Police and Crime Commissioner for Lincolnshire and Lincolnshire Police

Internal Audit Progress Report

Joint Independent Audit Committee meeting: September 2014

Introduction

The internal audit plan for 2014/15 was approved by the Joint Independent Audit Committee in March 2104. This report provides an update on progress against that plan and summarises the results of our work to date.

Following feedback from the last Committee, we have revised the format of the report. We hope this meets your needs, but would be happy take on board any further feedback on the format or content.

Completion 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
Capital Accounting & Fixed Assets (11.13/14)	£1,650	Draft issued 31 March 2014				
Income and Debtors (12.13/14)	***£1,150***	***FINAL***	***AMBER / RED***	***1***	***1***	***3***
Payments & Creditors (14.13/14)	***£1,450***	***FINAL***	***RED***	***2***	***2***	***2***

Summary of Progress against the Internal Audit Plan 2014/15

Assignment *Reports considered today are shown in italics*	Fee (as per audit plan)	Status	Opinion	Actions Agreed (by priority)		
				High	Medium	Low
T-Police Implementation (1.14/15)	***Carry forward from 2013/14*** **£3,975**	***FINAL***	***AMBER / RED***	***0***	***4***	***1***
Governance - Decision making process & integrity (2.14/15)	***£2,900***	***FINAL***	***GREEN***	***0***	***0***	***2***
Fleet Management (3.14/15)	£2,880	Draft Issued 23 July 2014 Management Responses received (in discussion with management) 14 August 2014				
Service Expectations – POCA (4.14/15)	***£3,275***	***FINAL***	***RED***	***1***	***2***	***0***
Financial Management including Budget Management	£3,600	Fieldwork in Progress				
Data Returns	£2,880	Starting 26 August 2014				

Assignment *Reports considered today are shown in italics*	Fee (as per audit plan)	Status	Opinion	Actions Agreed (by priority)		
				High	Medium	Low
Service Expectations – Firearms Asset Management	£2,190	Starting 29 September 2014				
Collaboration -Efficiency Savings Plans (to be completed as part of a joint review with the East Midlands)	£2,200	Planned September 2014				
Delivery of the Police and Crime Plan	£4,260	Planned 1 December 2014				
Cash, Banking & Treasury Management	£1,250	Planned 15 December 2014				
Payroll (including Pensions and Expenses)	£2,200	Planned 15 December 2014				
Asset Management	£1,560	Planned 15 December 2014				
Follow Up	£1,400	Planned 15 December 2014				
Risk Management	£2,900	Planned 16 February 2015				
General Ledger	£1,250	Planned 16 February 2015				
Payments & Creditors	£1,250	Planned 16 February 2015				
Income & Debtors	£1,250	Planned 16 February 2015				
Data Security	£4,240	TBC				
ICT Change Management	£4,260	TBC				

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, Finance and OPCC to discuss any emerging issues which could impact on the control environment.

The Joint Independent Audit Committee should note that the assurances given in our audit assignments are included within our Annual Assurance report. In particular the Joint Independent 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 2014/15 - Change Control:

- Since the last Committee we have been requested by management to delay the start of the Firearms Asset Management. We have therefore swapped the timing of this with the Proceeds of Crime Act review to ensure continued delivery of audits throughout the year.

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

Emergency Services News Briefing - August 2014

- Policing in austerity: Meeting the challenge
- Consultation on HMIC's programme for regular force inspections
- Reform of anti-social behaviour powers, statutory guidance for frontline professionals
- Home Office guidance: Police officer misconduct, unsatisfactory performance and attendance management procedures
- Preparing for the National Fraud Initiative 2014/15

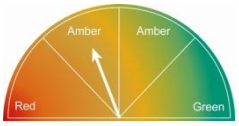
Local Government News Briefing - July 2014

- Home Office unveils new police corruption offence
- Collaboration - the bigger reward
- Making savings from contract management
- The National Fraud Initiative

Local Government News Briefing - June 2014

- CIPFA Conference - Risk, Resilience, Reform: Creating a Sustainable Future
- National Fraud Initiative, June 2014 report
- Serious Crime Bill

Key Findings from Internal Audit Work

Income & Debtors (12.13/14)	**Opinion:** **H – 1** **M – 1** **L – 3**	

Effectiveness

Review of the aged debtors report as at the 31st January 2014, we found that the 31% of the Forces debt was overdue. Review of the types of overdue debt revealed that the majority of the debt was owed by other public bodies, it is considered that they pay their debts in general, although this is not always within the required timescales.

