



Lancashire
Constabulary
police and communities together

**Lancashire Constabulary and
The Police and Crime Commissioner for Lancashire
Internal Audit Service
Annual report of the Head of Internal Audit for the year
ended 31 March 2015**

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1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2014/15 and the key themes arising from it. It provides my opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control. It is made under the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), with which the Internal Audit Service conforms.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the control environment. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the control environment of Lancashire Constabulary and the Police and Crime Commissioner for Lancashire and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2014/15.
- 1.3 An explanation of the scope of our work, management and internal audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex 1 to this report. The levels of assurance the Internal Audit Service provides are set out in Annex 2.

Interim reports

- 1.4 Summaries of the audit work undertaken have been reported to the Joint Audit Committee as it has been completed during the year.

Acknowledgements

- 1.5 I am grateful for the assistance that has been provided to the Internal Audit Service by the staff of Lancashire Constabulary and the Police and Crime Commissioner for Lancashire in the course of our work during the year.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide **substantial** assurance over the internal control environment, governance and risk management arrangements for 2014/15. In my opinion that there is a generally sound system of internal control during the year, adequately designed to meet the objectives of Lancashire Constabulary and the Police and Crime Commissioner for Lancashire, and controls were generally applied consistently.
- 2.2 Management's responses to our work have been positive and action has been, or will be, taken where we have identified control issues.

Wider sources of assurance available to Lancashire Constabulary and the Police and Crime Commissioner for Lancashire

- 2.3 Assurance has been provided by Grant Thornton as the Authority's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2013/14 in September 2014, and gave unqualified opinions on both the annual financial statements and the value for money arrangements. The external auditor's annual audit letter for 2014/15 is expected to be available in September 2015.

3 Internal audit work undertaken

Key Financial Systems

- 3.1 We are able to provide substantial assurance over the adequacy and effectiveness of controls operated within the payroll, accounts payable, accounts receivable, general ledger and treasury management systems, and full assurance in relation to the pension administration arrangements. Several areas of good practice have been identified and, whilst actions have been agreed in a small number of areas to enhance the controls in place, no issues are considered sufficiently significant to impact on the overall internal control environment.
- 3.2 Separate reviews of the expenses systems operated by the Office of the Police and Crime Commissioner (OPCC) and Constabulary have been completed during the year.
- 3.4 The Constabulary has agreed to amend its expenses policy to acknowledge that the Constabulary places trust in the integrity of its staff to make claims only as allowed by this policy. From that point no checks will routinely be undertaken on individual claims, but the overall level and trends of expenditure will be monitored. On the basis that this action will be completed as intended, we have provided substantial assurance over the Constabulary expenses system.
- 3.5 We have provided only limited assurance over the OPCC's expenses system as a result of a number of control weaknesses and actions have been agreed to address these.

Operational reviews

Covert assets

- 3.7 We are able to provide substantial assurance over the procedures operated over covert assets. In particular, our work has allowed us to conclude that:
- Satisfactory arrangements are in place for the opening and closing of covert bank accounts through which all covert operational activity is financed;
 - Sufficient oversight of covert transactions is undertaken both within the operational service area and through independent checks performed by the Management Accounts Team; and
 - Accurate records are maintained that provide an audit trail to support the details and appropriateness of transactions made, including the purchase and sale of covert vehicles.
- 3.8 A small number of areas for improvement were identified, and actions have been agreed to address these.

Complaints procedures

- 3.9 We have provided substantial assurance over the operation of the Constabulary's complaints procedures. A number of actions have been agreed to further improve controls over the complaints system, and some areas of good practice have also been identified, including:
- Policies and procedures are in place both within the OPCC and the Constabulary, which identify the key officers and their responsibilities for dealing with complaints;
 - Staff with responsibilities for handling complaints, within both the OPCC and Constabulary have been trained or have relevant experience in dealing with complaints; and
 - Appropriate information is retained to support the decision making process for recorded complaints in the majority of cases we reviewed.

Basic Command Unit Operations

- 3.10 The objective of the audit was to review and assess the extent to which the key risks to the performance objectives of territorial basic command units (BCUs) are being effectively managed, following their reconfiguration in 2014.
- 3.11 We can provide substantial assurance that that there is a generally sound system of internal control that is adequately designed, and controls are generally being applied consistently. We have identified a number of issues where further work is needed by management to improve the control environment and actions have been agreed to address these. Of these issues, two, relating to resourcing and resource management and demand management are considered to be areas of high residual risk.

