

## **Executive summary**

The Joint Audit and Ethics Committee is invited to review and approve this draft internal audit plan.

This paper sets out a draft 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 is consistent with prior years.

The aim of the plan is to focus on the controls that manage the risks to the achievement of the Constabulary's and Police and Crime Commissioner's objectives, and the provision of assurance that these controls are adequately designed and effectively operated.

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.

## **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 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."

*The Institute of Internal Auditors, and  
Public Sector Internal Audit Standards, 2013*

## **Relevant regulations**

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)  
Accounts and Audit Regulations 2015*

**Office of the Police and Crime Commissioner and Lancashire  
Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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**Deployment of audit resources**

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.

In summary, the audit plan is split between the following areas:

<b>Proposed work</b>	<b>Estimated audit days</b>
Operational reviews	105
Key financial systems	60
Contingency provision	20
General management activity	15
<b>Total audit days</b>	<b>200</b>

Each of these areas is explained in more detail in the table at the end of this document.

The table, sets out for the benefit of the Committee members a broad outline of the suggested work programme for each review, the key risks that the testing will aim to address, as well as an estimate of the timing and number of audit days considered appropriate.

In undertaking our work we will use computer assisted audit techniques to interrogate the systems and the data they hold wherever possible, to enable us to increase the audit coverage of each system, and also proactively to focus on areas susceptible to fraud.

The specific reviews have been identified following discussions with the Chief Executive and the Chief Finance Officer of the Police and Crime Commissioner and the Constabulary's Director of Resources and additionally have taken into consideration matters recorded in the risk registers maintained by both organisations.

Whilst it is acknowledged that under the Police Reform and Social Responsibility Act 2011, Police and Crime Commissioners and Chief Constables are deemed to be separate entities, this combined audit plan will provide assurance to both organisations. The table does however identify where the primary operational responsibility for implementing the processes and controls rests and therefore with whom the specific audit arrangements will be agreed and the results reported to.

**Follow-up reviews**

Under the Public Sector Internal Audit Standards, management has responsibility 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. The resource requirement to enable us to conduct this work is included within the estimated days identified for each individual audit review where applicable.

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

Audit title	Outline scope	Key risks	Days	Timing (Qtr)
<b><i>Operational reviews</i></b>				
<u>Constabulary</u>  Health and Safety	We will review the adequacy and effectiveness of the control arrangements in place to ensure the health and safety of police officers, police staff, specials and volunteers. In particular, we will focus on the training and guidance provided to staff, the development of health and safety plans, risk assessments and accident investigation processes and the collating and reporting of accident statistics.	<ul style="list-style-type: none"> <li>• An avoidable accident occurs resulting in death or injury to an employee or volunteer.</li> <li>• Prosecution of the Constabulary by the HSE, leading to reputational damage or a fine.</li> <li>• Civil claims against the Constabulary due to harm caused to individuals.</li> <li>• Inadequate recording and reporting of health and safety issues.</li> <li>• Financial loss due to staff sickness and absence due to injury.</li> </ul>	20	1
<u>Constabulary</u>  Evidence related property (ERP)  (includes follow up of actions from the 2015-16 review)	We will review the adequacy and effectiveness of the controls in place to manage the receipt, movement, storage and return/ disposal on a timely basis of evidence related property.	<ul style="list-style-type: none"> <li>• Access to ERP is not appropriately restricted leading to loss or misappropriation.</li> <li>• Access to ERP systems is not appropriately restricted leading to loss or corruption of data.</li> <li>• A comprehensive ERP inventory is not held leading to loss or misappropriation.</li> <li>• Property is held which is not evidence related impacting on storage costs.</li> <li>• Property movements are not accurately recorded leading to loss or misappropriation.</li> <li>• Storage facilities are inappropriate for the preservation of evidence held.</li> </ul>	15	1

