

For Information / Consideration	
Public/Non Public*	Public
Report to:	Joint Audit and Scrutiny Panel
Date of Meeting:	July 2018
Report of:	Chief Finance Officer
Report Author:	Charlotte Radford
Other Contacts:	Brian Welch
Agenda Item:	9

INTERNAL AUDIT PROGRESS REPORT

1. Purpose of the Report

- 1.1 To provide members with an update on progress against the Internal Audit Annual Plan for 2019-19 and the findings from audits completed to date.

2. Recommendations

- 2.1 Members are recommended to consider the report and where appropriate make comment or request further work in relation to specific audits to ensure they have adequate assurance from the work undertaken.

3. Reasons for Recommendations

- 3.1 This complies with good governance and in ensuring assurance can be obtained from the work carried out.

4. Summary of Key Points

- 4.1 The attached report details the work undertaken to date and summarises the findings from individual audits completed since the last progress report to the panel.

5. Financial Implications and Budget Provision

- 5.1 None as a direct result of this report.

6. Human Resources Implications

- 6.1 None as a direct result of this report.

7. Equality Implications

- 7.1 None as a direct result of this report.

8. Risk Management

- 8.1 None as a direct result of this report. Recommendations will be actioned to address the risks identified within the individual reports and recommendations implementation will be monitored and reported within the audit and inspection report to this panel.

9. Policy Implications and links to the Police and Crime Plan Priorities

- 9.1 This report complies with good governance and financial regulations.

10. Changes in Legislation or other Legal Considerations

- 10.1 None

11. Details of outcome of consultation

- 11.1 Not applicable

12. Appendices

- 12.1 Appendix A – Internal Audit Progress Report 2018-19



Office of the Police & Crime Commissioner for Nottinghamshire and
Nottinghamshire Police

Internal Audit Progress Report 2017/18 & 2018/19

June 2018

Presented to the Joint Audit & Scrutiny Panel meeting of: 24th July 2018

Contents

- 01 Introduction
- 02 Summary and conclusions from Internal Audit work to date
- 03 Performance 2017/18

Appendices

- A1 Summary of Reports 2017/18
- A2 Summary of Reports 2018/19
- A3 Internal Audit Plan 2017/18
- A4 Internal Audit Plan 2018/19
- A5 Definition of Assurances and Priorities
- A6 Contact Details
- A7 Statement of Responsibility

01 Introduction

- 1.1 The purpose of this report is to update the Joint Audit & Scrutiny Panel (JASP) as to the progress in respect of the Operational Plan for the year ended 31st March 2018, together with progress on delivering the 2018/19 Internal Audit Plan which was considered and approved by the JASP at its meeting on 30th May 2018.
- 1.2 The Police and Crime Commissioner and Chief Constable are responsible for ensuring that the organisations have proper internal control and management systems in place. In order to do this, they must obtain assurance on the effectiveness of those systems throughout the year, and are required to make a statement on the effectiveness of internal control within their annual report and financial statements.
- 1.3 Internal audit provides the Police and Crime Commissioner and Chief Constable with an independent and objective opinion on governance, risk management and internal control and their effectiveness in achieving the organisation's agreed objectives. Internal audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control. The work of internal audit, culminating in our annual opinion, forms a part of the OPCC and Force's overall assurance framework and assists in preparing an informed statement on internal control.
- 1.4 Responsibility for a sound system of internal control rests with the Police and Crime Commissioner and Chief Constable and work performed by internal audit should not be relied upon to identify all weaknesses which exist or all improvements which may be made. Effective implementation of our recommendations makes an important contribution to the maintenance of reliable systems of internal control and governance.
- 1.5 Internal audit should not be relied upon to identify fraud or irregularity, although our procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control will not necessarily be an effective safeguard against collusive fraud.
- 1.6 Our work is delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

02 Summary of internal audit work to date

- 2.1 Since the last progress report to the JASP we have issued two final reports in respect of Counter Fraud Arrangements, one in respect of a review of policies and the other summarising the result of a fraud survey. Whilst we have issued in draft the follow-up report in respect of DMS, this remains in draft awaiting management's response. Further details are provided in Appendix 1.

