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

Internal Audit Progress Report 2016/17

February 2017

Presented to the Joint Audit & Scrutiny Panel meeting of: 9th March 2017

Contents

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 2016/17 Internal Audit Plan that considered and approved by the JASP at its meeting on 11th February 2016.

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 is accordance with the Public Sector Internal Audit Standards (PSIAS).

02 Summary of internal audit work to date

2.1 We have issued two final reports in respect of the 2016/17 plan since the last progress report to the JASP, these being in respect of the Core Financial Systems and Effective Audit & Scrutiny. Additionally, we have issued a draft report in respect of HR – Recruitment & Selection where we await management's responses. Further details are provided in Appendix 1.

Nottinghamshire 2016/17 Audits	Report Status	Assurance Opinion		Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Implementation of DMS	Final	Limited		3	3	2	8
Data Protection Act Compliance	Final	Limited		1	5	3	9
Estates Strategy	Final	N/A		-	-	-	-
HR Establishment Budgeting	Final	Satisfactory		-	3	1	4
Commissioning Framework	Final	N/A		-	-	-	-
Overtime Payments	Final	N/A		-	-	-	-
Procurement Follow-up	Final	EMSCU - Limited	Local – Satisfactory	1	4	2	7
Savings Programme Follow-up	Final	Satisfactory		-	2	1	3
Core Financial Systems	Final	Satisfactory		1	5	3	9
Effective Audit & Scrutiny	Final	N/A[1]		-	6	3	9

Nottinghamshire 2016/17 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
HR – Recruitment & Selection	Draft					
		Total	**6**	**28**	**15**	**49**

[1] Effective Audit & Scrutiny – this audit aimed to assess the Audit & Scrutiny Panel against best practice, such as the principles set out in the National Audit Offices (NAO's) good practice guide 'The Audit Committee Self-Assessment Checklist, 2012'. The objective of the audit was therefore to provide an action plan of areas to consider for driving best practice and not to provide an opinion on the adequacy and effectiveness of controls.

2.2   We are also scheduled to undertake audits of Risk Management and Data Quality in March. Further details are provided within Appendix A2.

2.3   As reported in our previous progress report, five specific areas have been identified in terms of the collaborative audits for 2016/17. These reviews looked at the business plan and S22 agreement in terms of whether it is being delivered and is fit for purpose going forward; the scope also included value for money considerations and arrangements for managing risk. To date, we have finalised three reports (Share HR Service Centre, Legal Services and EMSCU). Work in respect of EMSOU has recently been completed and is being reviewed, whilst work in respect of EMOpSS is in progress.

Collaboration Audits 2016/17	Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
EM Shared HR Service Centre	Final	Satisfactory		1	3	4
EM Legal Services	Final	Limited	1	3	2	6
EMOpSS	Work in progress					
EMS Commercial Unit	Final	Satisfactory		3		3
EMSOU	Fieldwork complete; being reviewed.					
		Total	**1**	**7**	**5**	**13**

03   Performance

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. This list will be developed over time, with some indicators either only applicable at year end or have yet to be evidenced.

No	Indicator	Criteria	Performance
1	Annual report provided to the JASP	As agreed with the Client Officer	N/A
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.	92% (12/13)
5	Issue of final report	Within 5 working days of agreement of responses.	100% (7/7)
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 2016/17

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:

Core Financial Systems

Overall Assurance Opinion	Satisfactory

Individual Area Assurance Opiniojns	
General Ledger	Significant
Cash, Bank & Treasury Management	Significant
Payments & Creditors	Satisfactory
Income & Debtors	Satisfactory
Payroll	Limited

Recommendation Priorities	
Priority 1 (Fundamental)	1
Priority 2 (Significant)	5
Priority 3 (Housekeeping)	3

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

- Clearly defined policies and/or procedures are not in place resulting in ineffective and inefficient working practices.
- Systems and data entry restrictions are not in place which could lead to inappropriate access to the systems and data.
- There are errors in accounting transactions posted on the General Ledger resulting in inaccurate financial information.
- Inaccurate cash flow information regarding investments and borrowings is produced which could result in inappropriate levels of cash held within the Force.
- The purchasing process is not complied with by staff which could lead to fraudulent transactions that may go undetected.
- An ineffective debt management process is in place which could lead to irrecoverable income and inappropriate write off of debt.
- Payments to staff are inaccurate resulting in financial losses for the Force, administrative burdens and where the employee loses out, loss of reputation.