The remaining debts were most commonly for emergency recovery and property boarding which are essential works at the time so must be incurred, however the loose application of the credit control procedure as discussed later within this review increases the risk of this debt becoming bad and requiring write off.

Design of control framework

The following controls were deemed to have been designed adequately;

- Financial Regulations are in place which detail the debt write off and sales invoice authorisation requirements. Procedures were in place for debtors, income and credit control;
- To raise a sales invoice, a requisition form is completed and appropriately authorised in line with the Financial Regulations;
- Debts are chased by a Finance Officer on a monthly basis. Reminder letters are issued to all debtors in line with the organisations Credit Control Procedure;
- Bad debts are only written off once all efforts have been made to obtain payment from the debtor. Debts are written off twice a year, once in September and once in March. Write offs are subject to approval in accordance with limits delegated within the Financial Regulations; and
- On an annual basis a performance report is produced and issued to the Force Board for review and scrutiny. On a quarterly cycle, G4Ss performance is reviewed with penalty decisions being made at the Performance Development Board (PDB).

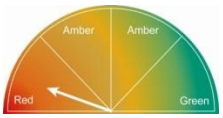
Testing during this review found no issues with the design of the control framework.

Application of and compliance with control framework

Testing undertaken as part of this review identified two major compliance issues which have resulted in one high priority and one medium priority recommendations;

- Testing found that six out of the 25 sales invoices sampled had not been authorised in line with the delegated authorised signatory forms. There is a risk that invoices could be raised inappropriately giving unsuitable income to cost codes which could result in a financial loss. **(Medium)**
- Testing found that in 14 of the 25 debts reviewed appropriate chasing had not been undertaken in line with the credit control procedure. There is a risk that debts are not being chased in line with the credit control procedure increasing the risk of bad debt and financial loss to the Force. **(High)**

All except one Low priority recommendation have been agreed by management, we have accepted managements responses for the remaining recommendation.

Payments & Creditors (14.13/14)	**Opinion:** **H – 2** **M – 2** **L – 2**	

Design of control framework

Testing during this review deemed the following controls to have been designed effectively;

- The Force has procedures in place for the main creditor functions undertaken by the Finance Team;
- Orders are raised once appropriately authorised by the central procurement team;
- All goods and services are receipted on the system prior to payment;
- Invoices are matched to purchase orders when received. Invoices without purchase orders are authorised by an appropriate budget holder prior to payment, however, an issue with Segregation of Duties has been identified below.
- Changes to supplier details are made on receipt of a written request. Changes to bank details are independently verified with the supplier prior to amendment.
- Credit notes are processed by Finance once matched to an invoice. If no invoice is identified, the credit note is sent to an appropriate budget manager for approval.
- BACS runs are undertaken on a weekly basis. The schedule is compiled automatically by the system and then reviewed and approved for payment by Retained Finance.

Testing during this review identified two design issues which have resulted in medium priority recommendations;

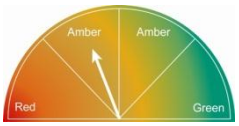
- Authorisation to pay Specials expense claims is not verified by Finance prior to payment. There is a risk that inappropriately authorised expense claims are being received and processed by finance resulting in a financial loss to the Force. **(Medium)**
- BACS payment runs are not checked to source documentation to ensure that all payments listed have a matching creditor invoice, only sample checking is undertaken which is not evidenced. There is a risk that a fraudulent payment will not be identified which could result in a financial loss to the Force. **(Low)**

Application of and compliance with control framework

Testing during this review identified five issues with the application and compliance with the control framework which have resulted in two high and two medium priority recommendation;