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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<p><u>Constabulary</u></p> <p>Digital Media Investigation Unit</p> <p>(light touch review deferred from 2015-16)</p>	<p>We will consider the case management framework in place to ensure that cases posing the highest risk to vulnerable individuals' are prioritised.</p>	<ul style="list-style-type: none"> <li>• ERP is not disposed of appropriately, efficiently or in a timely manner, leading to an inefficient use of resources.</li> <li>• Poorly defined decision model/ case management framework which results in an inconsistent treatment or a failure to prioritise the highest risk cases.</li> <li>• Failure to comply with established case management procedures, due to lack of training/ guidance and/ or support for staff.</li> <li>• Lack of skilled resources to meet demand on a timely basis.</li> </ul>	5	2
<p><u>Constabulary/ OPCC</u></p> <p>Freedom of Information/ Subject Access Requests</p>	<p>Our review will consider the adequacy and effectiveness of the systems and procedures put in place to effectively and efficiently manage the receipt, processing and disclosure of information resulting from freedom of information/ subject access requests in accordance with statutory requirements.</p>	<ul style="list-style-type: none"> <li>• The Constabulary/ OPCC reputation and finances are damaged by a failure to comply with relevant disclosure requests.</li> <li>• Information is inappropriately released to private individuals, partner bodies, and external organisations or to the general public.</li> <li>• Information cannot be located when requested.</li> <li>• Failure to comply with statutory deadlines due to insufficient resources to meet an increased number of requests.</li> <li>• Lack of knowledge/ skills available to respond appropriately to information requests.</li> </ul>	15	2

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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<p><u>Constabulary/OPCC</u></p> <p>Code of Ethics</p>	<p>In July 2014, the College of Policing issued the Code of Ethics as a code of practice under section 39A of the Police Act 1996, with the requirement that all those in the policing profession should consider the principles and expected standards of behaviour set out in the Code at every stage of making decisions. The Police and Crime Commissioner is also responsible for holding the Chief Constable to account for promoting ethical behaviour and embedding the Code of Ethics within the Constabulary. This review will accordingly consider the adequacy and effectiveness of the steps taken by the Constabulary and the OPCC to date to ensure compliance with the Code.</p>	<ul style="list-style-type: none"> <li>• Negative impact on the reputation of the Constabulary and the Police and Crime Commissioner resulting from an apparent or perceived failure to comply with the principles of the Code of Ethics.</li> <li>• The principles and standards of behaviour outlined in the Code of Ethics fail to be appropriately embedded within the underpinning decisions and actions of the Constabulary.</li> <li>• The impact of the Code of Ethics on the various groups of individuals who work in policing, (chief officers and leaders, warranted officers, police staff, volunteers and contractors) has not been recognised and addressed by the Constabulary or acknowledged by members of the Constabulary.</li> <li>• Failure of the Police and Crime Commissioner or the Constabulary to take appropriate action following a reported breach of the Code.</li> </ul>	20	2
<p><u>Constabulary</u></p> <p>Vetting and barring</p>	<p>A key objective is to gain assurance over how the Constabulary is managing compliance with the new Vetting Code of Practice.</p>	<ul style="list-style-type: none"> <li>• Applicants to the Constabulary, incumbent staff or transferees, are not vetted at an appropriate level.</li> <li>• Officers and staff commence employment prior to receiving vetting clearance.</li> </ul>	15	3

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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(deferred from 2015-16)	<p>We will review the processes and controls in place for managing the vetting of newly appointed staff and for reviewing the clearance provided to the existing workforce and transferees in.</p> <p>We will also consider the renewal of vetting clearances, the annual review process, and operation of the review and appeals process.</p>	<ul style="list-style-type: none"> <li>• Vetting arrangements are not refreshed at the designated intervals.</li> <li>• Changes in personal circumstances affecting vetting arrangements are not reported or followed up.</li> <li>• Vetting procedures are completed inaccurately or inefficiently.</li> <li>• Vetting documentation is not stored or disposed of securely.</li> </ul>		
<p><u>Constabulary</u></p> <p>Information security and management</p> <p>(includes follow up of actions from the 2015-16 review)</p>	<p>The objective of the audit is to assess the adequacy and effectiveness of the controls in place to ensure that there is no unauthorised access to or disclosure of sensitive data, particularly where the constabulary works in partnership with other organisations.</p>	<ul style="list-style-type: none"> <li>• Failure to deliver an information management and security framework that supports the effective identification, management and mitigation of risks to information assets.</li> <li>• Insufficient organisational commitment to the maintenance of an effective information management and security governance framework.</li> <li>• The information security framework does not have the flexibility to respond to the changing needs of the constabulary.</li> <li>• Security controls over sensitive and personal data records are inadequate and as a consequence data may be lost or used inappropriately.</li> </ul>	15	4
<i>Days</i>			<b>105</b>	

**Office of the Police and Crime Commissioner and Lancashire Constabulary**  
**Proposed Combined Internal Audit Plan 2016-17**

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<b><i>Key financial systems</i></b>				
<u>Constabulary</u>  Accounts Payable	We will review the adequacy of the accounts payable procedures to consider whether they are effective in ensuring that purchase ordering and creditor payment processes are valid, accurate, and timely.	<ul style="list-style-type: none"> <li>• Non-compliance with financial regulations and the scheme of delegation.</li> <li>• Invalid suppliers are established within i-procurement and accounts payable systems or orders are raised with non-approved suppliers.</li> <li>• Goods are ordered for private benefit.</li> <li>• Inefficient /inappropriate processes employed for the ordering, receipting and payment of goods and services.</li> <li>• Inaccurate, illegitimate or duplicate orders/ invoices are processed and paid.</li> </ul>	10	3
<u>Constabulary</u>  Accounts Receivable	To review the adequacy of the debt management processes to consider whether they are effective in ensuring that income collection is maximised, collected on a timely basis and accounted for correctly.	<ul style="list-style-type: none"> <li>• Failure to identify income due.</li> <li>• Ineffective recovery procedures.</li> <li>• Income assigned to incorrect accounts.</li> <li>• Debts are cancelled or written off without appropriate authority.</li> </ul>	8	3
<u>Constabulary</u>  General Ledger	To review the adequacy and effectiveness of the general ledger accounting system controls and processing procedures to ensure that budget setting and financial monitoring and reporting is effective and the accounting system	<ul style="list-style-type: none"> <li>• Unauthorised changes are made to the accounting records.</li> <li>• Misappropriations or errors are not detected.</li> <li>• Incomplete, inaccurate or untimely processing of financial data, resulting in misreporting.</li> <li>• Inadequate or inaccurate reporting of results.</li> </ul>	7	3

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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	produces accurate management information on a timely basis.			
<u>Constabulary</u>  HR/ Payroll	To review the adequacy and effectiveness of the payroll controls and processing procedures in place to ensure that police officers and police and OPCC staff are paid the right amount at the right time. In particular we will verify that appropriate pre-employment checks have been completed; payments to starters and leavers and amendments to pay have been accurately processed and ensure that statutory and voluntary deductions from payroll are correct and accurately paid over.	<ul style="list-style-type: none"> <li>• Unauthorised appointments or valid appointments incorrectly established.</li> <li>• Unauthorised and inaccurate adjustments to pay.</li> <li>• Unauthorised or inaccurate salary payments.</li> <li>• Key payroll data and information is not securely retained.</li> <li>• Overpayments are not recovered.</li> <li>• Police officers and staff are not paid in a timely manner.</li> </ul>	10	3
<u>Constabulary</u>  Procurement	We will review the arrangements in place across the Constabulary to enter into and monitor contracts. This review will focus on ensuring that arrangements are in accordance with applicable procurement regulations and legislation and that value for money is obtained.	<ul style="list-style-type: none"> <li>• Non-compliance with EC procurement law or the Constabulary Standing Orders/ Financial Regulations.</li> <li>• Lack of accountability or transparency within the procurement process leading to reputational damage of the Constabulary.</li> <li>• Failure to obtain best value for money in the procurement of goods or services.</li> <li>• Procurement decisions influenced by personal bias or prejudice.</li> </ul>	10	1



**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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<p><u>Constabulary</u></p> <p>Pensions administration</p>	<p>To review the adequacy and effectiveness of the controls in place within 'Your Pension Service' to ensure that new starters are appropriately entered into the scheme, transfers in and out are correctly accounted for, and pension benefits, including lump sums are calculated and paid in accordance with scheme rules.</p>	<ul style="list-style-type: none"> <li>• Eligible employees have not been automatically enrolled into the pension scheme resulting in a loss of potential members and breach of regulations.</li> <li>• Ineligible employees are admitted to the pension scheme.</li> <li>• Employees who opt-out and retirees are not removed correctly or promptly from the pension scheme.</li> <li>• Transfers in or out of the scheme are not processed promptly or correctly resulting in money not being received or being received inappropriately and employee service credits being inaccurate.</li> <li>• Retirement payments or death grants are calculated and/ or paid incorrectly.</li> <li>• The Altair system is incorrectly configured, resulting in incorrect records or pension calculations.</li> </ul>	7	4
<p><u>OPCC</u></p> <p>Treasury Management</p>	<p>We will review 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</p>	<ul style="list-style-type: none"> <li>• The regulatory framework/ internal treasury management strategy/ policy is not followed in respect of investment and borrowing decisions leading to a breach of legal/ internal requirements, financial loss and/ or reputational damage.</li> <li>• Treasury management reports to members are inaccurate or unclear. This adversely</li> </ul>	5	4

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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	Treasury Management strategy, which is consistent with the CIPFA Code of Practice.	<p>affects members' ability to scrutinise performance, strategic decisions and the risk profile/management of the OPCC investments and borrowings.</p> <ul style="list-style-type: none"> <li>• Investment and borrowing decisions are based on inaccurate or incomplete cash flow forecasting data. This leads to insufficient cash to meet liabilities or loss of income from underinvested balances.</li> <li>• Failure of the council to meet the terms and conditions of the agreement with the Lancashire Police and Crime Commissioner for the provision of treasury management services. This includes the transfer of funds and interest earned to/from the general county fund as part of the shared investment scheme.</li> <li>• Ineffective scrutiny due to lack of appropriate financial expertise amongst those charged with governance.</li> </ul>		
<u>Constabulary and OPCC</u>  Expenses	In February 2016, both the Constabulary and OPCC moved over to the Oracle self-serve expenses system, in which claims are input by employees, subject to authorisation by line managers and then paid in accordance with pre-	<ul style="list-style-type: none"> <li>• Expense claims are entered incorrectly into the expenses system, resulting in errors between training and business expenses or between mileage and expense claims.</li> <li>• Claims are not authorised and paid on a timely basis.</li> </ul>	3	4

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

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	determined rates. Payments are made subject to the annual verification of appropriate licence and insurance documents being verified. This review will be limited to a data extraction, analysis and review to establish whether staff are inputting information accurately to the expenses system and to determine whether these are being appropriately authorised on a timely basis.	<ul style="list-style-type: none"> <li>• Expenses are not charged to the correct budget.</li> <li>• Inaccurate, fraudulent or duplicate claims are submitted and paid.</li> </ul>		
<i>Days</i>			<b>60</b>	
<b>Other items</b>				
<u>Constabulary</u>  Possible contingency item*:  <i>Integrity of Crime data statistics</i>	Following the 2014 Force inspections, HMIC announced that further unannounced inspections would be conducted across all Forces during 2015. Subject to the outcome of the HMIC inspection, the Joint Audit and Ethics Committee may choose to request the Internal Audit Service to provide additional assurance regarding the adequacy and effectiveness of the internal controls in place governing the collection, collation, analysis and reporting of crime and incident data	<ul style="list-style-type: none"> <li>• Failure to address specific recommendations raised by HMIC on a timely basis.</li> <li>• Reported incidents are not input into the crime recording systems or processed promptly.</li> <li>• Data is incorrectly or inconsistently classified leading to unreliable outputs.</li> <li>• Out of court disposal used in inappropriate circumstances relating either to the offence or the offender.</li> <li>• Lack of transparency relating to the decisions made.</li> </ul>	10	3/4

**Office of the Police and Crime Commissioner and Lancashire Constabulary  
Proposed Combined Internal Audit Plan 2016-17**

<b>Audit title</b>	<b>Outline scope</b>	<b>Key risks</b>	<b>Days</b>	<b>Timing (Qtr)</b>
	and the proper use of out of court disposals and no-crime decisions.			
<u>Constabulary</u>  Possible contingency item*:  <i>Case and Custody replacement system</i>	The new IT platform for case and custody management is due for implementation by April 2016. This has involved complex changes to processes and procedures for custody and criminal justice teams. The review could consider whether operators have been effectively trained in the use of the new system in order to ensure that it is being effectively used and operated. The review could also include consideration of the adequacy of the post implementation review process.	<ul style="list-style-type: none"> <li>• Access to the case and custody system is not appropriately restricted leading to loss or corruption of data.</li> <li>• Information on the system is incomplete, inaccurate or out of date due to either system failure or user error.</li> </ul>	10	3/4
Management	Resources have been allocated to cover attendance at meetings, preparation of annual and periodic monitoring reports, liaison with external audit and support provided in relation to the National Fraud Initiative.	N/A	15	1-4
<b>Total days</b>			<b>200</b>	

\*These areas have been identified for Committee consideration at this time, although a decision regarding if either or both are conducted can be taken at a later date.