



**Lancashire  
Constabulary**  
police and communities together

**Lancashire Constabulary and  
Police and Crime Commissioner for Lancashire  
Internal Audit Service  
Combined Internal Audit Plan 2018-19**

# Office of the Police and Crime Commissioner and Lancashire Constabulary - Combined Internal Audit Plan 2018-19

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## 1 Introduction

- 1.1 This paper sets out a proposed plan of work to be undertaken by the Internal Audit Service for the Police and Crime Commissioner and the Chief Constable of Lancashire Constabulary for the coming financial year. The plan amounts to a total resource of 200 audit days, which equates to an overall cost of £65,000 (ex VAT) at our daily rate of £325, which is consistent with prior years.

## 2 The purpose of the audit plan

- 2.1 Responsibility for maintaining and reviewing the system of internal control and for implementing a system of governance and risk management rests with the Police and Crime Commissioner and the Chief Constable of Lancashire Constabulary. However the process by which the Annual Governance Statement is produced includes obtaining assurances on the effectiveness of key controls and internal audit provides one of the key sources of such assurance.
- 2.2 The head of internal audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the objectives of the Police and Crime Commissioner and Chief Constable are being adequately and effectively controlled.
- 2.3 The Joint Audit and Ethics Committee's terms of reference require it to review and approve the internal audit plan. The Committee's views on this draft plan of work will therefore be welcome.

## 3 Statutory and professional requirements relating to internal audit

- 3.1 Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom. The key requirements of the regulations and of the Public Sector Internal Audit Standards (PSIAS) are set out below.

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance."

*Regulation 5. (1)*

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control [...] and (b) prepare an annual governance statement."

*Regulation 6. (1)*

### Definition of internal auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It

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helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

"Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes."

*Public Sector Internal Audit Standards, 2017 published by the Relevant Internal Audit Standard Setters*

- 3.2 The regulations therefore establish the requirement for an internal audit function and its provision of an opinion on governance, risk management and control processes, following public sector internal auditing standards. Professional standards likewise mandate the provision of such an opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.

### **4 Internal audit coverage to support an annual overall opinion**

- 4.1 An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control needs to encompass the following:
- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
  - Sufficient coverage over operations as a whole so that a fair assessment may be made across both organisations;
  - Coverage of the controls that serve to mitigate the most significant risks to an acceptable level;
  - Coverage of the controls that operate most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
  - Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.
- 4.2 Because the overall opinion covers a 12 month financial period, the evidence will relate to the controls in operation for that period.

### **5 Relationship to the risk management process**

- 5.1 A risk-based audit plan will take into consideration the risks assessed as most significant by the organisation's managers, and should seek to provide

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assurance over the operation of the controls that serve to reduce the most significant risks to the greatest degree.

- 5.2 Using the corporate risk registers and working with senior management from the Constabulary and the Office of the Police and Crime Commissioner, we have sought to identify the areas with the greatest inherent risk, where these risks are regarded as having been effectively mitigated by strong controls. These are the controls on which the Police and Crime Commissioner and Chief Constable is placing the greatest reliance and over which it therefore needs the greatest assurance.

### **6 The 'lines of defence' and other sources of assurance available to the Chief Constable and the Police and Crime Commissioner (PCC)**

- 6.1 The Internal Audit Service is only the Chief Constable and PCCs third line of defence in a model that represents management as the first line, responsible for directly assessing, controlling and mitigating risks; and any in-service compliance activity that confirms these controls as the second. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work.
- 6.2 Where it is known that assurance will be provided from another body, (for example, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service, or the external auditors), the Internal Audit Service will not duplicate work but will take it into account if it is relevant to the overall opinion on governance, risk management and control. We will ensure as far as possible that the committee is made aware of such assurance.

### **7 The audit approach adopted by the Internal Audit Service**

- 7.1 The Internal Audit Service follows a risk-based audit methodology, working closely with managers to understand the risks to the service, system or process being audited and then testing the controls in place. The audit process therefore involves two phases. During phase one we establish a framework of risks and controls, which enables us to assess the adequacy of the controls designed to mitigate the risks identified, and during the second phase we test the effectiveness of the controls in operation. The nature of the audit work performed does however vary and can include either or both of these phases.
- 7.2 Whilst a service is in the process of transformation or remodelling we can support the managers in the design of a control framework that will manage the risks to service objectives. This would represent consultancy rather than assurance work.
- 7.3 Where assurance is required over a control system that has not previously been audited in its present form we undertake a full review including both audit phases, and we will provide an opinion on both the adequacy of design and the effectiveness in operation of the controls in place.

