

Lancashire Constabulary and

Police and Crime Commissioner for Lancashire

Internal Audit Service

**Monitoring report for the period ended 29 February
2016**

1 Introduction

Purpose of this report

- 1.1 The Audit Committee agreed the Annual Audit Plan for 2015-16 in June 2015. This report details the progress to date in undertaking the agreed coverage and highlights any significant issues from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2015 to 29 February 2016.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by staff from both the Constabulary and the Office of the Police and Crime Commissioner (OPCC) contacted in the course of our work.

2 Key issues and themes arising

- 2.1 The work completed during the year on operational service areas for both the Constabulary and the Police and Crime Commissioner identified weaknesses in the control environment which resulted in our providing no assurance and limited assurance following our audits of the evidence related property and OPCC commissioning areas respectively. An update on progress against both these areas was provided to the Committee in December.
- 2.2 We have also now completed a review of the Constabulary's Information Management and Security arrangements and can provide only limited assurance at this time. Further details are provided below.
- 2.3 From the work conducted to date on key financial systems, there are no implications for the overall control environment.

3 Internal audit work undertaken

- 3.1 Work carried out during the period 1 April 2015 to 29 February 2016 was in accordance with the agreed audit plan. To date, 132 days have been spent this financial year on delivering the 2015-16 audit plan, equating to 66% of the total planned audit activity of 200 days, or 80% of the revised audit activity of 165 days. Work will continue during March to complete the outstanding reviews.
- 3.2 During quarter 1, we additionally spent 26 days in completing reviews outstanding from our 2014-15 audit plan.

2015-16 Audit Plan

Key financial systems

- 3.3 As previously reported to the Committee, our audits of the accounts payable, accounts receivable, general ledger and procurement processes and controls were completed, with no significant matters to report.

- 3.4 Our audit of human resources and payroll was finalised in February, with an opinion of substantial assurance. Overall a strong control environment exists.
- 3.5 Our audit of OPCC expenses has now also been completed, with satisfactory results. Compliance testing on a sample of expense claims confirmed that these are appropriately prepared, authorised and paid in accordance with the expenses policy. Our audit of Constabulary expenses has involved follow up of the agreed prior year actions, pending transfer to the Oracle self-serve system, which took place in February. Sufficient progress had been made at the time of our review, and the outstanding actions (associated with amendments to the expenses policy) are due to be implemented by April 2016.
- 3.6 Terms of reference for our audits of Treasury Management and Pensions administration have been agreed, with the work scheduled for completion during March.

Operational reviews

- 3.7 Our audit of the management and control of evidence related property, revealed non-compliance with policy requirements and inconsistent application of controls which meant that we could give no assurance over this area. As previously reported to Committee, a detailed action plan was agreed to address the areas of weakness identified, which is being progressed by the Constabulary. The 2016-17 audit plan includes provision for a further audit of this area in quarter 1 of the new financial year in order to provide an update on progress.
- 3.8 Our review of the Constabulary's Information Management and Security arrangements has just been finalised. Our audit identified a number of weaknesses in the governance of information, most notably a complete and accurate Information Asset Register and the absence of an Information Risk Register, which are fundamental components for effective information management. However, we do wish to acknowledge that the personnel we have dealt with are fully aware of the weaknesses that exist and action is already in hand to address the situation. Furthermore we have seen that there is obvious support and oversight from the Senior Information Risk Owner and the Information Governance Board.
- 3.9 Our review of the completeness and appropriateness of the OPCC policies, strategies and protocols is now nearing completion and the findings are being discussed with management.
- 3.10 Our review of OPCC Commissioning arrangements has now started. This work will enable us to provide an update on progress against the areas for improvement identified in the 2014-15 review of this area (referred to below).

Follow up reviews

- 3.11 Our follow up audits of complaint processes, Basic Command Units and covert accounts, have now all commenced, and will be completed during March.

Completion of the 2014/15 audit programme

- 3.12 Our audit of OPCC commissioning arrangements found that whilst the services commissioned were aligned with the priorities in the Police and Crime Plan,

there were a number of areas where controls could be improved, and as a result, a limited audit opinion was given.

- 3.13 We reported in December 2015, that good progress had been made in addressing the individual areas for improvement identified in our report and as noted above, our 2015-16 audit is currently underway.

Overall summary and assurance provided

- 3.14 We have set out in the table on the attached pages a brief summary of each review undertaken during the period. This sets out the planned and actual days we have spent on each review, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business.
- 3.15 On the completion of individual reviews we distil the assurance we are able to provide into an assessment of the adequacy of each system, and its effectiveness in operation.

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.

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.

- 3.16 The assurance we can provide over any area of control falls into one of four categories and these are defined at Appendix 1.

