

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

Internal Audit Progress Report 2015/16

May 2016

Presented to the Joint Audit, Risk & Assurance Panel meeting of: 18th May 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. The plan was considered and approved by the JARAP at its meeting on 3rd June 2015.

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, through the 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.

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).

1. Summary of internal audit work to date
   1. We have issued five final reports since the last progress report to the JARAP, these being in respect of Payroll, Payroll Provider, Human Resources, ICT Review and Change Management. Management are currently considering their response to the draft report in respect of Seized and Found Property Safe Management.
   2. The following table provides a summary of assurances, including the number and categorisation of recommendations, in each report issued to the date. Further details, and scheduled work for the rest of the year, are provided in Appendix A1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Auditable Area** | **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 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Auditable Area** | **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 | Draft | Limited | 2 | 4 | 2 | 8 |
|  |  | **Total** | **2** | **9** | **26** | **37** |

* 1. As reported in the last progress report, Internal Audit were tasked with undertaking four audits of collaborative arrangements across the region. There were in respect of the following:
* Officers in kind
* Forensics
* Covert Payments
* Terms of Reference for the PCC Board

At the time of writing fieldwork has been completed for each area and draft reports have been issued for management comment. A summary of the scope of each audit is included within Appendix 1, whilst summaries of findings will be presented at the next JARAP meeting.

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. | 91% (10/11) |
| 5 | Issue of final report | Within 5 working days of agreement of responses. | 100% (10/10) |
| 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% (3/3) |

Appendix A1 – Summary of Reports

**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 to date:

**Payroll**

|  |  |
| --- | --- |
| **Assurance Opinion** | **Significant** |

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

Our audit considered the following control objectives:

* *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 3 recommendations where we believe there is an opportunity to implement a good or better practice, to improve efficiency or further reduce exposure to risk; these related to the following:

* A Payroll Manual should be put in place that accurately reflects the new processes in operation following the introduction of the new payroll system.
* An agreed reporting format should be put in place to allow the Force to monitor the Payroll Provider performance in line with the contract.

Management accepted the recommendations and have put in place a plan to address these issues by September 2016.

**Payroll Provider**

|  |  |
| --- | --- |
| **Assurance Opinion** | **Significant** |

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

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

* *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. Key changes to standing data is actioned timely and checked for accuracy.
* *Key Process checks and Reconciliation Processes -* Processes are in place to ensure evidence of timely completion of key process checks and reconciliations. An agreed timetable for payroll processes is defined and communicated. Variance of payroll figures are investigated and resolved in timely basis to ensure no delay in processing and payments to employees. Appropriate control and separation of duties exist for BACS payment runs.
* *Performance Monitoring -* Key Performance Indicators exist in order to monitor performance against Service Level Agreements and charges are applied where standards do not meet requirements. An agreed suite of monthly 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 3 recommendation where we believe there was an opportunity to implement a good or better practice, to improve efficiency or further reduce exposure to risk; this related to the following:

* A clear reporting format and timetable for delivery of the performance information should be agreed between the Force and the Provider.

Management accepted the recommendation and had put in place a plan to address the issue by April 2016.

**Human Resources**

|  |  |
| --- | --- |
| **Assurance Opinion** | **Significant** |

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

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

* *HR Strategy -* There is an effective HR Strategy in place which links to strategic goals and objectives and ensure effective planning and development.
* *Establishment Structure -* There is an agreed establishment structure in place, in line with the required outcomes of the Change Programme, which maintains effective service delivery within the resource available and strategic, operational and legislative requirements are met.
* *Workforce Planning -* A workforce planning process is developed to align the needs and priorities of the OPCC and Force with those of its workforce to ensure it can meet its legislative, regulatory and service requirements and overarching objectives.
* *Succession Planning -* There are robust succession planning processes in place which identify and develop officers and staff and provide structured opportunities for secondments and promotions for employees who are prepared to assume these roles as they become available.