Nottinghamshire 2017/18 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Seized Property	Final	Limited	5	4	1	10
Workforce Planning	Final	Satisfactory	-	4	4	8
Estates Management	Final	Satisfactory	-	-	3	3
Fleet Management	Final	Satisfactory	-	5	1	6
PEEL Review Action Plan	Final	N/A	-	-	-	-
Road Safety Partnership	Final	Limited	3	2		5
Procurement Follow-up	Final	Satisfactory	-	4	2	6
Core Financial Systems	Final	Satisfactory	-	6	4	10
Counter Fraud Review	Final	N/A	-	-	-	-
DMS Follow-up	Draft					
Total			8	25	15	48

- 2.2 Work in respect of the 2018/19 is currently being planned in, with the first Nottinghamshire-specific audit, MFSS Contract Management, having recently been completed and the draft report issued. There has been the need to delay a couple of audits from the timings initially indicated in the audit plan, however we are in the process of agreeing new start dates. Further details are provided in Appendix 3.

- 2.3 With regards the audits carried out in respect of collaboration arrangements, we have recently issued the final report in respect of the Proceeds of Crime Act (POCA) and will review the arrangements in place across the region to manage cash and property seizures. A summary of this report is provided in Appendix 1.

Collaboration Audits 2017/18	Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
EMCHRS Learning & Development ¹	Final	Satisfactory		2	3	5
EMSOU Forensic Services ¹	Final	Significant			3	3
EMCHRS Occupational Health ¹	Final	Substantial			3	3
Criminal Justice (EMCJS) ¹	Final	Satisfactory		1	2	3
POCA ¹	Final	Satisfactory			4	4
Total			-	3	15	18

¹ Denotes those collaborative arrangements which Nottinghamshire are a part of.

- 2.4 The first piece of work under the heading of 'Collaboration' has recently been completed and the final memo issued. This was in respect of a review of Regional Collaboration Assurance Statements. Further details of this are provided in Appendix 2.

03 Performance 2017/18

- 3.1 The following table details the Internal Audit Service performance for the year to date measured against the key performance indicators that were set out within Audit Charter.

No	Indicator	Criteria	Performance
1	Annual report provided to the JASP	As agreed with the Client Officer	Achieved
2	Annual Operational and Strategic Plans to the JASP	As agreed with the Client Officer	Achieved
3	Progress report to the JASP	7 working days prior to meeting.	Achieved
4	Issue of draft report	Within 10 working days of completion of final exit meeting.	100% (10/10)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (9/9)
6	Follow-up of priority one recommendations	90% within four months. 100% within six months.	N/A
7	Follow-up of other recommendations	100% within 12 months of date of final report.	N/A
8	Audit Brief to auditee	At least 10 working days prior to commencement of fieldwork.	100% (10/10)
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (2/2)

Appendix A1 – Summary of Reports 2017/18

Below we provide brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last progress report in respect of the 2017/18 Internal Audit Plan:

Counter Fraud

Under the heading 'Counter Fraud' we undertook two exercises, with two separate reports. These were in respect of the following:

- Fraud Awareness Survey
- Counter Fraud Policy Review

Fraud Awareness Survey

One key principal of any organisation should be the creation and maintenance of an anti-fraud culture. In connection with this, it was agreed with the OPCC Chief Finance Officer and the ACO Finance & Resources that a survey should be produced that would allow the Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police to gain an understanding of current fraud and bribery knowledge across employees.

Surveys are one of a range of tools that we use to measure staff awareness and identify fraud risks for proactive work. Surveys also help us to measure awareness of the materials used to help prevent fraud, bribery and corruption, including for example the Anti-Fraud, Bribery and Corruption Policy. The questions contained within the survey were agreed with the Chief Officers to ensure relevance.

As agreed with the Chief Officers, the survey was issued to all staff electronically in October 2017 and concluded in November 2017. The survey incorporated direct questions including; 'where would you find the Fraud Policy?', questions which related to the agreement of staff to a particular subject including; 'Nottinghamshire Police takes a strong stance against instances of fraud and corruption' and questions which invited a free response such as: 'What areas of Nottinghamshire Police do you consider to be most vulnerable to fraud?'.

We received a total of 112 surveys: 72 completed and submitted surveys and a further 40 partially completed surveys. Both complete and incomplete responses were included in the results. It is acknowledged that the results of the survey are based on a relatively small proportion of the force and, as a consequence, should only be used as an indication of trends.

