



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

Internal Audit Progress Report 2015/16 & 2016/17

June 2016

Presented to the Joint Audit, Risk & Assurance Panel meeting of: 5th July 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 Operational Plan for the year ended 31st March 2016, together with progress on delivering 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 One further report relating to Seized and Found Property has been issued since the last meeting of the JARAP on 18th May 2016. Further details are provided in Appendix A1. The following table provides a summary of assurances, including the number and categorisation of recommendations, in each report issued during 2015/16.

Leicestershire 2015/16 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
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

Leicestershire 2015/16 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
ICT Review	Final	Satisfactory	-	-	6	6
Seized & Found Property Safe Management	Final	Limited	2	4	2	8
Total			2	9	26	37

- 2.2 As reported in the last progress report, Internal Audit were tasked with undertaking four audits of collaborative arrangements across the region. At the time of writing we have issued one final report, in respect of Forensics, whilst draft reports have been issued in respect of the other three audits and we are awaiting management's comments. Further details are provided in Appendix A1, including the scope of the three reports that are currently in draft, the details of which will be presented at the next JARAP.

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	Draft					
Covert Payments	Draft					
PCC Board Governance	Draft					
Total			0	3	2	5

2.3 Work in respect of the 2016/17 internal audit plan is underway and, to date, we have issued one final report in respect of Business Continuity. Further details are provided in Appendix A2. We have also issued a draft report in respect of Complaints Management for which we await management's response.

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	Draft					
Total			-	-	3	3

2.4 Fieldwork in respect of Vetting Procedures is in progress and a summary of the findings will be reported in the next progress report to the JARAP. Further details are provided within Appendix A4.

03 Performance 2015/16

3.1 The following table details the Internal Audit Service performance for the year ending 31st March 2016 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)

Appendix A1 – Summary of Reports 2015/16

Final Reports

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 reports issued since the last meeting of the JARAP relating to the 2015/16 Internal Audit Plan:

Seized and Found Property Safe Management

Assurance Opinion	Limited
Recommendation Priorities	
Priority 1 (Fundamental)	2
Priority 2 (Significant)	4
Priority 3 (Housekeeping)	2

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

- Clearly defined policies and/or procedures are not in place resulting in ineffective and inefficient working practices.
- Failures by staff to comply with procedural requirements leading to inappropriate handling and seizing of cash.
- Unauthorised access to safes leading to inappropriate access to seized cash.
- The Force are unaware of the safes held across the region resulting in the Force being unaware of the true property held which may lead to theft or loss going unidentified.
- Safes are used inappropriately for storing property leading to a financial loss or reputational damage to the Force.
- Seized cash may be lost, manipulated or stolen if inappropriate access, transportation and storage arrangements are in place leading to financial loss and reputational damage.
- Inappropriate cash levels are held resulting in the limits on the cash insurance policy being exceeded.

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

- Policies and Procedures
- Operational Arrangements
- Security Arrangements

We raised two priority 1 recommendations that required addressing immediately. These are set out below:

Recommendation 1	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.
Finding	<p>To ensure that only appropriate persons can access the safes that are holding cash and valuables, access to the keys to the safes should be appropriately restricted and keys to the safes should be securely stored at all times.</p> <p>It was identified that there are currently two sets of keys to the temporary store cash safes. One set is held by the couriers and the second set is retained at Beaumont Leys. The set retained at</p>

	<p>Beaumont Leys is currently stored in a locked drawer in an office. It was, however, noted that the key for the cash safe at Euston Street was held on site and was easily accessible to staff at the location at the time of the audit.</p> <p>The keys to the main cash and valuables safes at Beaumont Leys are held within a key cabinet in the property office. However, there are currently five keys in circulation for both the property office and the safe key cabinet and there is no audit trail of who and when the key to the safe has been taken and is in use. In addition, these keys are taken off site by the property officers.</p>
Response	<ol style="list-style-type: none"> 1. This recommendation is accepted. This action was dealt with immediately following the audit. Two Safes were purchased at a cost £13,500 in the last financial year (to end of March 2016) from Traka (part of ASSA asset management group). Since the audit the Traka cabinets have been ordered and are awaiting delivery and installation. Since the audit the Property Manager has had discussions and meetings with personnel within Traka. Traka are a reputable company supplying safes to the military, Ministry of Justice (mainly UK prisons) and the police service. The two safes purchased are the latest technology. All property keys at the two sites will be stored in these safes. They are fully audited by use of the warrant card. Access to keys will be limited to user and movement of keys will be monitored and recorded. This purchase provides assurance and confidence that the safe keys, cash and valuables in safes are fully protected into the future. 2. In addition it is envisaged as part of the Force Property Project to create an integrated department with clear lines of management accountability and effective, secure and auditable business processes for all aspects of property reception, handling and disposal. Formal project commencing June 2016.
Responsibility / Timescale	<ol style="list-style-type: none"> 1. Property Manager / Completed. 2. Head of Corporate Services / September 2016