We raised three priority 3 recommendations where we believe there was an opportunity to implement a good or better practice, to improve efficiency or further reduce exposure to risk; these related to the following:

* The Force’s objectives should be included within the People Strategy, whether specifically or via a hyperlink.
* Future annual HR Plans should be approved prior to the start of the year.
* Once the Performance Development Review system is rolled out it should ensure that individual development plans can be put in place to support the People Plan.

Management accepted the recommendations and have put in place a plan to address these issues by September 2016.

**ICT Review**

|  |  |
| --- | --- |
| **Assurance Opinion** | **Satisfactory** |

|  |  |
| --- | --- |
| **Recommendation Priorities** | |
| Priority 1 (Fundamental) | - |
| Priority 2 (Significant) | - |
| Priority 3 (Housekeeping) | 6 |

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

* Clearly defined IT policies and/or procedures are in place and are available within the Force. The policies and procedures are reviewed and updated on a regular basis and users are appropriately trained.
* Governance roles for IT and Information Security such as SIRO are clearly identified, understood and effectively communicated.
* Systems owners are identified with responsibility for security.
* Network topology design has no single points of failure.
* Effective network device security is in place to minimise the risk of unauthorised access.
* Users have appropriate levels of access to IT service and are subject to review.
* Privileged access to network and applications is controlled, restricted and reviewed.
* Mobile devices and other secure devices are appropriately encrypted.
* Regular Penetration testing is undertaken.
* Systems, data and infrastructure are protected from loss with tested and effective data backups and IT disaster recovery plans.
* Governance procedures are in place to manage and maintain the PSN accreditation and the RMADS document set.

We raised six priority 3 recommendations where we believe there was an opportunity to implement a good or better practice, to improve efficiency or further reduce exposure to risk; these related to the following:

* The potential introduction of the strategic alliance IS Strategy, should it be agreed, will need to be considered against the local ICT Strategy document. If approved, this may necessitate changes in the local ICT strategy that should subsequently be reflect in an updated document.
* A more robust process for monitoring the disaster recovery documentation review and update process to ensure that it happens annually should be considered.
* The organisation should establish a forward plan of disaster recovery testing based upon when a system was last tested and establish a clear plan of when it will be tested in the future.
* The organisation's project to establish more robust information asset management and appropriate governance is acknowledged and we recommend that potentially this could also look at the information management structure and resources available.
* The organisation should consider if there are sufficient resources within the Information Security area to deal with the level of work.

The organisation should also consider establishing a group to oversee legislative/regulatory processes such as RMADS and Cyber Essentials including key stakeholders to ensure engagement with the appropriate people and consistent progress and information sharing between to the two or in the future more processes. This should ideally be driven from an Information Security perspective not from the IT side as it is not purely IT which is impacted.

* The organisation should implement password complexity rules in line with best practice.

Also, the lockout duration and reset counter should be increased/enhanced to a lockout duration of 0 (zero) and reset counter of 1440 minutes (e.g. 24 hours). This means that if a user is locked, they cannot retry for at least 24 hours and they have to wait for an Administrator to reset the password. Owing to the practicality of the Force’s operation this may not always be feasible. Therefore, the risk of not implementing this configuration should be considered and approval sought from the Force’s senior management.

Management have accepted the recommendations and, where action is to be taken, have put in place a plan to address these issues by March 2017.

**Change Management**

|  |  |
| --- | --- |
| **Assurance Opinion** | **Significant** |

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

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

* There are effective governance arrangements in place to ensure successful delivery of the Change Programme and 2020 Blueprint, including defined roles and responsibilities, risk management procedures, decision making processes and monitoring / reporting arrangements.
* There are effective processes in place to ensure consultation with internal and external stakeholders throughout the change programme and with two-way communications channels in place to ensure adequate engagement at all levels.
* Post project implementation and review processes are in place (reference project Edison) to ensure that outcomes have been achieved and any lessons learnt are carried forward to future projects.
* Work streams are adequately defined and procedures are in place to monitor and report progress throughout their life cycle.
* Implications of the proposed Strategic Alliance on the change programme and associated work streams are regularly reviewed to ensure that change is effectively managed.