The Fraud Awareness Survey suggests that there is a good basic knowledge of fraud and bribery arrangements amongst respondents. Overall, of those who responded, the majority have a reasonable understanding of what fraud and corruption is, the actions to take, and the importance of raising suspicions.

Counter Fraud Policy Review

As part of Counter Fraud Review terms of reference, an assessment of the Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police's Counter Fraud Policies and procedures was undertaken. The purpose of this work was to assess the content of the Policies from a counter fraud and bribery perspective, focusing on the extent to which the Policies include relevant information in line with good practice and legislative requirements, and suggesting improvements where appropriate.

Assessing the adequacy of the policies/guidance in place, in relation to counter fraud and bribery, is key in checking that the framework in which staff operate is in line with OPCCN and Nottinghamshire Police's objectives. In addition, updating the policies and communicating this to staff, where appropriate, helps in reinforcing OPCCN and Nottinghamshire Police's approach to tackling fraud, bribery and corruption; and enables the organisation to take successful sanction and redress against individuals should fraud, bribery or other impropriety occur.

The review covered the following policies and procedures:

- Business Interests and Additional Employment for Police Officers and Police Staff Procedure;
- Code of Conduct;
- Counter Corruption Strategy and Plan;
- Evaluation Code of Conduct;
- Gifts, Gratuities and Hospitality Procedure;
- Information Security Policy;
- Prevention of Fraud and Corruption in the Procurement Process; and
- Professional Standards Reporting (Whistleblowing) Procedure.

The report set out findings and recommendations from the work and raised a number of recommendations where we believe policies and procedures could be improved upon to better encompass best practice relating to the counter fraud.

Regional Approach to Proceeds of Crime Act (POCA)

Assurance Opinion	Satisfactory
Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	-
Priority 3 (Housekeeping)	4

The Proceeds of Crime Act 2002 (POCA) is a wide ranging Act aiming to take the profit out of criminality. A part of the Act gives power to the police and other public bodies to confiscate assets and cash from individuals who are convicted of offences or, on the balance of probability, have benefited from their illegal activities. The Home Office operates the Asset Recovery Incentivisation Scheme (ARIS) where a proportion of the recovered assets is returned to the agency(ies) that recovered it.

Under ARIS guidance, POCA funding received from the Home Office should be used by police forces to drive up performance on asset recovery and, where appropriate, to fund local crime fighting priorities for the benefit of the community. There are two routes for securing POCA monies under the ARIS scheme, Confiscation Orders and Cash Forfeitures.

Internal Audit carried out visits to each of the five police forces across the East Midlands, as well as the regional unit, EMSOU, to compare and contrast the manner of approach that is adopted to managing and maximising POCA opportunities.

Our audit considered the risks relating to the following areas under review:

- Policies and procedures are in place for maximising POCA receipts via cash forfeiture and confiscation orders.
- Effective communications and training arrangements are in place in respect of the cash forfeitures and confiscation orders.
- Each forces' application of the above procedures leads to them maximising opportunities for POCA performance.
- POCA receipts are used in accordance with the Act.
- Monies received under confiscation orders and / or cash forfeiture, together with its subsequent use, are fully accounted for.
- Management information is complete and timely and supports the objective of driving up POCA performance.

There is a generally sound system of internal control across the region that supports the management of POCA arrangements, however we have identified some areas where the control environment could be improved into to maximise the application of the legislation across the region.

Due to the complexity of individual cases, and the length of time that a criminal prosecution can take, it is often difficult for the Forces to see a relation between high performance and high ARIS returns. These can be dependent on a number of factors, including the assets available when an investigation has started, the court's decision and successful cases that result in monies being returned to the victims rather than to the Forces under ARIS.

Overall, the review of the POCA approach across the region found that there are areas of commonality and examples of best practice in place for the management of the POCA receipts. A summary of the approaches seen across the region was provided in the report. Additionally, there were areas of improvement that should be considered and these were raised in the report as Priority 3 recommendations. These related to the following:

- The Forces should consider adopting a clear POCA Strategy that outlines the approach they will take to maximising POCA receipts via cash forfeiture and confiscation orders.
- The Forces should consider a structured approach to awareness of POCA through targeted communications and training schedules.
- Each Force should consider their approach to maximizing POCA opportunities and explore whether it could adopt any of the approaches seen across the region. These include:
 - Mandatory referrals to the Financial Investigation Unit when property stores are releasing cash;
 - A daily report received by the FI's providing details of all charges, crimes recorded, property logged and postal requisitions within the last 24 hours; and
 - An accredited Financial Investigator reviews the Suspicious Activity Reports received to ensure potential opportunities are not missed.