Recommendation 2	<p>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.</p>
Finding	<p>To prevent and detect misappropriation of property stored within the safes across the Force, more than one officer should complete the monthly safe audits for a segregation of duties to occur.</p> <p>Audit confirmed that safe audits are completed on a monthly basis. This is to identify any instances where property said to be stored in the safes on KIM is not present or where property is in the safes but not recorded accurately on KIM. It was further confirmed that the Force Safes Procedure includes the requirement for each safe to be appropriately audited on a regular basis.</p> <p>The audits take place at each of the main property stores and the temporary store locations. Audit obtained a record of the safe audits that have taken place and confirmed that only one member of staff is currently completing the safe audits. The Force are therefore reliant on one member of staff identifying any discrepancies.</p>
Response	<p>This recommendation is accepted.</p> <p>An appendix has been created to the existing draft Safe Procedure. In addition to the recommendation made by audit, further safeguards have been added to include quarterly reconciliation between finalised Property records relating to cash items and the Force bank account. This will provide assurance around the appropriate disposal of each item; it will also provide a secondary layer of independent scrutiny as the reconciliation will be completed by the Finance department.</p>

	The draft procedure will be resubmitted to the project SRO. Once the draft document is ratified it will be disseminated accordingly.
Responsibility / Timescale	Head of Corporate Services / September 2016

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

- The procedure documents for property management should be updated to include sufficient detail for the following areas:
 - Packaging and Storage;
 - Disposal; and
 - Transportation.

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.

- 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.
- 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.
- 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.

Management have confirmed that these recommendations have, in some cases, been implemented immediately or will be implemented by October 2016.

Forensics

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

The East Midlands Special Operations Unit (EMSOU) is a regional tasking structure which has, for more than a decade, made use of expertise and resources from within the East Midlands police forces to investigate many of the most serious crimes which affect the region. EMSOU is an amalgamation of certain key resources provided by the forces to be deployed throughout the region as and when there is an investigative need. Forensic Services (EMSOU-FS) is one of five main branches of EMSOU's work.

Our audit considered the following area objectives:

- *Governance, Performance Monitoring and Accountability* - There are effective arrangements in place to ensure performance (both operational and financial) is effectively monitored with regular reporting and accountability measures through an appropriate governance structure.
- *Expenditure and budget management processes* - Roles and responsibilities in respect of budget management and oversight of expenditure are appropriate. Appropriate internal control systems and delegations exist to ensure that expenditure from the retained Force Forensic budgets is appropriately managed and there are adequate controls around the ordering, receipting and payment processes in respect of those budgets.
- *Work for external bodies and associated income* - Work for external bodies is appropriately approved, managed and monitored. Processes ensure that debtors are raised for the provision of services provided by Forensics and that income is subsequently realised within the associated budget.

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

- The current dip sampling process should be documented to include the percentage of invoices subject to verification each month and the approach taken for selection of the sample. In addition, the outcome of the checks should be evidenced to provide assurance that these have been completed and reliance can be placed on this risk-based approach.

It is noted, however, that the new marketing approach proposed for Forensic Services for implementation in August 2016, would negate the need for the dip sampling process in this regard, as procurement would be based on a fixed annual contract value rather than the current 'pay as you go' model.

- Official orders should be raised for goods or services or alternatively be agreed within the list of exemptions approved by Derbyshire Police.
- All works for external bodies (current and future) should be formalised in an agreement to include outline agreed services, associated charges and insurance arrangements. This should be approved by the Director of Finance (where works are not expected to exceed £200k per annum).

Management confirmed that all actions will be undertaken by 30th June 2016.

Draft Reports

In this section we provide brief summaries of the scope of those audits relating to the 2015/16 Internal Audit Plan for which the reports are currently in draft. Management are currently considering their responses and full details will be included in the next progress report once the final reports have been issued.

Officers in Kind

The audit review considered the following control 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.