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

* Programme Governance
* Consultation with Stakeholders
* Project Edison Review
* Progress Monitoring
* Strategic Alliance Implications

We raised two priority 3 recommendations where we believe there was an opportunity to implement a good or better practice, to improve efficiency or further reduce exposure to risk; these related to the following:

* Should the Strategic Alliance secure approval, local strategies, policies and procedures should be considered against those at a SA level. Should SA strategies be approved, this may necessitate the need to reflect such changes in the local strategies / policies / procedures.
* The Portfolio risk register reviews should continue to consider risks where inherent and residual scores remain the same to ensure the migrating actions are effective should the threat levels increase.

Management accepted the recommendations, although implementation of the former will rest on development of the Strategic Alliance, whilst the latter is currently under review.

**Draft Reports**

In this section we provide brief summaries of the scope of those audits 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.

**Seized and Found Property Safe Management**

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

**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.

**Forensics**

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.

**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 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 | A - Dec 2015 | A - Jan 2016 | Feb 2016 | Final report issued. |
| Risk Management | Oct 2015 | A - Oct 2015 | A - Nov 2015 | Dec 2015 | Final report issued. |
| **Core Financial Systems** | | | | | |
| General Ledger | Nov 2015 | A - Nov 2015 | A - Dec 2015 | Feb 2016 | Final report issued. |
| Payroll | Jan 2016 | A - Feb 2016 | A - Mar 2016 | May 2016 | Final report issued. |
| Cash & Bank | Nov 2015 | A - Nov 2015 | A - Dec 2015 | Feb 2016 | Final report issued. |
| Budgetary Control | Nov 2015 | A - Nov 2015 | A - Dec 2015 | Feb 2016 | Final report issued. |
| Payments & Creditors | Nov 2015 | A - Nov 2015 | A - Dec 2015 | Feb 2016 | Final report issued. |
| Income & Debtors | Nov 2015 | A - Nov 2015 | A - Dec 2015 | Feb 2016 | Final report issued. |
| Payroll Provider Review | Jan 2016 | A - Feb 2016 | A - Mar 2016 | May 2016 | Final report issued. |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Strategic & Operational Risk** | | | | | |
| ICT Review | Jan / Feb 2016 | A - Feb 2016 | A - April 2016 | May 2016 | Final report issued. |
| Seized and Found Property | Feb 2016 | A - Mar 2016 | P - May 2016 | May 2016 | Draft report issued. |
| Human Resources | Jan 2016 | A - Feb 2016 | A - Feb 2016 | May 2016 | Final report issued. |
| Firearms Licensing | July 2015 | A - Aug 2015 | A - Aug 2015 | Sept 2015 | Final report issued. |
| Change Programme | Dec 2015 | A – Jan 2016 | A - Apr 2016 | May 2016 | Final report issued. |
| Partnership / Engagement | Nov / Dec 2015 | A - Dec 2015 | A - Jan 2016 | Feb 2016 | Final report issued. |
| **Collaboration** | | | | | |
| Officers in Kind | Mar / Apr 2016 | A – Apr 2016 | P – May 2016 | July 2016 | Draft report issued. |
| Forensics | Mar / Apr 2016 | A – Apr 2016 | P – May 2016 | July 2016 | Draft report issued. |
| Covert Payments | Mar / Apr 2016 | A – Apr 2016 | P – May 2016 | July 2016 | Draft report issued. |
| PCC Board Governance | Mar / Apr 2016 | A – Apr 2016 | P – May 2016 | July 2016 | Draft report issued. |

\* P – Planned Date; A – Actual Date

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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| --- | --- |
| Mike Clarkson | 07831 748135  [Mike.Clarkson@Mazars.co.uk](mailto:Mike.Clarkson@Mazars.co.uk) |
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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.*

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