Police and Crime Commissioner for Lincolnshire and Lincolnshire Police

Internal Audit Progress Report

Independent Audit Committee meeting 5 June 2014

Introduction

The internal audit plan for 2013/14 was approved by the Independent Audit Committee in March 2013. This report provides an update on progress against that plan and summarises the results of our work to date.

Summary of Progress against the Internal Audit Plan 2013/14

Assignment *Reports considered today are shown in italics*	Fee (as per audit plan)	Status	Opinion	Actions Agreed (by priority)		
				High	Medium	Low
HR – Absence Management (1.13/14)	£2,200	FINAL	GREEN	0	0	4
VfM – Resource Management (2.13/14)	£3,975	FINAL	GREEN	0	0	2
Governance Framework (3.13/14)	£2,735	FINAL	GREEN	0	1	2
Medium Term Financial Planning (4.13/14)	£2,450	FINAL	GREEN	0	0	0
Service Expectations - Strategic Policing Requirement (5.13/14)	£2,800	FINAL	AMBER / GREEN	0	2	4
G4S – Processing Income and Expenditure (6.13/14)	£3,200	FINAL	AMBER / RED	1	7	4
Collaboration - Governance & Financial Framework (Joint 13/14) (completed as part of a joint review with the East Midlands with time contributed from each plan)	£1,700	FINAL	AMBER / RED	0	5	3
Risk Management (7.13/14)	£2,735	FINAL	Force – Amber / Green OPCC – Amber / Green	0	2	2
Payroll (including Pensions and Expenses) (8.13/14)	**£2,040**	**FINAL**	**GREEN**	**0**	**0**	**3**
Cash, Banking & Treasury Management (9.13/14)	**£1,250**	**FINAL**	**AMBER / RED**	**1**	**3**	**2**
Procurmenet of Legal Services (10.13/14)	**Added to plan £1,360**	**FINAL**	**ADVISORY**	**1**	**2**	**1**
Capital Accounting & Fixed Assets (11.13/14)	£1,650	Draft report issued 31 March 2014				
Income and Debtors (12.13/14)	£1,150	Draft report issued 02 April 2014				

Assignment *Reports considered today are shown in italics*	Fee (as per audit plan)	Status	Opinion	Actions Agreed (by priority)		
				High	Medium	Low
General Ledger (13.13/14)	**£1,100**	**FINAL**	**AMBER / GREEN**	**0**	**2**	**5**
Follow Up (15.13/14)	**£1,330**	**FINAL**	**GOOD PROGRESS**	**0**	**0**	**0**
Payments & Creditors (14.13/14)	£1,450	Draft report issued 11 April 2014				
T-Police Implementation (16.13/14)	£3,035	Draft report issued 30 April 2014				
IT Audit - T-Police Implementation part 2	£3,975	Delayed to 2014/15 (see change control below)				

Other Matters

Planning and Liaison:

We have held regular updates with the Chief Finance Officer (PCC) and also regular Anti-Fraud meetings with PSD, HR and Finance to discuss any emerging issues which could impact on the control environment. In addition, we have held meetings with management to discuss the audit plan for 2014/15 which is included as a separate agenda item.

The Audit Committee should note that the assurances given in our audit assignments are included within our Annual Assurance report. In particular the Audit Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion.

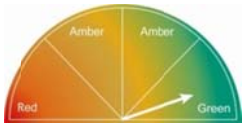
Internal Audit Plan 2013/14 - Change Control:

- At the request of management we undertook an advisory review of the Procurement for Legal Services. Some issues had been identified in this area and this was due to change responsibility, therefore we were requested to undertake a review of the current and planned arrangement and identify any potential areas of improvement.
- We were due to undertake a review of IT Change Management during 2013/14, however, it was agreed with management that to address key risk areas within the Force, the scope of this review would be amended to cover a further review of t-Police and the IT Change Management audit would be delayed until 2014/15. Due to the workload in implementing t-Police and other projects we were unable to agree a convenient date when the relevant people would be available until May 2014, the fieldwork of this work has now been completed and will be included within the reporting for 2014/15.

Information and Briefings: We have issued the following updates electronically since the last Audit Committee:

- LGE Update LG eUpdate February 2014
- LGE Update LG eUpdate March 2014
- Local Government News Briefing April 2014

Key Findings from Internal Audit Work

Assignment: (including Pensions and Expenses) (8.13/14)	**Opinion: GREEN** **H – 0** **M – 0** **L - 3**	

