



**Lancashire
Constabulary**
police and communities together

Lancashire Constabulary and the Office of the Police and Crime Commissioner for Lancashire

**Internal Audit Service - Monitoring report for the
period ended 19 February 2021**

1 Introduction

Purpose of this report

- 1.1 The Joint Audit and Ethics Committee approved the Combined Internal Audit Plan for 2020/21 in March 2020 and considered the revisions to the plan (as a result of Covid) in October 2020. This report details the progress to date in undertaking the agreed coverage and highlights any significant issues from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2020 to 19 February 2021.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by officers and staff contacted in the course of our work.

2 Key issues and themes arising

- 2.1 Whilst our work on the Constabulary Antifraud and POCA arrangements identified a number of weaknesses in the control framework, we are pleased to note that the Constabulary are already taking steps to address these, with a number of the actions agreed, already completed, or in progress. *See paragraphs 3.15 – 3.19 below.*
- 2.2 No other areas of concern have come to our attention in conducting our assurance work to date that requires bringing to the attention of committee members.

3 Internal audit work undertaken

- 3.1 In October 2020, the Internal Audit Service presented to the committee a revised programme of work for the 2020/21 financial year, following the return from redeployment of members of the Constabulary audit team. This plan amounted to 215 days. At that time, there was an expectation that the full programme of audit activity could be completed. However, given the ongoing impact of the pandemic, and the resultant need for audit work to be conducted almost entirely remotely, which we have found to be more time consuming, we now consider that it is unrealistic to expect that all scheduled audits will be completed. Four assignments, which have not yet commenced, will be rolled forward and included in the 2021/22 audit programme. These assignments amount to 60 audit days, which reduces the revised plan of work down to 155 days. This does not however affect our ability to form an overall opinion on risk management, governance and control, which will be reported in the Annual Report of the head of internal audit, which will be submitted to the committee in July 2021.
- 3.2 To date, 97.5 days have been spent delivering items within the 2020/21 audit plan, equating to 63% of the revised total audit activity of 155 days. All remaining audit activity is currently in progress and is anticipated to be completed before the end of the first quarter of 2021/22.

- 3.3 An outline of the scope and findings from the work completed to date is included in the following paragraphs.

Accounts Payable/ Accounts Receivable and General Ledger systems

- 3.4 Based on our review we can provide an opinion of *substantial* assurance across each of these systems. There is a sound system of internal control in place across each process which is designed to meet the Constabulary objectives and controls are being consistently applied.
- 3.5 We have identified several areas of good practice and also areas where improvements have been made to existing processes since our last review as the teams have embedded post restructuring.
- 3.6 Whilst we have identified some areas where controls can be strengthened further these are areas for enhancement rather than to address areas of weakness.
- 3.7 In respect of actions agreed following our previous compliance review of these key financial systems, reported in February 2020, just one low priority action is incomplete but ongoing for Accounts Receivable.

Payroll processing

- 3.8 Overall, we can provide *substantial* assurance that 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.
- 3.9 We did not find any significant areas of weakness in the effectiveness of any of the controls that were tested as part of this review. We have discussed one low priority action with the Pay and Pensions Manager, which had already been identified and is in progress. We agreed two actions in our 2019/20 audit report, and we were able to confirm that these have both been completed.

Treasury management

- 3.10 Overall, we can provide *substantial* assurance over the controls in place surrounding treasury management. The treasury service at LCC carries out the treasury function for the Police and Crime Commissioner in line with the agreed Treasury Management strategy and practices. Investments made and loans carried out on behalf of the PCC comply with prudential indicators set out within the strategy and are approved by senior officers. Cash flow forecasting is carried out on a daily basis to support investment and borrowing decisions made.

Officer/ staff performance development review (PDR)

- 3.11 We completed a review to consider the adequacy and effectiveness of controls in place to manage risks and assess compliance with officer and staff performance and development review policy and procedures, regarding the frequency of reviews and recording of outcomes. We also considered if and how individuals had been supported to perform optimally in their roles, and if and how skills and training needs had been identified and recorded.
- 3.12 Based on our review we can provide *moderate* assurance over the performance appraisal process for officers and staff. The control framework is adequately designed and effectively operated overall, but some action is required to enhance aspects of it

and to ensure that it is effectively operated throughout. These areas include more regular review, revision and update of individual records; and use of dip sampling or ad hoc reporting.

- 3.13 Whilst we note that prior to the introduction of the performance development review system, one of the key risks identified by the Constabulary was a potential lack of engagement with the system from the workforce, we considered the development and functionality of the system to be robust and initiatives to promote engagement with the PDR system have continued through staff notices and intranet campaigns.

