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

Internal Audit Progress Report 2016/17

December 2016

Presented to the Joint Audit, Risk & Assurance Panel meeting of: 9th December 2016

Contents

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 is accordance with the Public Sector Internal Audit Standards (PSIAS).

02 Summary of internal audit work to date

2.1 We have issued three final reports in respect of the 2016/17 plan since the last progress report to the JARAP, these being in respect of Vetting Procedures, Pensions Provider and Payroll. Additionally, a draft report has been issued in respect of Core Financial Systems and we await management's response. Further details are provided in Appendix 1.

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	Final	Satisfactory	-	5	2	7
Pensions Provider	Final	Satisfactory	-	1	1	2
Core Financial Systems	Draft					
Payroll	Final	Satisfactory	-	2	2	4
Total			**-**	**11**	**8**	**19**

2.2 Work is currently in progress with regards an Information Technology Review, whilst the audit of Victims Code of Practice is due to start in December. Audits in respect of Seized & Found Property and Payroll Provider are scheduled to be carried out in quarter four. It should be noted that the audit of Commissioning has been deferred to 2017/18 on the request of the OPCC to allow the new PCC more time to determine the Commissioning Framework. Further details are provided within Appendix A2.

2.3 As reported in our previous progress report, 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. We have recently finalised one audit (Legal Services) and completed the fieldwork with regards another (EMSCU), with further details provided in Appendix 1. Work is now in progress with regards Transactional Services, with the remainder due to be completed in quarter 4.

Collaboration Audits 2016/17	Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
EMCHRS Transactional Services	In progress					
EM Legal Services	Final	Limited	1	3	2	6
EMOpSS	Q4					
EMS Commercial Unit	Completed – being reviewed					
EMSOU	Q4					
	Total		1	3	2	6

03 Performance 3

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% (6/6)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (5/5)
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% (9/9)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (2/2)

Appendix A1 – 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 reports issued since the last progress report:

Vetting Procedures

Assurance Opinion	Satisfactory

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

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

Policies and Procedures

- There are effective governance arrangements in place for the processing of vetting requests that includes defined roles and responsibilities, senior oversight and reporting arrangements.
- There are clearly documented procedures in place that support the processing of vetting requests that cover both the Security & Vetting Team and the Disclosure & Barring Service (DBS) that are aligned with the relevant Codes and any other relevant legislation and good practice.

Processing of Vetting Requests

- Vetting requests are accurately recorded and there are effective processes for securing and holding information to support the requests.
- Vetting requests are correctly assessed in terms of level of security clearance required and are dealt with in accordance with the relevant legislative and procedural requirements.
- There is a robust appeals process which is communicated to those requesting vetting when informed of the outcome of the request.
- There is an agreed scale of fees for administering vetting requests and income from such requests is collected in a timely and accurate manner.

Monitoring Arrangements

- There are key performance indicators and internal targets in place for administering vetting requests.
- Robust performance information is produced that enables the Force to effectively manage the vetting process.

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

- The current AT1 should be updated and a process should be in place to ensure a regular review and update of the AT1 form.
- A robust income management process should be put in place to ensure that all income due for the Vetting Department is received by the Force. This should include, but not be limited to, the following:
  - ➤ a reconciliation of the monthly return submitted to DBS and the income received from DBD;
  - ➤ a reconciliation of NPPV cases that are chargeable to those that have made payment for the charge;
  - ➤ a banking process so income received by vetting department is banked and finance updated on a regular basis; and
  - ➤ a clear level of communication between the vetting department and finance so responsibilities in relation to vetting income are clear.

- Consideration should be given to implementing random DIP sampling of vetting requests to monitor the quality of work completed.
- The process for dealing with an internal appeal following a vetting fail should be formally documented to ensure a consistent and fair process is followed.
- A robust performance monitoring process should be put in place to allow for the effective evaluation of the departments performance. This should include, but not be limited to, the following:
  - appropriate key performance indicators that are based on sound logic, such as resources available, benchmarking data and other key factors that affect performance levels;
  - a review of performance against previous months/periods;
  - a review of levels of vetting outstanding to ensure back logs are quickly addressed.