Key Findings

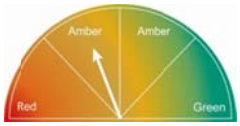
Design of the control Framework

- The Financial Regulations were reviewed in November 2012 and detailed the requirements for the maintenance and management of the payroll system.
- Payroll procedures were held and detailed guidance on both the system and Force processes; they were readily available to staff.
- Access to the payroll system was restricted to nominated staff only, who were granted rights according to their roles and responsibilities.
- A signatories list was held that provided information on those with the authority to approve payroll related documents such as starter forms, leaver forms and amendment forms.
- Standard forms were used to capture new starter information including salary, grade, hours and allowances, these were required to be approved in Human Resources prior to being set up in Payroll.
- Standard forms were used to capture leaver information including the leave date, any owed holiday and payments due; these were required to be approved in Human Resources prior to being processed in Payroll.
- Standard forms were used to capture changes to payroll data including hours, pay and bank details; these were required to be approved in Human Resources prior to being set up in Payroll with the exception of bank details which were submitted in writing to Payroll directly from the employees or pensioners; all documentation was retained electronically.
- Standard forms were used to capture voluntary deduction information including Union Contributions, Force Lottery and Credit Union payments; these were required to be approved by the individuals to confirm they gave consent for the amounts to be deducted from their pay and forms were retained electronically.
- Involuntary deductions were set up to be taken from an employees' payroll upon receipt of authorised documentation from organisations such as the Child Support Agency and Local Government for the repayment of Council Tax.
- Employees are automatically enrolled into the appropriate pension scheme unless they opt out.
- Standard forms were used to capture overtime and expenses claims, these were required to be approved by a Line Manager prior to being processed in Payroll.
- Monthly variance reports were produced following the initial payment run and the second pay run to ensure the payments made were as accurate as possible for both of the payrolls; for Officers and Staff, and Pensioners. These reports identified exceptions which required checking including pay variances of 30% or more from the previous month, age warnings for employees approaching retirement and exception messages that indicated when employees had been paid for sickness absence for example.
- Payments to employees were required to be reviewed and authorised by the Senior Payroll Officer or Finance Manager prior to submission to Mouchel to enable them to process payments to staff.
- Payroll control accounts were required to be reconciled following each payment run.

Application of and compliance with control framework

The above areas were sample tested. No key weaknesses were identified resulting in High or Medium priority recommendations, although we did identify three minor issues which we have made three low priority recommendations to address.

All recommendations have been accepted by management.

Assignment: Cash, Banking & Treasury Management (9.13/14)	**Opinion: AMBER / RED** **H – 1** **M – 3** **L - 2**	

Design of control framework

We found the following controls were designed adequately:

- Financial Regulations are in place are available to all staff via the organisation's Intranet.
- Procedures are in place detailing for the cash handling and banking functions.
- Access to the Income recording module of the financial system is restricted to authorised staff only.
- Any mail containing cheques is placed for the Cashier. A record of the cheques is made, in a remittance book, and put with the post marked for the attention of Finance, Accountancy or the Cashier.
- The Cashier issues a receipt for all cash payment received. When someone wishes to make a payment at reception, the Cashier is called to reception to receipt the payment directly.
- An insurance policy is in place which covers the loss of money in the premises, in the custody of employees or in locked safes up to a specified value.
- Stationery used in the cash and bank process including cheques, replacement cash books and receipt books are securely stored with access restricted to authorised staff only.
- A bank mandate defining working protocols for the bank to follow, including identification of key officers (including specimen signatures) able to make amendments to banking arrangements and sign cheques has been issued to the organisation's banker.
- The Post Office has been contracted to collect monies from the organisation on a monthly basis, and provides a receipt identifying the code numbers of the sealed cash bags taken.
- Blank cheques are held securely and a record of the cheques held and used is maintained up to date at all times.
- Bank reconciliations are completed on a monthly basis. Reconciliations are completed by a member of the finance staff who is not involved with the receipting or banking of cash.
- The Financial Accountant maintains a cashflow spread sheet. Details of income and expenditure known to the Force is entered onto the spread sheet and reconciled on a daily basis against the HSBC bank accounts and a cash flow calculation is made for the coming day along with balancing the previous day's banking.

In addition, we identified the following weakness which resulted in a medium priority recommendation being made:

- The cashflow forecast spread sheet is updated on a daily basis with actual figures obtained from the bank statements. The daily actual information overwrites the forecast information, consequently it is not possible to compare forecast to actual cashflow figures retrospectively and therefore, the accuracy of the initial cashflow could not be determined. **(Medium)**

Application of and compliance with control framework

We found that the following controls were adequately applied and complied with the exception of the following weakness which resulted in one high and two medium priority recommendations being made:

- Whilst bank reconciliations were found to have been completed on a monthly basis, been signed and were dated by the preparing officer and subject to an independent review testing noted that these had not been within the timescales set within the Strategic Partnership contract Schedule, which states that reconciliations should be carried out monthly, or more frequently if so notified, within 5 Business Days of the end of the month (or other period as specified). In addition testing on bank reconciliations noted that reconciling items were not being cleared in a timely manner with cases noted of some items dating back to May 2013 still outstanding. **(High)**
- A copy of the current bank mandate, showing specimen signatures of officers approved to sign cheques and make changes to banking arrangements could not be located. **(Medium)**
- The cashflow forecast only cover 4 to 6 months in advance of the current month, and there is no medium term cashflow forecast. Only major figures are included in the cash flow forecast.**(Medium)**

All recommendations have been accepted by management.