Covert Payments

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.

PCC Board Governance

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.

Appendix A2 – Summary of Reports 2016/17

Final Reports

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 JARAP relating to the 2016/17 Internal Audit Plan:

Business Continuity

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

Our audit considered the following control objectives relating to the area under review:

There is regular monitoring and reporting of business continuity processes and issues to Chief Officers, the Strategic Roles and Responsibilities

Roles and responsibilities in respect of Business Continuity across the OPCC and Force are clearly defined, with officers and staff having a full understanding and accountability for associated processes.

Policies and Procedures

Effective policies and procedures are maintained and regularly reviewed to ensure a consistent and effective approach to Business Continuity is applied across the OPCC and Force.

Incident Escalation & Emergency Action Procedures

Business Continuity and Crisis Management Procedures exist to ensure that incidents are effectively escalated and emergency action is mobilised where required. The procedures are subject to regular testing.

Business Continuity Test Plans

An agreed annual Business Continuity testing plan is embedded across the OPCC and Force which is subject to regular monitoring.

Continuous Improvement and Lessons Learnt

The delivery of testing plans, associated outcomes and unplanned events is monitored, with systems embedded to drive continuous improvement and lessons learnt.

Monitoring and Reporting

Risk Management Board and JARAP to ensure effective scrutiny and oversight of arrangements.

We raised three priority 3 recommendations of a housekeeping nature. These related to the following:

- The Business Continuity Plans should be updated to ensure emergency contact details are included, with this being part of any subsequent reviews.
- Business Continuity Plan Procedures should be reviewed to ensure that there is clear instruction to users in respect of which type of exercise to use, making reference to criticality of the system and timing of the review.

- Appropriate checks should be made by the Business Continuity Advisor after annual exercises have been completed to ensure all relevant information is included prior to publication.

Management have confirmed that actions have either been taken or will be addressed by August 2016.

Appendix A3 Internal Audit Plan 2015/16

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JARAP	Comments
Core Assurance					
Compliance with the Joint Code of Corporate Governance	Dec 2015	Dec 2015	Jan 2016	Feb 2016	Final report issued.
Risk Management	Oct 2015	Oct 2015	Nov 2015	Dec 2015	Final report issued.
Core Financial Systems					
General Ledger	Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Payroll	Jan 2016	Feb 2016	Mar 2016	May 2016	Final report issued.
Cash & Bank	Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Budgetary Control	Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Payments & Creditors	Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Income & Debtors	Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Payroll Provider Review	Jan 2016	Feb 2016	Mar 2016	May 2016	Final report issued.

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JARAP	Comments
Strategic & Operational Risk					
ICT Review	Jan / Feb 2016	Feb 2016	April 2016	May 2016	Final report issued.
Seized and Found Property	Feb 2016	Mar 2016	June 2016	July 2016	Final report issued.
Human Resources	Jan 2016	Feb 2016	Feb 2016	May 2016	Final report issued.
Firearms Licensing	July 2015	Aug 2015	Aug 2015	Sept 2015	Final report issued.
Change Programme	Dec 2015	Jan 2016	Apr 2016	May 2016	Final report issued.
Partnership / Engagement	Nov / Dec 2015	Dec 2015	Jan 2016	Feb 2016	Final report issued.
Collaboration					
Officers in Kind	Mar / Apr 2016	Apr 2016		July 2016	Draft report issued.
Forensics	Mar / Apr 2016	Apr 2016	May 2016	July 2016	Final report issued.
Covert Payments	Mar / Apr 2016	Apr 2016		July 2016	Draft report issued.
PCC Board Governance	Mar / Apr 2016	Apr 2016		July 2016	Draft report issued.

Appendix A4 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	
General Ledger	Nov 2016			Feb 2017	
Payroll	Nov 2016			Feb 2017	
Cash & Bank	Nov 2016			Feb 2017	
Budgetary Control	Nov 2016			Feb 2017	
Payments & Creditors	Nov 2016			Feb 2017	
Income & Debtors	Nov 2016			Feb 2017	
Payroll Provider Review	Jan 2017			May 2017	
Strategic & Operational Risk					
Business Continuity	May 2016	June 2016		Sept 2016	
Complaints Management	June 2016	June 2016		Sept 2016	
Vetting Procedures	June 2016			Sept 2016	Work is in progress.
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					
Collaboration	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	

Appendix A5 – 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 A6 - Contact Details

Contact Details

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A7 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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