- The Forces and Region should review the performance information they utilise to manage the POCA process. Consideration should be given to the following:
 - The number and value of the compensation orders obtained should be clearer; this can be overlooked as the Force receive no monies under ARIS for this work but it is a clear success story for the victims of the crime;
 - For the number and value of cash forfeitures and compensation orders, a monthly or quarterly trend rather than comparison to 12 months ago;
 - Number and value of ongoing cases that the Financial Investigation team are working on would provide an overview of pipeline/future potential returns;
 - Cases can be pursued that may not be significant in value, however they are significant in the disruption of criminal activity or crime groups and, where possible, it would be beneficial to highlight success stories in this area of Financial Investigation.

Appendix A2 – Summary of Reports 2018/19

Below we provide brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last progress report in respect of the 2018/19 Internal Audit Plan:

Review of Collaboration Assurance Statements

As part of resources set aside to review collaboration arrangements across the region, it was agreed that internal audit would undertake a desktop review of the Collaboration Assurance Statements provided by the regional units. The regional units covered in the review were:

- Collaborative Human Resource Service – Learning & Development (EMCHRS L&D)
- Collaborative Human Resource Service – Occupational Health (EMCHRS OHU)
- Criminal Justice Service (EMCJS)
- Operational Support Services (EMOpSS)
- Legal Services (EMPLS)
- Special Operations Unit (EMSOU)

As part of the work, we have undertaken a desktop review of each of the self-assessments in order to determine their completeness and compare them to our own understanding of their control environment gained from carrying out audits of the units. It is acknowledged that audit coverage in some of the units goes back some 18 months, whilst the scope of the audits did not cover all aspects referred to in the self-assessments returns.

The aim of the review was to provide a commentary on each of the self-assessments that can be taken into account by each of the OPCC's and Forces when compiling their own Annual Governance Statements.

In 2015 Baker Tilly (now RSM) were tasked with supporting the development of Collaboration Assurance Statements for each of the collaboration units across the East Midlands Policing region. Based on this initial project, each unit has now been tasked with maintaining the resultant Statements on an annual basis.

The Statements are divided into the following areas of responsibility:

1. Progress of collaboration business plan.
2. Ownership of actions.
3. Management of collaboration business risk.
4. Integrity of decision making.
5. Robustness of collaboration units.
6. The integrity and reliability of information, accounts and data.
7. Best use of assets, including people, equipment and buildings.
8. The collaboration contributes to the delivery of each member's police and crime plan.

The eight areas of responsibility are broken down into examples of where the unit is able to demonstrate compliance, with the unit being required to confirm whether it fully, partially or does not meet the required element of best practice. Each unit is then required to provide narrative in terms of the assurance it is able to call upon, split into the 'Three Lines of Defence'. The unit is required to set out any actions required to remedy any areas of activity where they cannot or can only partly confirm compliance with best practice. Finally, the unit is required to identify any expected significant changes in their assessments in the next six months.

Conclusion

On the whole, the Collaboration Assurance Statements submitted by each of the regional units were generally consistent with our understanding of each unit's control environment. As with any self-assessment process, the Statements were completed with varying levels of detail and, in some cases, they could have benefited from further explanations covering certain areas of responsibility.

It was noted that the template currently being used for the Assurance Statements remains in the Baker Tilly branded format. As Baker Tilly no longer exist, and it could be mistakenly assumed by someone reading the Statements that Baker Tilly have endorsed the information they contain, it is recommended that the templates are amended to that specific to the regional collaboration units.

In terms of the Statements themselves, a common area for attention is that of the third line of defence and how the units secure independent assurance that risks are being managed and controls are being consistently applied. Across the board there is a need for greater consideration be given to this element of the assessment, with a number of units not even referring to internal audit activity in their area.