- 3.12 A number of actions have been taken to address resourcing and resource management within the BCUs including:
- The establishment of a Strategic Resourcing Board to ensure resourcing is carried out effectively and to ensure resources are at a maximum in key areas;
 - A full establishment review is to be conducted; and
 - Three further Police Constable Recruitment intakes are programmed during 2015/16 to increase the front line establishment.
- 3.13 Additionally, in relation to demand management, action has been taken to improve customer resolution at first point of contact and reduce handover and reworking of processes.

Follow up work

- 3.14 Work has been undertaken to ascertain progress in implementing agreed actions resulting from the 2013/14 operational reviews, which included Governance arrangements between the Constabulary and the Police and Crime Commissioner, OPCC Financial Procedures and ICT Service Management. The table below indicates the current position across the three reviews.

Actions agreed in 2013/14	Total	Implemented	Ongoing	Not to be implemented
High risk	2	2	0	0
Medium risk	12	9	1	2
Low risk	5	4	0	1

Fraud/ special investigations

- 3.15 No incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative

- 3.16 The 2014/15 data matches shared with the Constabulary in January 2015 and investigated to date are shown in the table below.

Category of data	Number of data matching reports	Number of matches recommended for investigation
Pensions	5	115
Payroll	5	87
Creditors	9	81
VAT	1	97
Total	20	380

- 3.17 To date, savings of £20,500 have been identified due to an overpayment on pensions. 'Your Pensions Service' are in the process of recovering this overpayment. As yet, no savings have been identified in other categories of

data but steady progress is being made by officers in looking at the individual matches. The vast majority of the recommended matches are being cleared with no concerns identified.

Implications for the Annual Governance Statement

- 3.18 In making their annual governance statement Lancashire Constabulary and the Police and Crime Commissioner for Lancashire should consider this report in relation to internal control, risk management and corporate governance.
- 3.19 We have agreed actions in a number of areas to enhance the controls in place for the planned audit reviews, and except for the matters raised in our reviews of OPCC expenses and the Basic Command Units, which we have highlighted above, no high risk areas for improvement have been identified.

4 Internal audit inputs and performance

Internal audit plan 2014/15

- 4.1 Work carried out during this year was in accordance with the plan presented and approved by the Joint Audit Committee meeting on 24 February 2014. Details of the assurance provided, and key issues identified for each of the areas covered is set out in the 'Summary of findings and assurance' table which forms part of Section 5. This shows that 197 days have been spent delivering the audit plan against a provision of 200 days.
- 4.2 We also undertook an additional review which provided substantial assurance over the procedures operated to complete the Carbon Reduction Commitment (CRC) annual return.
- 4.3 Our work has included liaison with the external auditor to discuss planned coverage and to ensure that any duplication of work is minimised.
- 4.4 Action plans have been agreed in respect of all finalised audit reports. These indicate that positive action has been, or will be taken to address any areas for improvement identified. Implementation of these plans will be followed up as part of our 2015/16 work.

Internal audit quality assurance and improvement

- 4.5 In order to place reliance on the work of the Internal Audit Service it is important that Lancashire Constabulary and the Police and Crime Commissioner for Lancashire receives assurance regarding its quality. This is also a professional requirement. The Internal Audit Service therefore undertook a self-assessment in 2012 against the professional standards in place at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified by the Audit Commission, the Council's external auditor during 2012.
- 4.6 The Audit Commission concluded that:

'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.'

'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'

- 4.7 Like the rest of Lancashire County Council, the Internal Audit Service will be subject to further restructuring, and a reassessment against the Public Sector Internal Audit Standards, published in 2013 will be necessary in due course.