We also raised two priority 3 recommendations of a more housekeeping nature.

Management have confirmed that actions will be taken to address the above recommendations by January 2017.

Pensions Provider

Assurance Opinion	Satisfactory

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

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

System Security and management of information

- Confidentiality and security of the pension system and officer / pensioner records are maintained through the reliable operation of the system. (Including arrangements for disaster recovery).
- Key changes to standing data are actioned timely and checked for accuracy.
- All correspondence is maintained on pensioner / employee record.

Calculation of eligibility & Notification

- Review of processes, (i.e. eligibility, calculation (including HMRC), checking, receipt of signed forms, notification within payroll timescales) for the following:
  - New entrants enrolled into the appropriate Pension scheme
  - Retirements – Commutation and annual pension
  - Transfers In / Transfers out
  - Refund of contributions
  - Deaths – In service / pensioners
  - Application of pension increase at age 55
  - Calculation of pension estimates
  - Application of Pension Increase on System

Year End Processes

- Review of processes and reconciliation for the import of year end data from Force regarding contributions made and service and preparation of Annual Benefit and Saving Statements.

Performance Monitoring
- Key Performance Indicators exist in order to monitor performance against Service Level Agreements.
- An agreed suite of quarterly management information reports are submitted to the Force/ OPCC securely, on a timely basis in line with the Service Level Agreement.

We raised one priority 2 recommendation where we felt that controls could be strengthened. This related to the following:

- Kier and the Force should review levels of vetting requirements to ensure all staff are police vetted prior to access been given.

We also raised a priority 3 recommendation of a more housekeeping nature.

Management have confirmed that actions will be taken to address the above recommendations by March 2017.

Payroll

Assurance Opinion	Satisfactory

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

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

Policies and Procedures

Procedures and policies are in place to support the effective administration of the function and are communicated to all relevant staff.

System Security and management of information

Confidentiality and security of the payroll system and employee records are maintained through the reliable operation of the system. Payroll information is produced in a timely manner and secured to allow for effective monitoring and decision making. Timely Payroll control account reconciliations are undertaken, with any balancing items investigated to ensure the integrity, reliability and accuracy of the Payroll system.

Starters, Leavers and Variations

New joiners are accurately and timely added to the payroll with terms and conditions as per their contracts of employment. Leavers are timely removed from the payroll, with outstanding commitments calculated and recouped where necessary. Variations and adjustments to employee payroll records are accurately processed in a timely manner.

Deductions

Deductions, both statutory and voluntarily made, are accurately in line with contracts of employment.

Payments & Expenses

Payments to staff, including officer mileage claims, are made in line with Force policy, contracts of employment and legislative requirements.

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

- The Financial Operations Department should ensure that there is an appropriate collar number or signature to authorise the overtime claim submitted. Where this information is not submitted, the claim form should be returned to the claimant and not processed until the required approval has been provided.

- The Force should request periodic, accurate, reports of live user access to the Selima system and their access capabilities. This should be used to confirm that live access and restrictions are appropriate and valid. Consideration should also be taken to introducing user profiles with pre-defined access rights when requesting a new user to the Selima System.

We also raised a priority 3 recommendation of a more housekeeping nature.

Management have confirmed that actions have either already been implemented or will be addressed by January 2017.

Collaboration – East Midlands Police Legal Services

Overall Assurance Opinion	Limited

Recommendation Priorities	
Priority 1 (Fundamental)	1
Priority 2 (Significant)	3
Priority 3 (Housekeeping)	2

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

- A Section 22 agreement is in place that clearly sets out the decision making and governance framework that is in place;
- A clearly defined Business Plan is in place that sets out the statutory duties, objectives and the key performance indicators for the services to be provided;
- The Business Plan is set in line with the Section 22 agreement and it is regularly reviewed to ensure it remains 'fit for purpose';
- There are effective reporting processes in place to provide assurances to the Forces on the performance of the unit;
- Value for money considerations are regularly reviewed and reported to the Forces; and
- The unit has procedures in place to ensure that risks are identified, assessed recorded and managed appropriately.

