



Lancashire
Constabulary
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The Chief Constable 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 2016

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1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2015/16 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 designed to evaluate and improve the effectiveness of risk management, control, and governance processes. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the framework of governance, risk management and control of Lancashire Constabulary and the Office of the Police and Crime Commissioner 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 2015/16 and early 2016/17 in relation to the 2015/16 audit plan.
- 1.3 The scope of our work, management and 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 This report builds on the matters reported previously to the Joint Audit and Ethics 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 Office of the Police and Crime Commissioner 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 framework of governance, risk management and control of the Chief Constable and the Police and Crime Commissioner for 2015/16. In my opinion there are generally sound systems of internal control, adequately designed to meet the objectives of the Chief Constable and the Police and Crime Commissioner for Lancashire and controls were generally applied consistently.
- 2.2 This opinion is based on the assurance levels we have provided for each of the individual audit reviews undertaken in 2015/16, and includes consideration of the wider sources of assurance provided to the Constabulary and the Police and Crime Commissioner. Definitions of the assurance levels used are included in Annex 2.

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

- 2.3 Assurance has been provided by Grant Thornton as the external auditor for the Chief Constable and the Police and Crime Commissioner for Lancashire for 2015/16. Grant Thornton issued its annual audit letter relating to 2014/15 in September 2015, and gave unqualified opinions on both the annual financial statements and the Authority's value for money arrangements.
- 2.4 The results of the interim audit work completed by Grant Thornton were reported to the Joint Audit and Ethics Committee in March 2016. This concluded that the interim work had not identified any material weaknesses in controls or errors in the early substantive testing completed.
- 2.5 The Constabulary is subject to periodic inspection by Her Majesty's Inspectorate of Constabulary either solely or in conjunction with other agencies. Regular feedback is provided to the committee on the results of these inspections and the implications for Lancashire Constabulary, and as appropriate the actions being taken to address any recommendations raised. No specific areas of concern were noted in relation to inspections of Lancashire Constabulary during the year, and indeed it was one of only five forces that was rated as outstanding in the PEEL Police Efficiency review, with effectiveness and legitimacy being rated as good.
- 2.6 Members of the Joint Audit and Ethics Committee agree a detailed work programme and training plan to enable them to constructively challenge the arrangements in place for risk management, governance and internal control. Positive results were noted in those areas subject to direct scrutiny by committee members, which included risk management arrangements and the dip sampling of complaint files.

3 Internal audit work undertaken**Key Financial Systems**

- 3.1 The accounts payable, accounts receivable, general ledger, procurement, treasury management, pensions administration and human resources/ payroll systems are deemed to be key financial systems and accordingly they form part of each annual audit plan.
- 3.2 Our audits of these systems during 2015/16 found that there is overall a strong control environment in place, and we provided either full or substantial assurance in relation to the adequacy and effectiveness of the controls in place to manage the risk to individual system objectives.
- 3.3 A small number of actions were agreed with management to enhance the controls in operation across these financial systems, but no issues are sufficiently significant to impact on the overall internal control environment. The table below indicates the overall number of actions agreed, and the 'Summary of our findings and assurance' at page 8 provides further detail regarding the nature of these actions.

Actions agreed	Total
Extreme risk	0
High risk	0
Medium risk	5
Low risk	5
Total	11

- 3.4 We have also confirmed that the agreed actions in our prior year reports on these systems have been appropriately addressed.
- 3.5 In addition to the above systems, we also conducted a review of OPCC expenses and a follow up of Constabulary expenses during the year. There were no significant matters to report from either of these reviews.
- 3.6 Our review of treasury management arrangements has only recently been completed, and our draft report is with management for consideration.

Operational reviews***OPCC commissioning***

- 3.7 Our 2014/15 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, we gave only limited assurance.
- 3.8 We have recently completed our re-examination of this area and our draft report has been issued to management. A verbal update of progress will be provided to the committee.

Evidence Related Property

- 3.9 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.
- 3.10 In April 2016 responsibility for management and control of evidence related property has transferred to the Criminal Justice department of the Constabulary. A meeting was held in May 2016 with the Head of Criminal Justice and the newly appointed Property Manager to determine progress in implementing the agreed actions.
- 3.11 Overall, we are satisfied that, although slower than originally anticipated, progress is being made across all areas with priority being given to areas of the greatest risk to both staff and the Constabulary.