Assignment: Procurement of Legal Services (10.13/14)	**Opinion: Advisory** **H – 1** **M – 2** **L – 1**	**ADVISORY**

The scope of our work was to evaluate the procurement of legal services within the Force to establish if a clear policy has previously and is currently in place and that this is being complied with.

Our review has been undertaken in advisory capacity and no formal assurance is therefore provided. The Force Solicitor has been absent since February 2013 and subsequently resigned in July 2013. Testing has confirmed that whilst Financial Regulations clearly stated the requirement and procedures for obtaining value for money or the obtaining of a 'waiver' these have not been followed to date. It should be noted that when the Force joins the EMPLS the decision as to whether to appoint a third party will rest with the Head of Legal Services and approval for this will be referred to the Deputy Chief Constable. The EMPLS have developed a Third Party Procedure to provide transparency in any decision making process on engaging a third party on the basis that competitive quotes will not have been obtained. There will, however, still be a requirement for the internal waiver to be obtained within the Force to ensure compliance with Financial Regulations.

Our testing has noted that since the Legal Adviser took over responsibility for engaging third parties the number of such cases has reduced and so has the overall cost. We are unable to comment if this due to a reduction in the number of instances that require referral or instruction or whether this is due to a more prudent and cost effective approach having been taken.

One High and two Medium recommendations were made which resulted in the following findings:

- Legal Services should ensure that in all cases a suitably approved purchase order is raised at the time of any instruction being passed to a third party. **(High)**
- Current Financial Regulations concerning the approval and awarding of contracts need revising to remove reference to the Force Solicitor and to make any appropriate amendment to reflect the impending new SLA with EMPLS. **(Medium)**
- The EMPLS Request for External Instruction Barristers/Solicitors within the proposed SLA should be enhanced to:
  - Include details of the third party to be instructed and the rationale for their selection
  - Include an additional box to record that for Contracts valued above £25,000 the authorisation of the Chief Constable in consultation with the Chief Executive or Commissioner's CFO or for contracts below £25,000 the authorisation of the Force CFO (or nominee) to defer from Financial Regulations and award under a single negotiated contract. **(Medium)**

All, except one low, recommendations have been accepted by management, for the low recommendation we accept managements response as the system has changed since our review.

Assignment: General Ledger (13.13/14)	**Opinion: AMBER / GREEN** **H – 0** **M – 2** **L - 5**	

Design of control framework

- Access to the general ledger is restricted to only staff with a need to be able to complete their day to day duties;
- The Force has produced a new Chart of Accounts document which is available to all staff that require it. As part of the implementation of the new system, on a monthly basis, the Force intends on reviewing additions and deletions to chart to ensure that it remains accurate and reflective.
- Balances from the year end 2012/13 were accurately brought forward to 2013/14;
- Manual Journals are supported with an adequate description of their purpose. Where this is not possible, supporting documentation is attached to demonstrate the journal;
- The Force has a month end time table which lists all of the required close down tasks to be completed and evidenced each month;
- Control account reconciliations are undertaken on a monthly basis and stored within the Finance Department;
- Bank account reconciliations are completed on a monthly basis and stored within the Finance Department;
- The Force has a suspense account to hold unallocated items; and
- A trial balance is completed each month as part of the month end timetable.

However, we found the following issue which has resulted in a medium priority recommendation:

- The month end timetable in place has not been updated to reflect the requirement of t-Police to ensure all tasks are completed and an accurate closedown. **(Medium)**

Application of and compliance with control framework

Testing undertaken as part of this review found one medium priority recommendation as follows:

- There is a requirement that on a monthly basis, a report is run and reviewed of all journals posted that month to ensure that they are accurate. However, we found this is not yet in place. **(Medium)**

All recommendations have been accepted by management.

Assignment: Follow up (15.13/14)	**Opinion: GOOD PROGRESS** **H – 0** **M – 0** **L - 0**	**GOOD PROGRESS**

Summary of findings:

Review	Total No. of recs agreed.	Audit work confirmed as completed or no longer necessary	No of recs carried forward for follow up at next review
Business Continuity (2.12/13)	8	8	0
Service Expectations – Restorative Justice (3.12/13)	5	5	0
Benefits Realisation (4.12/13)	3	3	0
HR – Monitoring of Schedules and Workforce Planning (6.12/13)	1	1	0
IT – Disaster Recovery Arrangement for Force Control Room Systems (8.12/13)	4	4	0
Follow Up 2011/12 (17.12/13)	9	8	1
Total	**30** **100%**	**29** **97%**	**1** **3%**

The one recommendation not fully implemented related to the manual reconciliation of HR and Payroll system, this is planned for implementation as part of the implementation of t-Police. **(Medium)**

In addition we verified that the status of implementation of recommendations, as reported to the Joint Audit Committee via the internal recommendation tracking process, was accurate for the audits reviewed.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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