



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

## Internal Audit Annual Report 2015/16

June 2016

This report has been prepared on the basis of the limitations set out on page 13.

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# 01 Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police during the 2015/16 financial year, the service for which is provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

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.

Internal audit provides the Police and Crime Commissioner and Chief Constable, through the Joint Audit, Risk & Assurance Panel (JARAP), 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.

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.

## 02 Head of Internal Audit Opinion

### Opinions

From the Internal Audit work undertaken in compliance with the Public Sector Internal Audit Standards (PSIAS) for the year ending 31<sup>st</sup> March 2016, we can provide the following opinions:



## Basis of the Opinion

Internal Audit applies a risk-based approach and our audits assess the governance framework, the risk management process, as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we can provide assurance that management have in place a robust control environment and, whilst further remedial actions are needed in some areas, we are assured that management have in place effective processes for the implementation of identified areas of weakness.

### Corporate Governance

As part of our work this year, we undertook an audit of the controls and processes in place in respect of the Joint Code of Corporate Governance. The specific areas that formed part of this review included: the Corporate Governance Framework, policies and procedures, decision making framework, roles and responsibilities and performance monitoring. We provided a significant assurance opinion and concluded that risks in terms of the joint corporate governance framework were being managed effectively. The arrangements were clearly defined within the 'Corporate Governance Framework' document.

### Risk Management

As part of the 2015/16 Internal Audit plan we undertook an audit of the controls and processes in place in respect of risk management. The specific areas that formed part of this review included: policies and procedures; risk registers; risk mitigation; reporting arrangements and follow up of previous recommendations. We provided a significant assurance opinion and concluded that overall risk management within the Force and OPCC is deemed effective and, with the exception of a few housekeeping issue, controls processes tested are being consistently applied. It was evident throughout the audit that risk management is well embedded at a strategic level and responsible staff had the required knowledge, experience and expertise to ensure good systems of internal control.

A key risk to the Force and the OPCC is that of inappropriate management decisions being made due to key risks not being identified and managed. To mitigate against this risk, a joint Force and OPCC corporate risk register is in place which is maintained and updated on a regular basis. The corporate risk register contains high level risks which would have a large impact on the organisations should they materialise. Current control mechanisms and sources of assurance are recorded against each risk. Departmental risks are also identified within the Directorates and raised within the Orchid system which feeds in to the standard risk management process.

The Risk and Business Continuity Advisor manages the departmental risks that are input through the Orchid system, through discussion with risk owners and with further scrutiny on categorisation with monthly meetings with the Head of Corporate Services.

## Internal Control

As illustrated in the tables below, we have noted that Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police have a robust control environment. During the 2015/16 year, seven (64%) internal audit projects were rated 'significant assurance', whilst 91% of internal audit projects received "significant" or "satisfactory assurance". During 2015/16 one internal audit project was rated 'limited assurance' (9%), with further details of these audits provided in Appendix A2 – Audit Projects with Limited and Nil Assurance 2015/16. In addition, of the four collaborative audits covering the East Midlands policing region, one was rated 'significant assurance', one was rated 'satisfactory assurance' whilst in two instances they related to advisory work and no audit opinion was provided.

The following tables provide a brief overview of the assurance gradings given as a consequence of audits carried out during 2015/16, split between those specific to Leicestershire and those undertaken as part of East Midlands regional collaborative audits. More details of the audit opinions and the priority of recommendations for all 2015/16 Internal Audit assignments is provided in Appendix A1 – Audit Opinions and Recommendations.

### Leicestershire Only

Assurance Gradings	2015/16	
Significant	7	64%
Satisfactory	3	27%
Limited	1	9%
Nil	0	0%
<b>Total</b>	<b>11</b>	

Collaboration Audits

Assurance Gradings	2015/16	
Significant	1	50%
Satisfactory	1	50%
Limited	0	0%
Nil	0	0%
<b>Sub-Total</b>	<b>2</b>	
No opinion	2	
<b>Total</b>	<b>4</b>	

**Issues relevant to Annual Governance Statement**

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. Internal Audit, through its annual programme of activity, has a duty to bring to your attention any areas of weakness we believe should be considered when producing the Annual Governance Statement. As part of this responsibility, we have highlighted any limited or nil assurance reports within Appendix A2.