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- 7.4 Finally we may undertake compliance testing annually of systems we have previously audited because they are fundamental to the overall control framework.
- 7.5 Where managers can confirm that action has been taken as agreed during a previous audit to mitigate any high or medium risks identified we will seek evidence to support this, but other than obtaining management assurances, we will not generally follow up actions designed to mitigate only low risks.

### 8 Degrees of assurance

- 8.1 For 2018-19 we are revising the way in which we categorise our assurance levels. The previous and revised definitions (of equivalent value) are shown below for information:

Previous definitions and categories	Revised definitions and categories
<b>Full assurance:</b> There is a sound system of internal control which is adequately designed to meet the service's objectives and is effective in that controls are being consistently applied.	<b>Substantial assurance:</b> the framework of control is adequately designed and/ or effectively operated.
<b>Substantial assurance:</b> There is a generally sound system of internal control, adequately designed to meet the service's 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.	<b>Moderate assurance:</b> the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
<b>Limited assurance:</b> Weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.	<b>Limited assurance:</b> there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
<b>No assurance:</b> Weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service's objectives.	<b>No assurance:</b> there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the

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	service, system or process' objectives.
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**9 Deployment of audit resources**

9.1 The plan is stated in terms of days input, which represents our current best estimate of the way in which the audit resources will be deployed. The plan itself should however be viewed as a fluid document, with the specific content of individual reviews being subject to revision if required following the more detailed scoping meetings held with client management teams prior to formal commencement of individual audit reviews.

9.2 The content and outline scope of each audit within the proposed plan, as well as an estimate of the number of audit days considered appropriate, is provided in the table below:

<b>Audit review</b>	<b>Outline audit scope</b>	<b>Days</b>	<b>Planning principle</b>
<b>Governance</b>			
Performance management arrangements	<ul style="list-style-type: none"> <li>The review will consider the robustness of the Constabulary's operational and financial performance management arrangements and in particular will consider how these support and inform the production of the Force Management Statements.</li> </ul>	20	Phase one and two – we will assess the adequacy of control design and effectiveness in operation
<b>Business effectiveness</b>			
Constabulary contract monitoring (to cover a range of service contracts)	These reviews will seek to obtain assurance as to whether: <ul style="list-style-type: none"> <li>The contracted service provision is delivering intended outcomes;</li> <li>Invoiced charges are consistent with contractual terms in relation to the quality and timeliness of the service provided;</li> </ul>	15	Phase one and two – we will assess the adequacy of control design and effectiveness in operation
Victims Service – contract monitoring (OPCC)	<ul style="list-style-type: none"> <li>Overall contract values are consistent with the expected amounts identified on procurement of the service; and</li> <li>Poor or declining service is identified and addressed promptly and appropriately.</li> </ul>	10	
Budgetary control – overtime	<ul style="list-style-type: none"> <li>We will assess the adequacy and effectiveness of the controls operating across the Constabulary to ensure that overtime spend is accurately calculated, necessarily incurred, appropriately authorised and subject to a satisfactory level of scrutiny and review.</li> </ul>	10	Phase one and two – we will assess the adequacy of control design and effectiveness in operation

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<b>Audit review</b>	<b>Outline audit scope</b>	<b>Days</b>	<b>Planning principle</b>
<b>Service delivery</b>			
Lancashire Road Safety Partnership	<ul style="list-style-type: none"> <li>The review will consider the appropriateness of the current funding model and whether overall operational objectives are being achieved.</li> </ul>	10	Phase one (consultancy) support
Firearms management	<ul style="list-style-type: none"> <li>The review will consider the overall adequacy and effectiveness of the control environment.</li> </ul> <p><i>(Specific scope is still to be determined, but could possibly include storage, issue, carriage and return of firearms and related equipment by appropriately authorised officers).</i></p>	20	Phase one and two – we will assess the adequacy of control design and effectiveness in operation
Early Action	<ul style="list-style-type: none"> <li>The review will assess the adequacy and effectiveness of controls within the new delivery model in supporting achievement of operational objectives in a cost effective manner.</li> <li>We will additionally consider the effectiveness of the current partnership working arrangements in supporting service outcomes.</li> </ul>	20	Phase one and two – we will assess the adequacy of control design and effectiveness in operation
<b>Service support</b>			
CCTV Compliance	<ul style="list-style-type: none"> <li>The 2017-18 audit of CCTV arrangements will provide assurance regarding the adequacy of the control framework across the Constabulary.</li> <li>The 2018-19 review will therefore consider the effectiveness of the control framework in ensuring compliance with the Surveillance Commissioner's Code of Practice.</li> </ul>	20	Phase two (compliance) audit
Provision of Health Services	<ul style="list-style-type: none"> <li>Following on from the work conducted during 2017-18 the review will consider the effectiveness of the revised processes and controls in achieving the outcomes of the Health Service Review.</li> </ul>	15	Phase two (compliance) audit
<b>Business processes</b>			
Accounts Payable	<ul style="list-style-type: none"> <li>The review will consider whether controls are effective in ensuring that purchase ordering and creditor payment processes are valid, accurate, and timely.</li> </ul>	7	Phase two (compliance) audit