- T-Police does not electronically enforce a segregation of duties between the Officer authorising a purchase order and the employee receiving the goods or services on the system, as a result there is a potential that payments could be made without any segregation of duties. This has been identified by management but without segregation of duties, there is an increased risk of fraudulent behaviour and inappropriate payments being made resulting in loss the organisation. **(High)**
- Testing during this review found that in the cases of 7 of the 25 supplier amendments sampled (one bank detail change and six other detail changes); we could not find a written request from the supplier to amend their details. The Finance team have not been using an independently sourced contact number to verify amendments to supplier bank details. Testing could not in 5 out of the 11 bank changes sampled, confirm that a verification was undertaken. There is a risk of financial loss to the Force if amendments to supplier bank details are not verified appropriately prior to auctioning. **(High)**
- Testing during this review found that 3 out of 25 payments sampled were not compliant with the public sector payments policy; we understand the delay was in part due to the transition process. Payments to Creditors within 30 days is a requirement set out within section 21 of the service level agreement between the Force and G4S. There is a risk of reputational loss if suppliers are not paid in line with the public sector payments policy. **(Low)**
- Testing undertaken during this review found that in 20 cases out of the 25 cases sampled, the credit notes were applied to the system in over six days from receipt. If credit notes are not applied to the system in a timely manner, there is a risk that payments could be made to creditors which could have been offset against a credit note which may result in a financial loss to the Force. **(Medium)**
- In addition, as identified in our review of G4S Income and Expenditure, purchase orders were not always raised as required. We have not repeated the recommendation in this review and management are currently progressing this area.

All recommendations have been accepted by management.

t-Police Systems Review (1.14/15)	**Opinion:** **H – 0** **M – 4** **L - 1**	

Key Findings

Design of control framework

- To ensure that users are created with the correct permissions processes are currently in place for creating new t-Police user accounts.
- A quarterly review of Finance user accounts began in March 2014 whereby the accounts are reviewed to ensure that all active accounts are required.
- Appropriate password settings are in place for the t-Police system. Having password settings in place reduces the risk of unauthorised access to systems and data through the use of weak passwords that are easy to break.

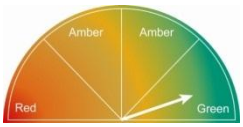
We have made four medium and one low category recommendations in relation to design of the control framework which are included in the action plan in Section 2. The medium findings are summarised below:

- System access rights within the t-Police system are defined and a matrix has been documented to identify the functions available for each responsibility. We found that segregation of duties has not been fully enforced for some key functions. Where segregation of duties is not enforced or user access is not correct there is an increased risk that fraudulent activities could be completed which would not be identified or that staff are completing tasks for which they are not authorised. This could lead to loss of income or errors in the system. **(Medium)**
- It was identified that there were a number of Cap Gemini staff who have retained Super user role permissions within the system. The Super user profile has full access to all functions within the system and should be restricted to a small number of authorised users only. Where this is not appropriately restricted there is an increased risk that unauthorised staff are able to alter the data within t-Police which could lead to data loss and fraudulent activity going unnoticed. **(Medium)**
- We identified a controls weakness in the Accounts Payable function whereby certain activity doesn't require additional approval or authorisation which could lead to fraudulent activity going unnoticed. **(Medium)**
- Audit trails to record system activity have not been implemented within t-Police system to record user activity. This increases the risk that user activity cannot be identified in the event that a review is required into system activity. **(Medium)**

Application of and compliance with control framework

- For all new staff starters for May 2014 we confirmed that access provided is appropriate for their role and that there was a new starter's form in place that identified the requirement for t-Police access.
- For all staff leavers for May 2014, we confirmed that access has been removed in all cases reducing the risk of unauthorised access to t-Police.

All recommendations have been accepted by management.

Assignment: Governance – Decision Making (2.14/15)	**Opinion: GREEN** **H – 0** **M – 0** **L - 2**	

Design of control framework

The design of the control framework was considered to be appropriate and fit for purpose and no recommendations have been made in relation to the design of the framework. Several suggestions have been included to highlight aspects of the control framework that we have identified elsewhere, which the Organisation may wish to consider. Examples of the sound design include;

- The Making and Publication of Decisions of Significant Public Interest Policy Statement, which is available on the PCC's website, defines what decisions will be regarded as decisions of significant public interest and informs the public how these decisions will be published. The definition of what the PCC for Lincolnshire has classified as decisions of significant public interest are in line with others within the sector.
- Decisions classified as of significant public interest are recorded within a Register of Decisions. The Register is available on the PCC's website and is updated within one working day of any decision being made. A link to the decision record is included within the Register, together with the date the decision was made, the reference number and subject.
- The Scheme of Arrangements for the Discharge of Functions outlines the decisions for which the PCC has chosen to delegate to his/her Officers or to the Chief Constable and Officers under his/her direction and control. The scheme is in generally in line with others within the sector, although as part of our benchmarking, we have highlighted some suggestions which the PCC may wish to consider for inclusion.
- A Forward Plan is published on the PCC website which identifies those decisions of significant public interest, which are due to be made over the three month period, together with the contact details for the responsible officer. A monthly Internal Management meeting reviews the Forward Plan and reschedules decisions, as and if required. Where this is the case the published Forward Plan is amended to reflect the changes. When decisions have been made the Forward Plan records the date the decision was made and a link to the decision document.
- The PCC website publishes quarterly performance reports. The report allows the public to assess how well the Organisation is performing in key areas such as reducing crime and anti-social behaviour, solving crime, how satisfied victims are with the services they receive and how confident people are with the police service in Lincolnshire. It also highlights areas of performance that are exceptionally good, together with those that require further work.

