



Lancashire
Constabulary
police and communities together

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 2020

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2019/20 and the key themes arising in relation to risk management, governance and internal control.

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 (PSIAS) require the head of internal audit to provide an opinion on the frameworks 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.
- 1.3 All the work planned for the year has been completed as far as possible and assurance over the services, systems and processes that operated during 2019/20 has been given where feasible. The report therefore addresses the range of controls that were operating before the wholesale organisational changes required to respond to the coronavirus pandemic were introduced. As a result, the scope of our audit work has been restricted in some cases as we have been unable to conduct all the procedures we would otherwise have conducted. The impact of this is recorded in the summary of work performed. We will in due course liaise with senior managers regarding the need to return to some of the work performed here, which in turn will have implications for the original audit plan approved by the Joint Audit and Ethics Committee in March 2020.
- 1.4 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.
- 1.5 An Internal Audit Service Charter is in place that establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Chief Constable and the Police and Crime Commissioner and to meet its professional obligations under applicable professional standards.

Acknowledgements

- 1.6 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
July 2020

2 Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 Overall, I can provide moderate assurance regarding the adequacy of design and effectiveness in operation of the frameworks of governance, risk management and control of the Chief Constable and the Police and Crime Commissioner.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements.

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

- 2.3 The Constabulary is subject to inspection by Her Majesty's Inspector of Constabulary and Fire and Rescue Services (HMICFRS) 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, which are monitored internally by the Constabulary's HMICFRS Board.
- 2.4 HMICFRS in its PEEL (Police Efficiency, Effectiveness and Legitimacy) report, published in February 2020, commended Lancashire Constabulary for sustaining a positive performance over the past year, and awarded opinions of good overall for effectiveness and legitimacy and outstanding for efficiency.
- 2.5 Assurance is also provided by Grant Thornton as the external auditor for the Chief Constable and the Police and Crime Commissioner for Lancashire for 2019/20. Grant Thornton issued an unqualified opinion on the 2018/19 financial statements and they were also satisfied that in all significant respects the Chief Constable and Police and Crime Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.
- 2.6 Members of the Joint Audit and Ethics Committee agree a detailed work programme 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 the dip sampling of complaint files.

3 Internal audit work completed prior to Covid-19 restrictions

Performance management

- 3.1 We have undertaken a review of the Constabulary's performance management arrangements which in particular has considered how these

support and inform the production of the Force Management Statements and are aligned with the Constabulary vision and values and Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) inspection criteria.

- 3.2 Due to the current pandemic, we have been unable to complete all the procedures that we would normally conduct, or obtain all the information and explanations that we would ordinarily require and as such only a light touch review has been possible, however, based on the information and explanations currently available to us, we can provide moderate assurance that the performance management framework is adequately designed to achieve its objectives.

Grants from the Community Action Fund

- 3.3 We can provide moderate assurance over the adequacy and effectiveness of the controls operated by the Office of the Police and Crime Commissioner in managing grants from the Community Action Fund. Our audit examined a sample of both approved and rejected applications received during the 2018/19 financial year and we were satisfied that the applications were appropriately scrutinised to ensure consistency with the stated terms and conditions attached to the grant and payments to successful applicants are only made following formal approval by the PCC.
- 3.4 Our review identified areas where the control environment could be improved, including enhancing the post award evaluation process to obtain greater assurance that projects supported by a Community Action Fund award have actively contributed to achievement of the PCC priorities.

Stock control

- 3.5 We assessed the adequacy of the risk and control framework associated with the Constabulary's objective of ensuring that movements of ICT, uniform and vehicle maintenance unit stock items are correctly and accurately recorded on a timely basis and in particular how stock items held by individual officers and staff are returned when they leave the Constabulary.
- 3.6 Overall, we can provide moderate assurance that the framework of control is adequately designed. There are appropriate systems and processes in place, although our work identified a small number of enhancements to the existing control framework, including the annual stock check process.

Business Continuity Management (BCM)

- 3.7 Overall, we can provide limited assurance regarding the adequacy and effectiveness of the current controls. The opinion reflects our view that the governance, and prioritisation of business continuity management activity requires improvement. The Business Continuity Programme Management Board meets infrequently, lacks an up to date terms of reference, and the actions agreed by the Board are not implemented on a timely basis.

- 3.8 Policies and procedures to support BCM also require review, and testing of existing BC plans is not consistently undertaken in accordance with the frequency required by the BCM framework.

Accounts Payable/ Accounts Receivable and General Ledger systems

- 3.9 Based on our review we can provide substantial assurance over each of these systems. There is a sound system of internal control in place across each of these processes which is designed to meet the Constabulary objectives and controls are being consistently applied.

- 3.10 Some areas have been identified where controls can be strengthened further and actions have been proposed in this regard. These are primarily in areas where training is ongoing and processes and procedures need to be developed.