**Restriction placed on the work of Internal Audit**

As set out in the Audit Charter, we can confirm that Internal Audit had unrestricted right of access to all OPCC and Force records and information, both manual and computerised, cash, stores and other property or assets it considered necessary to fulfil its responsibilities.

## 03 Performance

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.

No	Indicator	Criteria	Performance
1	Annual report provided to the JARAP	As agreed with the Client Officer	Achieved
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.	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% (11//11)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (5/5)

## Quality and Conformance with the Public Sector Internal Audit Standards

In addition to the firm's overall policy and procedures, our internal audit manual and working papers are designed to ensure compliance with the Firm's quality requirements. Furthermore, our internal audit manual and approach are based on professional internal auditing standards issued by the Global Institute of Internal Auditors, as well as sector specific codes such as the Public Sector Internal Audit Standards.

Our methodology and work has been subject to review as part of our internal Quality Assurance Reviews undertaken by our Standards and Risk Management team as well as external scrutiny by the likes of external auditors, as well as other regulatory bodies. No adverse comments have been raised around our compliance with professional standards or our work not being able to be relied upon.

## Appendix A1 - Audit Opinions and Recommendations 2015/16

Auditable Area	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Leicestershire Only						
Firearms Licensing	Final	Satisfactory	-	2	3	5
Risk Management	Final	Significant	-	-	3	3
Change Programme	Final	Significant	-	-	2	2
Core Financials	Final	Significant	-	-	1	1
Joint Code of Corporate Governance	Final	Significant	-	-	1	1
Partnerships	Final	Satisfactory	-	3	2	5
Payroll	Final	Significant	-	-	2	2
Payroll Provider	Final	Significant	-	-	1	1
Human Resources	Final	Significant	-	-	3	3
ICT Review	Final	Satisfactory	-	-	6	6
Seized & Found Property Safe Management	Final	Limited	2	4	2	8
<b>Leicestershire Total</b>			<b>2</b>	<b>9</b>	<b>26</b>	<b>37</b>

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

## Appendix A2 - Audit Projects with Limited and Nil Assurance 2015/16

Project	Grading	Summary of Key Findings
Seized and Found Property Safe Management	Limited	<p>We raised two priority 1 recommendation, four priority 2 recommendations and two priority 3 recommendation where we believe there is scope for improvement within the control environment. The priority 1 and 2 recommendations are set out below:</p> <ul style="list-style-type: none"> <li>• Access to the keys to the safes that are holding cash and valuables should be appropriately restricted and keys to the safes should be securely stored at all times. (Priority 1).</li> <li>• A segregation of duties should occur in the completion of the monthly safe audits at the various property locations so that more than one Officer is included in the safe audit process. (Priority 1).</li> <li>• The procedure documents for property management should be updated to include sufficient detail for the following areas: <ul style="list-style-type: none"> <li>➢ Packaging and Storage;</li> <li>➢ Disposal; and</li> <li>➢ Transportation.</li> </ul> <p>The new procedure documents should be communicated to all relevant staff. The review dates for the property management documents should be brought in line with each other and these should be reviewed on at least an annual basis. (Priority 2).</p> </li> <li>• The insurance policy for the Force regarding the transportation of cash and valuables should be reviewed and updated as necessary. Cash and valuables should be transported in line with the relevant insurance policy. (Priority 2).</li> <li>• The couriers should produce a report from the property system detailing the cash items retained in the safes/stores prior to collection. Any discrepancies between the property system report and the cash items collected should be identified and investigated as appropriate. (Priority 2).</li> <li>• The insurance policy should be reviewed to include adequate detail of the specifications of each safe required for the contents of the safe to be appropriately covered by the policy. The Force should ensure that the individual safe specifications are appropriate for the insurance policy in place. (Priority 2)</li> </ul>

## 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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## Appendix 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.*

*The contents of this report are confidential and not for distribution to anyone other than the Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.*

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