Information Management and Security

- 3.12 Our audit of information management and security was completed in March 2016. We were only able to provide limited assurance that the controls in place would adequately and effectively manage the information management and security risks that face the Constabulary.
- 3.13 A number of weaknesses in information governance were identified, including the lack of a complete and accurate Information Asset Register and the absence of an Information Risk Register. However, the weaknesses had already been recognised by the Constabulary and action was already being taken to address the areas of weakness, with support and oversight by the Senior Information Risk Owner and the Information Governance Board.

Follow up work

- 3.14 Under the Public Sector Internal Audit Standards, management is responsible for ensuring that actions to remedy control weaknesses identified by the Internal Audit Service are implemented; and the Internal Audit Service should monitor and ensure that actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- 3.15 Work has therefore been undertaken to ascertain progress in implementing agreed actions resulting from the 2014/15 operational reviews, which included basic command units, complaints and covert assets.
- 3.16 Our follow up work confirmed that sufficient progress had been made to address the issues identified following completion of our original review of basic command units (BCUs) in April 2015. The audit was conducted at a time of significant change that had resulted in the move from six BCUs to three. Since this time, changes to the operating model have been introduced, officer numbers have increased, a demand management unit

has been established and enhancements have been made to the mobile technology available.

- 3.17 Since our original review of complaints handling in January 2015, the Professional Standards Department (PSD) has undergone a restructure and a review of internal processes has been conducted which included the complaints handling processes. Good progress has therefore been made with 10 of the 13 actions having been implemented. Of the remaining three actions, one action was ongoing, with implementation due in April 2016, one had been superseded as a result of the PSD process redesign, and one will be addressed by the implementation of a new complaints system that will be used by both the Constabulary's PSD and the OPCC.
- 3.18 We have confirmed that, since we completed our audit of covert accounts in February 2015, both actions have been implemented.

Consultancy

- 3.19 At the request of the OPCC, we have undertaken a review of the documents in place to govern the strategic, financial, operational, scrutiny and reporting functions and responsibilities of the Police and Crime Commissioner and his statutory officers. Our review identified a number of existing policies that were out of date or additional policies that could be introduced to strengthen the overall governance and control environment. The findings from our review are being considered by management.

Fraud/ special investigations

- 3.20 There have been no incidences of fraud or irregularity brought to our attention.

National Fraud Initiative

- 3.21 Following the submission of data in October 2014, the resulting matches were released by the Cabinet Office in January 2015 and these have been investigated by the Constabulary during the course of 2015/16. The table below summarises the results of the investigations conducted.

Category of data	Number of data matching reports	Number of matches recommended for investigation	Number of matches processed	Savings identified (2 cases)
Pensions	314	115	312	£24,900
Payroll	265	87	126	-
Creditors	1,669	81	1,660	-
VAT	110	97	110	-
	2,358	380	2,208	£24,900

4 Implications for the Annual Governance Statements

- 4.1 In making their annual governance statements the Constabulary and the Office of the Police and Crime Commissioner should consider this report in relation to internal control, risk management and corporate governance.
- 4.2 We have agreed actions in a number of areas to enhance the controls in place for the planned audit reviews and, except for the issues raised following our audits of evidence related property, OPCC commissioning and Constabulary information management and security, no high risk areas for improvement have been identified. However the OPCC and Constabulary may wish to consider the issues raised and the progress made in these areas as they draft their annual governance statements.

5 Internal audit inputs and performance

Internal audit plan 2015/16

- 5.1 Work carried out during 2015/16 was in accordance with the audit plan presented and approved by the Joint Audit and Ethics Committee in March 2015. 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 6. This shows that 162 days have been spent to date in delivering the audit plan against a provision of 166 days¹. The remaining four days represent provision unutilised to date pending completion of our work on OPCC commissioning.
- 5.2 Action plans have been agreed in respect of all final 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 2016/17 audit plan.

Internal audit quality assurance and improvement

- 5.3 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with the PSIAS. This includes both internal and external assessments and is set out in a separate Quality Assurance and Improvement Programme, which has recently been approved by the Audit and Governance Committee of Lancashire County Council, and which has been circulated to the Joint Audit and Ethics Committee for information.
- 5.4 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS will be reported annually to the Joint Audit and Ethics Committee.
- 5.5 There are no areas of non-conformance with PSIAS to report.