Human resources/ payroll processing

- 3.11 We have completed our review of the Constabulary's payroll processes, during which we have considered the adequacy and effectiveness of the controls in place to ensure that Police officers and staff are paid the right amount at the right time.

- 3.12 Overall, we can provide substantial assurance that there is a sound system of internal control which is adequately designed to meet objectives and is effective in that controls are being consistently applied.

Treasury management

- 3.13 We are able to provide substantial assurance over the controls operating in relation to the treasury management function. A treasury management strategy is approved by the Police and Crime Commissioner on an annual basis, and our testing confirmed that investment and borrowing activities are consistent with it.

Follow up work

- 3.14 Under the Public Sector Internal Audit Standards, management has responsibility for ensuring that agreed actions in audit reports are implemented. Internal Audit should obtain assurances that actions have been implemented as agreed or that senior management has accepted the risk of not taking action.
- 3.15 Our follow up audit work has involved obtaining explanations and evidence where appropriate that actions have been implemented. We have not re-performed any testing on controls which were found to be adequately designed and operating effectively at the time of our original review, and neither have we re-assessed the overall control environment.
- 3.16 The table below provides a summary of the progress made by the Constabulary and OPCC in implementing the agreed actions raised as part of the 2018/19 audit programme.
- 3.17 We are satisfied that the Constabulary has made appropriate progress in implementing the actions agreed, and we have received appropriate assurances that all actions not yet implemented are still being

progressed, although timescales have unavoidably been hindered by the need to address the pandemic.

Audit	Total actions	Complete	In progress	Superseded
Contract monitoring	3	1	2	0
Victim service contract monitoring	1	1	0	0
Budgetary control of overtime	3	2	0	1
LRSP	6	2	3	1
Firearms management	2	2	0	0
Early intervention and prevention	6	6	0	0
Occupational health and wellbeing	8	7	1	0
Child Protection case audit	12	9	0	3
Accounts Payable	1	0	0	1
General ledger	2	1	0	1
Totals	43	31	6	6
		72%	14%	14%

Fraud/ special investigations

- 3.18 There have been no incidences of fraud or irregularity brought to our attention that are either a result of a weakness in the control environment of the Constabulary or OPCC or have had a financial impact on them.

National Fraud Initiative (NFI)

- 3.19 The NFI is a statutory data matching process for health, local government and other public sector providers managed by the Cabinet Office. It flags inconsistencies in data within payroll, pensions, creditors and procurement which may indicate fraud or highlight emerging fraud risks.
- 3.20 Following the submission of data in October 2018, the resulting matches were released by the Cabinet Office in January 2019. The table below provides details of the total number of matches identified, processed, cleared to date and the errors found.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress ¹	Errors
Pensions	301	300	1	1
Payroll	75	75	0	0
Creditors	751	751	0	4

¹ As at April 2020

Procurement	5	5	0	0
	1,132	1,131	1	5

- 3.21 Five overpayments were identified amounting to £31,673.09. One is in respect of a pension injury benefit overpayment (£5,930.80) and the remaining four all relate to duplicate creditor payments. With the exception of one match still being investigated by the pensions team, all other matches have been reviewed and completed. Four out of the five have been, or are in the process of being, recovered and amount to £28,231.89. Just one duplicate creditor payment amounting to £3,441.20 cannot be recovered because the supplier has gone bankrupt.

4 Implications for the Annual Governance Statement

- 4.1 In making its annual governance statement 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 Whilst we have agreed actions in a number of areas to enhance the controls in place for the audit reviews we have completed, we do not consider there are any matters arising from the audit work conducted during 2019/20 that require specific identification in the annual governance statement.

5 Internal audit inputs and performance

- 5.1 Work carried out during 2019/20 was in accordance with the audit plan presented and approved by the Joint Audit and Ethics Committee in March 2019. 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 7. This shows that 174 days have been spent in delivering the audit plan against a provision of 220 days.
- 5.2 Action plans have been agreed in respect of all audit reports where applicable. These indicate that positive action has been, or will be, taken to address any areas for improvement identified. Implementation of these plans will be routinely followed up as part of our 2020/21 audit plan.

6 Internal audit quality assurance and improvement

- 6.1 PSIAS requires that the quality of internal audit activity is assessed through a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.
- 6.2 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit

concurrently as it progresses, and each year a post-audit file review process is conducted by the head of internal audit, with any learning points being shared with the team.

- 6.3 An external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS was last conducted in November 2017 which confirmed that the service fully meets nearly all the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the IPPF. All actions arising from the review were addressed by June 2018.
- 6.4 The Internal Audit Service requested feedback from its auditees following completion of six audit assignments. Four responses were received and the feedback was very positive about the conduct of our audit work.