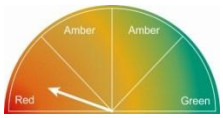
Application of and compliance with control framework

- Testing identified the following areas of non-compliance with the control framework resulting in two Low priority recommendations;
  - In 2/13 cases the Register of Decisions had not been updated within the one working day timescale set by the PCC. In one case this was due to the Corporate Administration Officer being on annual leave and no other officer assigned the responsibility to update the Register of Decisions, in the absence of the Corporate Administration Officer. We have therefore included a low priority recommendation within the main body of the report to ensure this responsibility is assigned.
  - The 'Making and Publication of Decisions of Significant Public Interest' Policy Statement informs that the Forward Plan will cover a four month period. Currently these are being produced to cover a three month period. Our benchmarking identified that the sector standard is for the Forward Plan to cover a four month period. Therefore the PCC should consider returning to a Forward Plan covering a four month period or alternatively updating the Policy Statement to reflect the change to a three month period.

As part of the audit, we were provided with a copy of the recommendations made by the Lincolnshire Police and Crime Panel, included within the Task Group report, following the review of the decision making process regarding the suspension of the Chief Constable. In total there were 16 recommendations made, with seven of these being assigned to the PCC.

For the recommendations that had been assigned to the PCC, the Commissioners response is robust and appropriate. Given the nature of the recommendations and the focus on the suspension of senior officers we were unable to undertake any detailed testing for the majority of the recommendations. However, for two of the recommendations we confirmed that a 'Communications and Public Affairs Shared Service Strategy' has now been produced and a 'Memorandum of Understanding' regarding the exchange of information is in draft form.

All recommendations have been accepted by management.

Assignment: Service Expectations – POCA (4.14/15)	**Opinion: RED** **H – 1** **M – 2** **L – 0**	

Design of control framework

The following controls were found to be in place and designed adequately:

- The Force has documented a POCA – Seizure of Cash and Civil Recovery of Proceeds of Unlawful Conduct Policy.
- Cash seized is sealed within an evidence bag within a second tamper proof evidence bag and signed by two individuals.
- The Force has in place Form 'A' and subsequently Form 'B' which are served to the respondent where cash is seized and applications for detention had been made within the 48 hour time limit.
- Cash is banked as soon as it is reasonable to do so, complete with supporting documentation.

The following controls were found not to be in place resulting in one Medium recommendation:

- The Force does not have any uniformed audit processes/spot checks in place to ensure that necessary processes are followed and adhered to with regards to cash seizures. **(Medium)**

Application of and compliance with control framework

The following controls were found to have been complied with:

- A property sheet was found to be in place for all seizures, and evidence bags have been signed as required.
- Our testing confirmed that Form 'B' had been completed and submitted to the Magistrate within 48 hours to allow the cash to be detained.
- POCA seizures are updated on JARD, including both live and complete cases.
- Where cash seized is less than £1,000 and no further action or investigation took place, the money was returned to its owner.

The following controls were found not to have been complied with, resulting in one High and one Medium recommendation:

- There is no evidence that the PCOA Policy has been reviewed since 2003. We were informed that the Policy had last been reviewed in 2007 however the document was dated 2003. There are no standard operating procedures to support the policy. **(Medium)**
- It was found that in several cases, cash was not held in the safe at all times. It was also identified that in some cases, there was no record of cash going into or out of the safe. The safe does not have a clear audit trail at all times. It was also noted that historic entries had been made in pencil. **(High)**

All except one Medium priority recommendation have been agreed by management, for the remaining recommendation, the recommendation was partial accepted.

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at http://www.icaew.com/en/members/regulations-standards-and-guidance.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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