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

Internal Audit Annual Report 2018/19

May 2019

This report has been prepared on the basis of the limitations set out on page 13.

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01 Introduction

Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across Office of the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police during the 2018/19 financial year, the service for which is provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

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.

Internal audit provides the Police and Crime Commissioner and Chief Constable, through the Joint Independent Audit Committee (JIAC), 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.

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.

02 Head of Internal Audit Opinion

Opinions

From the Internal Audit work undertaken in compliance with the Public Sector Internal Audit Standards (PSIAS) for the year ending 31st March 2019, we can provide the following opinions:

ASSURANCE - POLICE & CRIME COMMISSIONER

Our overall opinion is that adequate and effective risk management, control and governance processes were in place to manage the achievement of the organisation's objectives.

ASSURANCE - CHIEF CONSTABLE

Our overall opinion is that adequate and effective risk management, control and governance processes were in place to manage the achievement of the organisation's objectives. We have, however, identified weaknesses in respect of HR – Recruit to Reward.

Basis of the Opinion

Internal Audit applies a risk-based approach and our audits assess the governance framework, the risk management process, as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we can provide assurance that management have in place a robust control environment and, whilst further remedial actions are needed in some areas, we are assured that management have in place effective processes for the implementation of identified areas of weakness.

Corporate Governance

Whilst no specific audit of Governance was carried out during 2018/19, we have carried out a number audits where governance arrangements were a key aspect, most notably as part of the work we carried out when reviewing HR – Recruit to Reward. In addition to purely focusing on local procedures, resources were allocated in order to provide assurance with regards the systems and controls, including governance arrangements, in place to deliver specific elements of regional collaboration. During 2018/19, themed audits were carried out of Strategic Financial Planning, Business Planning and Risk Management.

Through are delivery of the internal audit plan, our review of wider regional collaboration arrangements and attendance at JIAC meetings, we are satisfied that the governance framework for the Office of the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police has been effective for the year ended 31st March 2019.

Risk Management

As part of the 2018/19 Internal Audit Plan we undertook an audit of the controls and processes in place in respect of risk management. The specific areas that formed part of these reviews included: policies and procedures; risk registers; risk mitigation; reporting arrangements and follow up of previous recommendations. We provided a significant assurance opinion and concluded that overall risk management within the Force and OPCC is deemed effective and, with the exception of a few housekeeping issue, controls processes tested were being consistently applied. It was evident throughout the audit that risk management is well embedded at a strategic level and responsible staff had the required knowledge, experience and expertise to ensure good systems of internal control.

During the course of delivering the 2018/19 audit programme, a key element of each audit scope was to evaluate the control environment and, in particular, how key risks were being managed. As summarised in the 'Internal Control' section below, we were able to place reliance on the systems of internal control and the manner in which risks were being managed by the Force and OPCC.

Internal Control

As illustrated in the tables below, we have noted that Office of the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police have a generally sound control environment, although we have noted areas where improvements are required. During the 2018/19 year, 12 (92%) internal audits were rated either 'significant' or 'satisfactory', whilst one (8%) internal audit was given 'limited assurance'. In addition, the three collaborative audits covering the East Midlands policing region all were rated 'satisfactory assurance'.

The following tables provide a brief overview of the assurance gradings given as a consequence of audits carried out during 2018/19, split between those specific to Lincolnshire and those undertaken as part of East Midlands regional collaborative audits. More details of the audit opinions and the priority of recommendations for all 2018/19 Internal Audit assignments is provided in Appendix A1 – Audit Opinions and Recommendations. In addition, further analysis of those areas where systems improvement are required are set out in Appendix A2 – Audit Projects with Limited and Nil Assurance 2018/19.

Lincolnshire Only

Assurance Gradings	2018/19	
Significant	6	46%
Satisfactory	6	46%
Limited	1	8%
Nil	0	0%
Total	**13**	

Collaboration Audits

Assurance Gradings	2018/19	
Significant	0	0%
Satisfactory	3	100%
Limited	0	0%
Nil	0	0%
Total	**3**	

Issues relevant to Annual Governance Statement

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. Internal Audit, through its annual programme of activity, has a duty to bring to your attention any areas of weakness we believe should be considered when producing the Annual Governance Statement. As part of this responsibility, we have highlighted any limited or nil assurance reports within Appendix A2.

Restriction placed on the work of Internal Audit

As set out in the Audit Charter, we can confirm that Internal Audit had unrestricted right of access to all OPCC and Force records and information, both manual and computerised, cash, stores and other property or assets it considered necessary to fulfil its responsibilities.

03 Performance

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.