We raised one priority 1 recommendation of a fundamental nature that require addressing. This is set out below:

Recommendation 1	The Management Board for EMPLS should be reinstated to provide oversight and assurance with regards the unit's performance and delivery of its objectives.
	The Management Board members should ensure they have a timetable in place to attend meetings and carry out their responsibilities in line with the Section 22 agreement that is in place.

Finding	The Section 22 agreement sets out the governance structure for the collaboration and refers to a Management Board comprised of the Deputy Chief Constables of each Force. The responsibilities of this Board are clearly defined and the key features are: • Board should meet at periodic intervals and in default of agreement at EMPLS place of business every three months; • Provide oversight of EMPLS operational performance; • Support the continued development of the collaboration; • Propose and monitor the annual aims and objectives of EMPLS; and • Provide a three year business plan to ensure the maintenance and development of the collaboration in line with regional strategic aims. A review of Management Board meeting minutes shows that the EMPLS Management Board last met in March 2015. Explanation provided to audit was that each Force was happy with the service that EMPLS was providing and, as a consequence, there was no need for the meetings to take place.
Response	It is acknowledged that the Management Board have not met for some time and Derbyshire will lead on re-establishment of this Board.
Timescale	David Peet, Chief Executive January 2017

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

• EMPLS should review the current KPI's that are in place and should prepare updated KPI's that can be presented to the Management Board for scrutiny and approval.
• In accordance with Recommendation 4.1, once the Management Board meetings have been established they should include a review of performance and this should be noted or actions put in place to address areas of concern.
• The risk register should be updated to include a RAG rating between the target risk score and the current risk score to clearly identify the priorities for risk mitigation actions. The risk actions should be separated into ongoing actions and specific actions that will be taken on a set date, with the planned effect on the risk score clearly stated.
Review of the risk register should be a standard agenda item at EMPLS Silver Meetings and should be included in the reporting to the Management Board.

We also raised two housekeeping issues with regards business planning and performance reporting.

Management confirmed that all actions will be implemented by March 2017.

Appendix A2 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	Nov 2016	Nov 2016	Dec 2016	Final report issued.
General Ledger	Nov 2016	Nov 2016		Feb 2017	Draft report issued.
Payroll	Nov 2016	Nov 2016	Nov 2016	Feb 2017	Final report issued.
Cash & Bank	Nov 2016	Nov 2016		Feb 2017	Draft report issued.
Payments & Creditors	Nov 2016	Nov 2016		Feb 2017	Draft report issued.
Income & Debtors	Nov 2016	Nov 2016		Feb 2017	Draft report issued.
Payroll Provider Review	Jan 2017			May 2017	Planned to start 17th January.
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	Sept 2016	Final report issued.
Victims Code of Practice	Dec 2016			Feb 2017	Planned to start 12th December.
Information Technology	Dec 2016			Feb 2017	Planned to start 5th December.
Seized & Found Property	Feb 2017			May 2017	Planned to start 13th February.

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JARAP	Comments
Commissioning	Feb 2017			May 2017	Audit cancelled.
Collaboration					
EMCHRS Transactional Services	Dec 2016			Feb 2017	Work in progress.
EM Legal Services	Nov 2016	Nov 2016	Nov 2016	Dec 2016	Final report issued.
EMOpSS	Jan 2017			Feb 2017	Date to be agreed.
EMS Commercial Unit	Nov 2016			Feb 2017	Completed; being reviewed.
EMSOU	Jan 2017			Feb 2017	Date to be agreed.

Appendix A3 – 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 A4 - Contact Details

Contact Details

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A5 Statement of Responsibility

> **Status of our reports**
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> *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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