Anti-fraud and POCA

- 3.14 We have assessed the adequacy and effectiveness of the risk and control framework in place to manage the Constabulary anti-fraud activities, including processes to maximise revenue collection from the Proceeds of Crime Act (POCA), and the robustness of the claims' identification process.
- 3.15 Based on the audit work performed, we can provide *limited* assurance on the adequacy and effectiveness of the control framework.
- 3.16 Overall, the governance framework requires improvement. Strategic and operational fraud investigation policies were found to be lacking and supervisory and case management controls require strengthening, to increase both efficiency and accountability. Additionally, systems are required to obtain fraud related data to evidence demand and determine whether the force has the required capacity and capability to respond efficiently and provide a quality service to victims of fraud. Financial data and management information relating to asset recovery is additionally not used effectively to drive up performance.
- 3.17 Our audit fieldwork was completed during January and February 2020, and therefore the above conclusions reflect our findings as at that time. Additionally, as a result of the pandemic starting to have a significant impact in March 2020, we were unable to complete all the procedures that we would normally have conducted or obtained all the information and explanations that we would ordinarily require.
- 3.18 Whilst no further audit procedures have been conducted, we have received a management response to each of the areas for improvement identified in our report, and we are pleased to note that a number of the actions raised in the report have already been implemented or are currently in progress.

Investigation Management Unit

- 3.19 We conducted a light touch review to assess the adequacy and effectiveness of the risk and control framework associated with the Investigation Management Unit (IMU), and overall, we can provide *moderate* assurance regarding the adequacy and effectiveness of the current controls. Whilst we can confirm, based on the work we performed that the framework of control should result in improvements in data quality, there was insufficient information available to us at the time we conducted our audit, as a result of the pandemic, to confirm that this is actually the case.
- 3.20 Roles and responsibilities within the IMU are clearly defined, and are adequate and appropriate to support service objectives, and a training framework exists ensuring that staff are, and remain, sufficiently skilled.

- 3.21 In accordance with College of Policing authorised professional practice, investigations are categorised in order to create investigation links to other crimes or cases. This and consideration of whether the correct crime category has been recorded in line with the Home Office Counting Rules is covered in the IMU Quality Assurance process.
- 3.22 The IMU has undertaken a review of their processes in order to identify areas where improvements or efficiencies can be realised, and the recommendations from this review are currently being progressed. There is a need for a post implementation review to be conducted to obtain assurance that the changes have a positive impact on the efficiency and effectiveness of the IMU.
- 3.23 Systems to facilitate lessons learned and share best practice across the force exist and we have seen various examples of this, although we note that whilst feedback provided to officers is logged, this is not analysed for common themes to identify future training needs or to assess whether the number of errors at point of entry are reducing as a result of the IMU.
- 3.24 The work undertaken by IMU processors should be subject to supervisory review via dip sampling of investigations they have processed, in order to determine the efficiency of processing, and identify any training needs. However, the backlog of investigations requiring QA, at the time of our audit resulted in cessation of the dip sampling process.
- 3.25 Whilst we have not undertaken any additional audit procedures since the draft report was issued (April 2020), we are pleased to note that the Constabulary have been making good progress in implementing the areas for improvement identified from our review.

Follow up work

- 3.26 Under the Public Sector Internal Audit Standards, management has responsibility for ensuring that agreed actions in audit reports are implemented. Internal Audit should then obtain assurances that actions have been implemented as agreed or that senior management has accepted the risk of not taking action.
- 3.27 Our follow up audit work involves obtaining explanations and evidence where appropriate that actions have been implemented. We do not re-perform any testing on controls which were found to be adequately designed and operating effectively at the time of our original review, and neither do we re-assess the overall control environment.

Grants from the Community Action Fund (CAF)

- 3.28 Our previous review confirmed that overall, the framework of control was adequately designed and effectively operated so as to ensure that grants awarded from the CAF were consistent with the objectives of the PCC and were being used for the purposes intended.
- 3.29 Four medium and four low risk actions were agreed to address the areas for improvement identified from our review, and based on the information and explanations provided to us we are satisfied that good progress has been made in implementing the agreed actions, with just one action superseded and one action still in progress.

4 Overall summary and assurance provided

- 4.1 We have set out in the table at Appendix 1 the planned and actual days we have spent on each review, and a summary of the assurance we have been able to provide where work has been finalised.
- 4.2 On completion of the individual reviews we make an assessment of the adequacy of each system, and its effectiveness in operation.
- System adequacy:** We define 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.
- 4.3 The assurance we can provide over any area of control falls into one of four categories and these are defined at Appendix 2.