Whilst the assessments require each unit to consider 'actions required', the opportunity to do this was largely not taken. Additionally, where 'partial' confirmation was given in respect of an area of responsibility, in many cases there was little narrative to outline what the unit would do to address the gap in assurance.

As the Statements cover eight separate areas of responsibility, the Statement Overview is an important part of the assessment in giving the reader a one-page understanding of the regional collaboration unit. Possibly due to the fact that a significant part of the Overview was to outline 'actions required', this was largely poorly completed and, in some instances, the area assessments were inconsistent with the individual area assessments.

Appendix A3 Internal Audit Plan 2017/18

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Core Assurance					
Core Financial Systems	Oct 2017	Nov 2017	Jan 2018	Mar 2018	Final report issued.
Procurement Follow-up	Sept 2017	Sept 2017	Jan 2018	Mar 2018	Final report issued.
Strategic & Operational Risk					
Implementation of DMS	Mar 2018	May 2018		July 2018	Await management's response.
Counter Fraud Review	Oct 2017	Jan 2018	Mar 2018	July 2018	Final report issued.
Workforce Planning	May 2017	June 2017	Sept 2017	Sept 2017	Final report issued.
Seized & Found Property	May 2017	June 2017	Oct 2017	Sept 2017	Final report issued.
Information Technology Strategy	Oct 2017			N/A	Audit deferred to 2018/19.
Estates Management	July 2017	July 2017	Aug 2017	Sept 2017	Final report issued.
Fleet Management	July 2017	July 2017	Aug 2017	Sept 2017	Final report issued.
Other					
PEEL Review Action Plan	July 2017	Aug 2017	Aug 2017	Sept 2017	Final report issued.
Road Safety Partnership	Sept 2017	Oct 2017	Jan 2018	Mar 2018	Final report issued.

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Collaboration					
EMCHRS Learning & Development	Aug 2017	Aug 2017	Sept 2017	Dec 2017	Final report issued.
EMCHRS Occupational Health	Oct 2017	Nov 2017	Nov 2017	Dec 2017	Final report issued.
EMSOU Forensic Services	Sept 2017	Oct 2017	Oct 2017	Dec 2017	Final report issued.
Criminal Justice (EMCJS)	Dec 2017	Jan 2018	Jan 2018	Mar 2018	Final report issued.
POCA	Jan 2018	Apr 2018	June 2018	July 2018	Final report issued.

Appendix A4 Internal Audit Plan 2018/19

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Core Assurance					
Core Financial Systems	Nov 2018			Mar 2019	
Code of Governance	Sept 2018			Nov 2018	Currently scoping the audit.
Strategic & Operational Risk					
Partnership Working	Mar 2019			June 2019	
Commissioning	Sept 2018			Nov 2018	
MFSS Contract Management	June 2018	June 2018		Nov 2018	Draft report issued.
IT Strategy	Nov 2018			Mar 2019	Deferred from Q1 to all IT Strategy to be finalised.
Seized Property	Oct 2018			Mar 2019	
GDPR	Nov 2018			Mar 2019	
Health & Safety	Sept 2018			Nov 2018	
Firearms Licensing	Mar 2019			June 2019	

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
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Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Collaboration					
Risk Management	Aug 2018			Nov 2018	ToR currently being agreed.
Strategic Financial Planning	July 2018			Nov 2018	ToR currently being agreed.
Business Planning	Sept 2018			Nov 2018	ToR currently being agreed.
Review of Collaboration Assurance Statements	May 2018	May 2018	June 2018	July 2018	Final memo issued.

Appendix A5 – Definition of Assurances and Priorities

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
Significant Assurance:	There is a sound system of internal control designed to achieve the Organisation's objectives.	The control processes tested are being consistently applied.
Satisfactory Assurance:	While there is a basically sound system of internal control, there are weaknesses, which put some of the Organisation's objectives at risk.	There is evidence that the level of non-compliance with some of the control processes may put some of the Organisation's objectives at risk.
Limited Assurance:	Weaknesses in the system of internal controls are such as to put the Organisation's objectives at risk.	The level of non-compliance puts the Organisation's objectives at risk.
No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse.	Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

Appendix A6 - Contact Details

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A7 Statement of Responsibility

Status of our reports

The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

The contents of this report are confidential and not for distribution to anyone other than the Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.

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