5 Summary of findings

Overall summary and assurance provided

- 5.1 We have set out in the table on the following pages a brief summary of each review undertaken during the year. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business. This also sets out the level and number of recommendations made for each review and details any high and/or medium level recommendations. They reflect the findings at the time the work was carried out.
- 5.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 5.3 **System adequacy:** We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.
- 5.4 **System effectiveness:** We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Payroll	10	14	(4)	✓	✓	Our report was finalised in February 2015. With the amalgamation of the HR Transactional Services and Payroll teams from April 2015, governance arrangements will be enhanced to ensure that all payroll information is accurately entered and to prevent erroneous payments being made. Prior year actions have been implemented.
				substantial assurance 2 medium and 1 low risk actions agreed		
Accounts payable	10	9	1	✓	✓	Our composite final report was issued in December 2014. Actions have been agreed to ensure that a monthly aged debt review is conducted and a weekly verification of BACS uploads is undertaken. Prior year actions have been implemented.
				substantial assurance 2 low risk actions agreed		
Accounts receivable	10	11	(1)	✓	✓	Prior year actions have been implemented.
				substantial assurance 2 medium risk actions agreed		
General ledger	10	6	4	✓	✓	
				substantial assurance no action required		
Treasury management	5	5	0	✓	✓	A final report was issued in May 2015. No areas for improvement were identified from this review.
				substantial assurance no action required		

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions	5	5	0	✓	✓	A final report was issued in June 2015. No areas for improvement were identified from this review.
				full assurance no action required		
Expenses: Police and Crime Commissioner for Lancashire	10	20	(10)	X	X	Our report was finalised in February 2015. There were some weaknesses in the processes for administering lease car and redeployment mileage, and some claimants were submitting accumulated mileage claims contrary to policy. There were also weaknesses associated with the accuracy and efficiency with which expense claims are completed and processed, and anomalies in relation to the formal recording of entitlement to expense allowances. These have now been addressed.
				limited assurance three high and seven medium actions agreed		
Expenses: Constabulary						
				substantial assurance 2 medium and 2 low actions agreed		

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Operational reviews						
Covert assets	25	20	5	✓	✓	Our report was finalised in February 2015.
				substantial assurance 1 medium and 1 low risk actions agreed		Evidence of the monthly reconciliation of on-line covert bank accounts will be maintained in line with the process adopted for other covert bank accounts.
Complaints procedures	10	18	(8)	✓	✓	Our report was finalised in January 2015.
				substantial assurance 8 medium and 5 low risk actions agreed		A number of actions have been agreed to improve the overall control environment including: <ul style="list-style-type: none"> • Updating the Constabulary Complainant Charter; • Pending the implementation of the new complaints system, a reconciliation is to be undertaken to reconcile the existing complaints data held by both the Constabulary and the OPCC; • Additional training is to be provided to staff, that will cover areas of relevance identified by our review; • Tighter management of timescales is to be introduced; and • Template letters will be reviewed, simplified and amended to make them more customer focused and personal.

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Basic Command Unit operations	25	20	5	✓	✓	Our report was finalised in April 2015.
				substantial assurance 2 high and 6 medium actions agreed		Action is already being taken by management to address the issues identified for consideration following our review.
OPCC commissioning arrangements	20	20	0	-	-	The fieldwork for this review is now complete and the draft report is being produced.
OPCC gifts/ hospitality and declaration of interests	10	2	8	-	-	A risk and control evaluation has been developed and discussed with staff in the Office of the Police and Crime Commissioner.
Other areas						
Follow up audits: - New governance arrangements - OPCC financial procedures - ICT Service management	15	15	0	-	-	Good progress has been made in implementing the agreed actions made as part of the 2013/14 operational reviews. Our final reports in relation to each of these areas were issued during May and June 2015.
National Fraud Initiative	3	6	(3)	-	-	The data matches have been received and distributed for routine further investigation.

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Reporting and general management activities.	17	17	0	-	-	
Support to management	5	5	0	-	-	
Contingency: carbon reduction commitment annual return	10	4	6	✓	✓	
				substantial assurance		
Total	200	197	3			

Annex 1 - Scope, responsibilities and assurance

Approach

- 1 In accordance with Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the governance, risk management and control processes of Lancashire Constabulary and the Police and Crime Commissioner for Lancashire including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- 6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Joint Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

Limitations to the scope of our work

- 7 There have been no limitations to the scope of our audit work.

Limitations on the assurance that internal audit can provide

- 8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue

to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- 9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- 10 I have prepared this report solely for Lancashire Constabulary and the Police and Crime Commissioner for Lancashire. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers and the Joint Audit Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 11 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Annex 2 - Audit assurance levels and classification of agreed actions

Audit assurance

The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Actions proposed by the Internal Audit Service

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*