Use of this report

- 3.17 This report has been prepared solely for the use of Lancashire Constabulary and the Police and Crime Commissioner for Lancashire, and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, 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.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2015-16 Audit Plan						
Key financial systems						
Accounts payable	10	11	(1)	✓	✓	These reviews were finalised in December 2015. The agreed actions include: <ul style="list-style-type: none"> • Staff being reminded that manual invoices must be authorised in accordance with the authorised list of signatories and documentation supporting amendments to supplier data will be completed appropriately. • Bi-monthly dip sampling of the performance targets within the BSU SLA will be undertaken. • Instalment accounts will be reviewed on a quarterly basis to identify non-payment, and all aged debts will be reviewed on a monthly basis. • Dip sampling of payment batches will be undertaken on a bi-monthly basis to ensure that paying in slips are completed in full and authorised by an independent person.
				Substantial assurance 1 medium and 2 low actions agreed		
Accounts receivable	10	11	(1)	✓	✓	
				Substantial assurance 1 medium and 1 low action agreed		
General ledger	10	10	0	✓	✓	
				Full assurance No areas for improvement identified		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Procurement	10	9	1	✓	✓	<p>The report was finalised in December 2015. The agreed actions include:</p> <ul style="list-style-type: none"> • The updating of standing orders (as intended) to reflect the Public Contracts Regulations 2015, and to provide additional clarity over the authorisation of waivers. • Extra care being taken to ensure that contract values on the contracts register concur with contract documentation.
				Substantial assurance 2 medium and 1 low action agreed		
Payroll	10	9	1	✓	✓	<p>The report was finalised in February 2016. The agreed actions include:</p> <ul style="list-style-type: none"> • Addressing an underpayment of compensatory time off. • Reminding staff of the need to ensure that employee details recorded on the HRS2 system and the Oracle Payroll system concur. • Strengthening controls over the movement of payroll files.
				Substantial assurance 1 medium and 2 low actions agreed		
Pensions	5	1	4	-	-	<p>The Terms of Reference for this review has been agreed and fieldwork is scheduled for completion during March.</p>

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Expenses	5	4	1	✓	✓	Our work included a review of OPCC expenses and the follow up of actions agreed from the work on Constabulary expenses completed last year. The OPCC review identified one minor area for improvement associated with the verification of insurance documents and employee driving licences. Both reports were finalised during February.
				Substantial assurance		
Treasury management	5	1	4	-	-	The Terms of Reference for this review has been agreed and fieldwork is scheduled for completion during March.
Operational reviews						
Evidence Related Property	25	25	0	X	X	The report was finalised in September 2015. A detailed action plan has been developed to address the areas of weakness identified.
				No assurance 6 high, 13 medium and 4 low actions agreed		
Information security	20	20	0	X	X	This report was finalised on 1 March. A detailed action plan has been agreed to address the areas of weakness identified, which includes the following: <ul style="list-style-type: none"> The suite of policies and supporting procedures will be reviewed to identify any
				Limited assurance 2 high, 12 medium and 2 low actions agreed		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
						<p>areas where additional policy or procedural guidance is required.</p> <ul style="list-style-type: none"> • A training plan is to be developed for all information asset owners within the Constabulary. • An information risk Register is to be established alongside a process to escalate or transfer information risks to corporate and departmental risk registers as appropriate. • An up to date information asset register is to be developed and maintained to identify information asset owners and support the information risk management process.
Review of OPCC policies, strategies and procedures	10	10	0	-	-	Our fieldwork is complete and we are discussing our findings with management.
Vetting and barring	15	1	14	-	-	With agreement of the Director of Resources and the Chair of the Joint Audit and Ethics Committee, this review has been deferred until 2016-17.

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Hi-tech crime unit	20	0	20	-	-	With agreement of the Director of Resources and the Chair of the Joint Audit and Ethics Committee, this review has been deferred until 2016-17.
OPCC grant funding and monitoring arrangements	20	3	17	-	-	This review has recently started and will provide assurance as to whether the weaknesses identified from the 2014-15 review of this area have been satisfactorily addressed.
Other areas						
Follow up reviews	10	4	6	-	-	These follow up audit reviews have recently started and are scheduled for completion during this final month: <ul style="list-style-type: none"> • Covert assets • Basic Command Unit Operations • Complaints
NFI	3	1	2	-	-	Ongoing progress monitoring in relation to processing of data matches identified.
General management activities and central reporting	12	12	0	-	-	Time incurred relates to attendance at the meetings of the Joint Audit and Ethics Committee, completion of the 2014-15 Annual Internal Audit Report, production of the quarterly monitoring reports and development of the 2016-17 Combined Audit Plan.

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2015-16 days	200	132	68			
Completion of 2014-15 audit plan						
OPCC commissioning arrangements	13	13	0	X	X	Our report was finalised in September 2015 and an action plan has been agreed to address the areas of weakness identified.
				Limited assurance 1 high, 8 medium and 2 low actions agreed		
Basic Command Unit*	1	1	0	✓	✓	Our report was finalised in April 2015. Action is already being taken by management to address the issues identified for consideration following our review.
				Substantial assurance 2 high and 6 medium actions agreed		
Treasury Management*	2	2	0	✓	✓	A final report was issued in May 2015. No areas for improvement were identified from this review.
				Substantial assurance		
Pensions*	5	5	0	✓	✓	A final report was issued in June 2015. No areas for improvement were identified from this review.
				Full assurance		
Follow up: ICT service management*	5	5	0	-	-	Good progress has been made in implementing the agreed actions. Our final report was issued in June 2015.
Total days	226	158	68			

*Findings previously reported to the Joint Audit Committee as part of the 2014-15 Annual Report

Audit assurance levels

Appendix 1

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 designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, 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/ have resulted in failure to achieve the service objectives.