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<b>Audit review</b>	<b>Outline audit scope</b>	<b>Days</b>	<b>Planning principle</b>
Accounts Receivable	<ul style="list-style-type: none"> <li>The review will consider the adequacy and effectiveness of the debt management processes in ensuring that income is maximised, collected on a timely basis and accounted for correctly.</li> </ul>	8	Phase two (compliance) audit
General Ledger	<ul style="list-style-type: none"> <li>The review will consider the adequacy and effectiveness of the controls over budget setting and financial monitoring and reporting.</li> </ul>	5	Phase two (compliance) audit
Human resources (HR)/ payroll processing	<ul style="list-style-type: none"> <li>We will review the adequacy and effectiveness of the controls in place to ensure that officers and staff are paid the right amount at the right time. In particular we will verify that appropriate pre-employment checks have been completed and payments to starters and leavers, and amendments to pay have been accurately processed.</li> </ul>	8	Phase two (compliance) audit
Pensions administration	<ul style="list-style-type: none"> <li>The review will consider the adequacy and effectiveness of the controls in place to ensure that new starters are appropriately entered into the scheme, transfers in and out are correctly accounted for, and pension payment calculations are subject to appropriate supervisory review and oversight.</li> </ul>	5	Phase two (compliance) audit
Treasury Management	<ul style="list-style-type: none"> <li>The review will determine the adequacy and effectiveness of the treasury management procedures operated by or on behalf of the OPCC to ensure that cash flow management and the resultant borrowing and investment activities are conducted in accordance with the approved Treasury Management strategy.</li> </ul>	5	Phase two (compliance) audit
<b><i>Follow up audit activity</i></b>			
OPCC Risk Management	<ul style="list-style-type: none"> <li>These reviews will comprise a self-assessment by management of the</li> </ul>	0.5	Required by the Public
Constabulary Risk Management		1	

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<b>Audit review</b>	<b>Outline audit scope</b>	<b>Days</b>	<b>Planning principle</b>
OPCC decision making	progress made in implementing agreed actions; and <ul style="list-style-type: none"> <li>• Selective test checking of controls introduced to address identified unmitigated risk.</li> </ul>	0.5	Sector Internal Audit Standards
Constabulary decision making		0.5	
Detention of vulnerable persons		2	
Data Quality		0.5	
<b><i>Other components of the audit plan</i></b>			
Management	<ul style="list-style-type: none"> <li>• Attendance at meetings of the Joint Audit and Ethics Committee;</li> <li>• Production of the annual audit plan;</li> <li>• Preparation of the periodic monitoring reports;</li> <li>• Preparation of the annual report of the head of internal audit; and</li> <li>• Liaison with external audit.</li> </ul>	13	Compliance with the terms of the Internal Audit Charter
National Fraud Initiative	<ul style="list-style-type: none"> <li>• Tasks associated with data preparation and submission; and</li> <li>• Support to staff in the testing of the data matches identified.</li> </ul>	4	Contribution to fraud prevention
<b><i>Total days</i></b>		<b>200</b>	

The following review has also been considered for inclusion in the audit programme, either through replacement of one of the above items, deferral until 2019/20 or by adding an additional provision of 20 days to the above programme of work.

***Officer/ staff appraisal system:***

- We will assess compliance with the policy and procedures regarding the frequency of review and the recording of outcomes.
- We will consider if/ how officers/ staff skills and training needs are identified, recorded and used to support development of a skills database/ training needs analysis.
- Finally we will consider if and how officers/ staff have been supported in terms of any further support/ development they need to perform optimally in their roles.