No	Indicator	Criteria	Performance
1	Annual report provided to the JIAC	As agreed with the Client Officer	Achieved
2	Annual Operational and Strategic Plans to the JIAC	As agreed with the Client Officer	Achieved
3	Progress report to the JIAC	7 working days prior to meeting.	Achieved
4	Issue of draft report	Within 10 working days of completion of final exit meeting.	100% (13/13)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (12/12)
6	Follow-up of priority one recommendations	90% within four months. 100% within six months.	N/A[1]
7	Follow-up of other recommendations	100% within 12 months of date of final report.	N/A[1]
8	Audit Brief to auditee	At least 10 working days prior to commencement of fieldwork.	100% (13/13)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (10/10)

[1] Previous audit recommendations are followed up through the review of the Implementation Progress Report that is presented at each JIAC by the DCC. Additionally, those audits that are carried out on an annual basis include a follow-up of previous recommendations.

Quality and Conformance with the Public Sector Internal Audit Standards

In addition to the firm's overall policy and procedures, our internal audit manual and working papers are designed to ensure compliance with the Firm's quality requirements. Furthermore, our internal audit manual and approach are based on professional internal auditing standards issued by the Global Institute of Internal Auditors, as well as sector specific codes such as the Public Sector Internal Audit Standards.

Our methodology and work has been subject to review as part of our internal Quality Assurance Reviews undertaken by our Standards and Risk Management team as well as external scrutiny by the likes of external auditors, as well as other regulatory bodies. No adverse comments have been raised around our compliance with professional standards or our work not being able to be relied upon.

Appendix A1 - Audit Opinions and Recommendations 2018/19

Lincolnshire 2018/19 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Risk Management	Final	Significant			4	4
HR Recruit to Reward	Final	Limited	3	3	2	8
Health & Safety	Final	Satisfactory		2	3	5
Estates Management	Final	Significant			1	1
Procurement	Final	Satisfactory		3	1	4
Cash, Bank & Treasury Management	Final	Satisfactory		1		1
General Ledger	Final	Significant			1	1
Payments & Creditors	Final	Satisfactory		1	3	4
General Data Protection Regulation	Final	Significant			3	3
Income & Debtors	Final	Significant			1	1
Payroll	Final	Satisfactory		2		2
Property Management	Final	Satisfactory		4	1	5
Road Safety Partnership	Final	Significant			1	1
		Total	**3**	**16**	**21**	**40**

Collaboration Audits 2018/19	Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Strategic Financial Planning	Final	Satisfactory		4		4
Risk Management	Final	Satisfactory		3	3	6
Business Planning	Final	Satisfactory		2	1	3
Projected Underspend	Draft					
		Total		**9**	**4**	**13**

Appendix A2 - Audit Projects with Limited and Nil Assurance 2018/19

Project	Grading	Summary of Key Findings
HR – Recruit to Reward	Limited	We raised three priority 1 / fundamental recommendations and a further three priority 2 / significant recommendations that require addressing where we believe there is scope for improvement within the control environment. We also raised two priority 3 / housekeeping recommendations in respect of best practice. The priority 1 and 2 recommendations are set out below: • A clearly defined recruitment process should be established that includes what to do should any deviation from the approved procedure be required. Any deviation should have a clear business case, detailing rational for the deviation, including HR and Finance commentary on the implications of proceeding. HR should have a clear escalation process should they be instructed to carry out any recruitment that is not in line with the procedures. The missing job description should be completed. (Priority 1) • A process for making ex-gratia payments should be developed and approved. This process should make clear reference to the correct level of authorisation required in line with the Financial Procedure Rules. (Priority 1) • The current on-going bonus payment should be reviewed and stopped as it is in breach of the bonus scheme. A review of the Honoraria Procedure should be carried out in line with Staff inclusion in the Bonus Scheme to ensure the correct type of payment is made and that these can be budgeted for accordingly. HR, as the administrators of the scheme, should have an escalation process to follow should they receive requests to use the bonus scheme that are not in line with the procedures for awarding the bonus scheme. (Priority 1) • The Force & OPCC should have a clear authorisation process for each post that is recruited. The roles of the ACO Resources, the Strategic People Board, and Line Managers in the recruitment process should all be clearly defined. (Priority 2) • The HR Team should provide appropriate training materials to assist staff carrying out key parts of the recruitment process. (Priority 2) • The Force should review the current exit interview process and ensure that the outcomes are regularly reported to the appropriate forum for discussion and analysis. (Priority 2)

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

David Hoose	07552 007708 David.Hoose@Mazars.co.uk
Brian Welch	07780 970200 Brian.Welch@Mazars.co.uk

Appendix 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.

The contents of this report are confidential and not for distribution to anyone other than the Office of the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.

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