Summary of our findings and assurance

Appendix 1

Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Operational and support service reviews						
Positive Action (b/f from 2019/20)	10	17	(7)	O/S	O/S	This audit is now complete, and our draft report is with the Constabulary for review.
Project management	15	5	10	O/S	O/S	Fieldwork is progressing.
Partnership working	15	3	12	O/S	O/S	Fieldwork is progressing.
Disclosure (b/f from 2019/20)	20	3.5	16.5	O/S	O/S	Fieldwork is progressing.
Facilities management – premises compliance	20	4.5	15.5	O/S	O/S	Fieldwork is progressing.
CCTV compliance (b/f from 2019/20)	15	0	15	N/A	N/A	This audit has been deferred until 2021/22.
Officer recruitment and on-boarding	15	0	15	N/A	N/A	This audit has been deferred until 2021/22.
Information assurance	15	0	15	N/A	N/A	This audit has been deferred until 2021/22.
Neighbourhood Policing	15	0	15	N/A	N/A	This audit has been deferred until 2021/22.
Business processes						
Accounts payable	9	9	0	✓	✓	Our audit was finalised in November 2020. Four low residual risk actions were agreed to further improve the control environment.
				Substantial assurance		

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Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Accounts receivable	8	8	0	✓	✓	Our audit was finalised in November 2020. Three low residual risk actions were agreed to further improve the control environment.
				Substantial assurance		
General ledger	6	6	0	✓	✓	Our audit was finalised in November 2020. One low residual risk action was agreed to further improve the control environment.
				Substantial assurance		
Payroll processing	9	9	0	✓	✓	Our audit was finalised in December 2020. One low residual risk action was agreed to further improve the control environment.
				Substantial assurance		
Treasury management	4	6	(2)	✓	✓	Our audit was completed in January 2021. No areas for improvement were identified.
				Substantial assurance		
On Call allowances	6	3.5	2.5	O/S	O/S	Fieldwork is progressing.
Ill health retirement payments and injury awards	10	8.5	1.5	O/S	O/S	Fieldwork is progressing.
Pension administration	1	0	1	O/S	O/S	Assurance will be obtained from the work completed by the internal auditors of the Local Pension Partnership Limited, as well as from the annual assurance report, to be prepared by the Local Pensions Partnership Administration Limited in relation to compliance with the Code of Practice 14: Governance and administration of Public Service Pension Schemes, issued by the Pensions Regulator in April 2015.
Finalisation of reviews completed to draft report stage in 2019/20						
Officer/ staff PDR	1	0.5	0.5	✓	✓	Our report was finalised in September 2020. Three medium risk actions were agreed to address the areas for improvement identified.
				Moderate assurance		

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Review area	Audit days			Assurance		Key issues/ comments/ timing
	Planned	Actual	Variation	Adequacy	Effectiveness	
Antifraud/ POCA	1	0.5	0.5	X	X	Our report was finalised in November 2020. Ten medium and three low residual risk actions were agreed to address the weaknesses identified.
				Limited assurance		
Investigation Management Unit	1	0.5	0.5	✓	✓	Our report was finalised in October 2020. Five medium and two low residual risk actions were agreed to address the areas for improvement identified.
				Moderate assurance		
Follow up audit activity						
Performance management	1	1	0	N/A	N/A	Fieldwork is progressing.
Business Continuity	2	0.5	1.5	N/A	N/A	Fieldwork is progressing
Stock control	2	0.5	1.5	N/A	N/A	Fieldwork is progressing
Grants from the CAF	1	1	0	N/A	N/A	Our follow up work was completed in October 2020. Good progress has been made in implementing the agreed actions
Other components of the audit plan						
National Fraud Initiative	3	0	3	N/A	N/A	The data sets for the current matching exercise were submitted to the Cabinet Office in October 2020, and the results have now been received.
Management activity	10	10	0	N/A	N/A	Time spent to date includes: <ul style="list-style-type: none"> • Attendance at meetings of the JAEC and preparation of the resultant monitoring reports; • Revisions to the original 2020/21 Annual Audit Plan; • Preparation of the 2019/20 Annual Report • Preparation of the 2021/22 Annual Audit Plan.
Total days	215	97.5	117.5			

Audit assurance levels and risk ratings

Appendix 2

For 2020/21 the following audit assurance levels apply.

<p>Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.</p>
<p>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.</p>
<p>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.</p>
<p>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.</p>

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:

<p>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.</p>
<p>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.</p>
<p>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.</p>
<p>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.</p>