7 Summary of findings

Overall summary and assurance provided

- 7.1 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 business. This also sets out the level and number of actions agreed for each review, where the report has been finalised. They reflect the findings at the time the work was carried out.
- 7.2 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

Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Governance						
Performance management arrangements	15	4	11	✓	✓	Our final report was issued in July 2020 with one medium and one low residual risk actions agreed to address the minor areas for improvement identified.
				Moderate assurance		
Risk management	2	0.5	1.5	We consider that both the Constabulary and OPCC operate adequate and effective risk management arrangements proportionate to their size and complexity.		This time represents work we conducted to provide feedback to the OPCC on their updated Risk Management Strategy. We have been unable to proceed with our review of the Constabulary updated corporate risk management arrangements due to the coronavirus pandemic.
Business effectiveness						
Officer and staff performance and development	20	17.5	2.5	o/s	o/s	Our draft report has been issued for management review and consideration of the proposed actions.
				Opinion will be reported on agreement of the report		
Positive action approach to recruitment	12	3	9	We are not in a position to provide an opinion.		Fieldwork has been suspended as a result of the coronavirus pandemic.
Service delivery						
Disclosure	25	8	17	We are not in a position to provide an opinion.		Fieldwork has been suspended as a result of the coronavirus pandemic.
Anti-fraud initiatives & Proceeds of crime	24	28	(4)	o/s	o/s	Our draft report has been issued for management review and consideration of the proposed actions.
				Opinion will be reported on agreement of the report		

Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Grants from the Community Action Fund	10	7	3	✓	✓	Audit completed November 2019. Four medium and four low residual risk actions agreed to address the areas for improvement identified.
				Moderate assurance		
CCTV compliance	15	3	12	We are not in a position to provide an opinion.		Whilst internal scoping has been completed, formal client liaison has been suspended as a result of the coronavirus pandemic.
Investigation Management Unit	12	14	(2)	o/s	o/s	Our draft report has been issued for management review and consideration of the proposed actions.
				Opinion will be reported on agreement of the report		
Service support						
Stock control	12	12.5	(0.5)	✓	✓	Audit completed November 2019. Two medium and two low residual risk actions agreed to address the areas for improvement identified.
				Moderate assurance		
Business continuity management	15	16	(1)	X	X	Audit completed January 2020. Eight medium and four low residual risk actions were agreed to address the areas for improvement identified.
				Limited assurance		
Business processes						
Accounts payable	7	8	(1)	✓	✓	Audit completed February 2020. Three (AP), four (AR) and one (GL) low residual risk actions were agreed to address the minor areas for improvement identified.
				Substantial assurance		
Accounts receivable	8	9	(1)	✓	✓	
				Substantial assurance		
General ledger	5	6	(1)	✓	✓	
				Substantial assurance		

Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Human resources/ payroll processing	8	9	(1)	✓	✓	Audit completed November 2019. Two low residual risk actions were agreed to address minor areas for improvement identified.
				Substantial assurance		
Pension administration	1	0.5	0.5	No information has yet been received from LPPL.		Assurance regarding the proper administration of the Police Pension Schemes will be taken directly from the work performed by the internal auditors of the Local Pensions Partnership Limited. Some additional pieces of work have been requested from ourselves for 2020/21.
Treasury management	4	4	0	✓	✓	Audit completed August 2019. Two low residual risk actions agreed to address minor areas for improvement identified.
				Substantial assurance		
Other components of the audit plan						
Follow up audit activity	7	8	(1)	N/A	N/A	Our follow up work has now been completed. Good progress has been made in implementing the agreed actions.
National Fraud Initiative	5	3	2	N/A	N/A	Time relates to investigation into the specific data matches identified as part of the 2018/19 matching exercise and overall support to the Constabulary.
Management activity	13	13	0	N/A	N/A	<ul style="list-style-type: none"> Preparation of the 2018/19 Annual Report and the 2020/21 Combined Internal Audit Plan; Production of the September, December and March quarterly monitoring reports and attendance at meetings of the JAEC (and the associated Away day) during June 2019; Liaison with the Constabulary regarding agreement of outline audit scope and the timing of audit activity, and participation in the CIPFA Achieving Finance Excellence in Policing process.
Total days	220	174	46			

Annex 1: Scope, responsibilities and assurance

Approach

- 1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. 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 2019/20.
- 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 both organisations.
- 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, who either accept and implement the advice or accept 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, except that have resulted as a result of the Coronavirus pandemic and which are noted in the main body of the report.

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 internal audit 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 categories of risk

For 2019/20 the following audit assurance levels apply.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.
Moderate assurance: 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.
Limited assurance: 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.
No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

We categorise the issues we raise in the context of the residual risk to which the Constabulary and/ or the Office of the Police and Crime Commissioner are exposed. Actions agreed in our reports are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address and fall into the following categories:

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the Constabulary's and/ or the Office of the Police and Crime Commissioner's reputations.
High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to business or to service users, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the Constabulary's and/ or the Office of the Police and Crime Commissioner's reputations.
Medium residual risk: 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: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern.