial year.

Appendix A2 – Summary of Reports 2016/17

Below we provide brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final report issued since the last meeting of the last progress report:

Complaints Management

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

Our audit considered the risks relating to the following areas under review:

Governance Arrangements

There are effective governance arrangements in place for the investigation and resolution of complaints that includes defined roles and responsibilities, senior oversight and reporting arrangements.

There are clearly documented procedures in place that support the complaints investigation process which are in line with the Police Reform Act 2002, Police (Complaints & Misconduct) Regulations 2012 and any other relevant legislation and good practice.

Processing of Complaints

There is a mechanism for accurately recording complaints information and adequate information is collected from the complainants.

Complaints are correctly assessed and dealt with in accordance with the relevant legislative and procedural requirements.

The complaints management process meets the objective of addressing the concerns of the complainants and/or satisfies them that they have been listened to and treated fairly, even if the outcome is not what they were seeking. This includes the updating of complainants on the progress of their complaints in line with service standards.

Monitoring Arrangements

There are key performance indicators and internal targets in place for the complaints management process.

Robust performance information is produced that enables the Force and OPCC to effectively manage the complaints process and provide assurance that complaints have been handled in line with requirements.

We raised three priority 2 recommendations where we felt that controls could be strengthened. These related to the following:

- The Force should ensure that allegations are uploaded onto Centurion in a timely manner of the allegation being made to the Force.
- The Force should ensure that complainants are kept informed and up to date with the status of their complaint.
- Management should introduce Key Performance Indicators or Targets in relation to the management of complaints. An example may be for Leicestershire to be below the MSF Average, or 10% of Appeals to be upheld by the IPCC.

Management have confirmed that actions will be taken to address the above recommendation by December 2016.

Appendix A3 Internal Audit Plan 2016/17

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JARAP	Comments
Core Financial Systems					
Pensions Provider Review	Oct 2016			Dec 2016	Planned to commence 3 Oct.
General Ledger	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Payroll	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Cash & Bank	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Budgetary Control	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Payments & Creditors	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Income & Debtors	Nov 2016			Feb 2017	Planned to commence 7 Nov.
Payroll Provider Review	Jan 2017			May 2017	
Strategic & Operational Risk					
Business Continuity	May 2016	June 2016	June 2016	July 2016	Final report issued.
Complaints Management	June 2016	June 2016	Aug 2016	Sept 2016	Final report issued.
Vetting Procedures	June 2016	Aug 2016		Sept 2016	Draft report issued.
Victims Code of Practice	Dec 2016			Feb 2017	
Information Technology	Dec 2016			Feb 2017	

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JARAP	Comments
Seized & Found Property	Feb 2017			May 2017	
Commissioning	Feb 2017			May 2017	
Collaboration					
EMCHRS Transactional Services	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	Generic terms of reference has been issued to the five CFO's for comment.
EM Legal Services	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	
EMOpSS	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	
EMS Commercial Unit	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	
EMSOU	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	

Appendix A4 – Definition of Assurances and Priorities

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
Significant Assurance:	There is a sound system of internal control designed to achieve the Organisation's objectives.	The control processes tested are being consistently applied.
Satisfactory Assurance:	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.
Limited Assurance:	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.
No Assurance	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
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	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 A5 - Contact Details

Contact Details

Mike Clarkson

07831 748135

Mike.Clarkson@Mazars.co.uk

Brian Welch

07780 970200

Brian.Welch@Mazars.co.uk

A6 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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