¹ The original audit plan comprised 200 days. This was revised to 166 days following the deferral of two reviews into the 2016/17 audit plan.

6 Summary of findings

Overall summary and assurance provided

- 6.1 The table on the following pages sets out 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 actions agreed for each review. They reflect the findings at the time the work was carried out.
- 6.2 We have distilled the assurance 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.

Summary of our findings and assurance – 2015/16 Audit Plan

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Key Financial Systems						
Accounts payable	10	11	(1)	✓	✓	<p>These reviews were finalised in December 2015. The agreed actions include:</p> <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 to be completed appropriately. • Bi-monthly dip sampling of the performance targets within the BSU SLA to 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	
Pensions administration	5	5	0	✓	✓	The report was finalised in May 2016. We found that employer files for the first nine months were only submitted in December, and whilst the submission of files is now up to date, Your Pensions Service had not at the time of our audit validated and processed the data submitted.
				Substantial assurance		
Procurement	10	9	1	✓	✓	The report was finalised in December 2015. The agreed actions include: <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		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Human resources and payroll	10	9	1	✓	✓	<p>The report was finalised in February 2016.</p> <p>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		
Constabulary expenses	2	2	0	-	-	<p>The report was finalised in February 2016.</p> <p>We completed a review to determine the progress made in implementing the actions agreed following our previous work on Constabulary expenses of March 2015. Sufficient progress had been made to address the actions, and the actions partly implemented at the time of our review were scheduled for implementation shortly after the year end.</p>

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
OPCC Expenses	3	3	0	✓	✓	The report was finalised in February 2016. No significant areas of concern were noted. At the time of the review, the OPCC were due to move over to the Oracle expenses system.
				Substantial assurance		
Treasury management	5	5	0	-	-	Our draft report was issued in May 2016, and management are considering our findings.
Operational reviews						
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.
OPCC commissioning	20	16	4	-	-	Our draft report was issued to management in June 2016.
Digital media investigation 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.

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Information security	20	20	0	X	X	<p>The report was finalised in March 2016.</p> <p>A detailed action plan has been agreed to address the areas of weakness identified, which includes the following:</p> <ul style="list-style-type: none"> • The suite of policies and supporting procedures will be reviewed to identify any areas where additional policy or procedural guidance is required. • 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.
				<p>Limited assurance 2 high, 12 medium and 2 low actions agreed</p>		
Evidence related property	25	25	0	X	X	<p>The report was finalised in September 2015. A detailed action plan has been developed to address the areas of weakness identified and regular reports of progress have been provided to the committee.</p>
				<p>No assurance 6 high, 13 medium and 4 low actions agreed</p>		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas						
Review of OPCC policies, strategies and procedures	10	10	0	-	-	Our review was completed in April 2016 and the findings submitted to management.
Follow up reviews: Basic Command Units (BCUs) Complaints Covert assets	10	10	0	-	-	Follow up reviews were completed in March 2016 (Complaints and Covert Assets) and April 2016 (BCUs). We are satisfied that good progress has been made in implementing the agreed actions.
National Fraud Initiative	3	2	1	-	-	Ongoing progress monitoring in relation to processing of data matches identified.
General management activities and central reporting	12	13	(1)	-	-	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.
Total Days	200	162	38			

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 the Constabulary and the Office of the Police and Crime Commissioner 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.
- 3 Lancashire Constabulary and the Office of the Police and Crime Commissioner have taken the decision to outsource their internal audit provision, and Lancashire County Council's Internal Audit Service was the appointed service provider for 2015/16.
- 4 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 5 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- 6 Internal auditors cannot be held responsible for internal control failures, 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.
- 7 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- 8 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Teams of the Constabulary and the Office of the Police and Crime Commissioner, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and

recommend further action on the relevant policies, procedures, controls and operations at a later date.

- 9 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- 10 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

Basis of our assessment

- 11 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 and Ethics 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

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

Limitations on the assurance that internal audit can provide

- 13 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.
- 14 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

- 15 This report has been prepared solely for the Constabulary and the Office of the Police and Crime Commissioner. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers within both organisations and the Joint Audit and Ethics Committee. It is not therefore intended to include every matter that came to our attention during each review.
- 16 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.

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.

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.

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.