In reviewing the above risks, our audit considered the following areas:
- General Ledger
- Cash, Bank and Treasury Management
- Payments and Creditors
- Income and Debtors
- Payroll

We raised one priority 1 recommendation of a fundamental nature that require addressing. This is set out below:

Recommendation 1	Upon full operation of the payroll module on the Oracle system, a daily check of changes to payroll data, including employee data, should be completed to confirm accuracy and appropriateness and to identify instances where a service request has not been raised for the Payroll Team to conduct a secondary check. The appropriateness of assigning the HR Employment Services Team access to make amendments to live payroll data on Oracle without approval of the changes by the Payroll Team should be assessed and a formal decision made as to whether this is deemed acceptable practice by the Force. [MFSS and Force]
Finding	To ensure that only appropriate and accurate changes are made to payroll data, and to confirm agreed working practices are followed, a daily audit report of changes to payroll data should be extracted from Oracle and the changes should be checked by the Payroll Team. In order for staff only to have appropriate access rights on the Oracle Payroll module, a review of the HR team access should be completed. The move from the ePayfact system to the Payroll Module on the Oracle system was discussed with both the Payroll Team Leader (MFSS) and the HR Employment Services Team Leader (MFSS). It was confirmed that the process for variations/adjustments to payroll data will be for HR to make the changes on the Payroll Module as a result of a raised service request. The service request will include a task for the Payroll Team to check the changes made. However, as the HR Employment Services Team at MFSS will have access to make changes to live payroll data, this could occur without a service request being raised. If the change does not result in a variation on pay of more than 20% on the previous month, payroll would not be aware of this change as it would not be picked up within the variations report produced each month.
Response	Agreed. This is an issue that is likely to be common to all users of the Oracle Payroll system and therefore this ideally requires a joint approach to agreeing a revised process. This will be raised at the next available Optimisation Group meeting and at the current Payroll Implementation group. The outcomes of these meetings will help the Force determine its risk appetite in respect of this control.
Timescale	January 17 / Claire Salter, Retained HR

We raised five priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- MFSS should detail the fraud checks that have been completed when setting up a new supplier or amending an existing supplier on the Oracle System. This narrative should include the date of the check and the initials of the officer completing the check. [MFSS]

- An up to date policy for debt recovery should be produced by the Force and communicated to all relevant staff within the Force and at MFSS. [MFSS & Force]

- MFSS should ensure that clear and concise notes are retained on Oracle when issuing a credit note on account. These notes should include the invoice number which is being credited, the reason for the credit, and the subsequent action being taken (e.g. to be re-invoiced) with the new invoice number.
  The Force should introduce authorisation limits for providing approval for the raising of and authorisation of credit notes. [MFSS and Force]

- The Force should communicate to Officers and Staff that there should be sufficient narrative description of the reasoning for all expense claims. This should highlight the legitimacy and appropriateness of the expense claim being submitted in line with the Force Expense Policy.
  Where the expense narrative does not provide sufficient information to confirm compliance with policy, the payroll officer should complete a narrative of what check has been completed to confirm the claim is appropriate and in line with policy.
  There should be at least one entry of sufficient detail for the expense claim as audit trail to confirm expenses are appropriately and correctly submitted. [MFSS and Force]

- The Force should introduce a threshold limit on expense claims that are required to be audited prior to approval that have been submitted under the self-approve module on Oracle.
  Further consideration should be given to introducing threshold limits for individual categories of expense claims.
  For example, a threshold limit for self-approval on glasses claims in line with Force Policy. [Force]

We also raised three housekeeping issues with regards secondary checks on BACS payments, desktop instructions on payroll checks and the bonus payments policy.

Management confirmed that all actions have either been implemented or will be actioned by April 2017.

Effective Audit & Scrutiny

Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	6
Priority 3 (Housekeeping)	3

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

The audit looked to provide assurance that there is an effective audit and scrutiny function in place to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance process, as set out in best practice guidance such as that published by CIPFA and the National Audit Office (NAO).

Using the five good practice principles set out in the NAO's good practice guide 'The Audit Committee Self-Assessment Checklist, 2012', and applying them to the Joint Audit & Scrutiny Panel, the audit objectives are to provide assurance over:

> *Principle 1:* The Role of the Audit Committee – Does the Audit Committee effectively support the Board and the Accounting Officer by reviewing the completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?

> *Principle 2:* Membership, Independence, Objectivity and Understanding – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?

> *Principle 3:* Skills – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?

> *Principle 4:* Scope of Work – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?

> *Principle 5:* Communication – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board, and other stakeholders?

We raised six priority 2 recommendation where we believe there is scope for improvement within the control environment. These related to the following:

- Actions identified as a consequence of JASP meetings should be recorded within the minutes and a separate action plan should be produced and followed up at subsequent meetings.

- Whilst it may be too late to revisit the KPMG action plan, the report and action plan coming out of this current review should be presented to the JASP and delivery of the actions monitored at subsequent meetings.

- The Terms of Reference for the JASP should be reviewed, updated, agreed and uploaded to the website. The review should consider issues raised as a consequence of this review; these include:

  > Reference to the 'joint' nature of the panel within the 'Statement of Purpose'.
  > Rules relating to the Panel being quorate.
  > The requirement to hold periodic meetings with the internal and external auditors where management are excluded from the meeting.
  > The requirement to secure assurance on the collaborative arrangements in the region.
  > Whether the Panel has any role in respect of monitoring the process for Grievance Appeals (as is currently set out in the ToR).

- Consideration should be given by the Panel to the production of an annual report which sets out the Panel's activities for the preceding year, triangulates the various sources of assurance it receives into the one document and demonstrates how it is has fulfilled its responsibilities.

- The Panel's work plan should be updated to include an annual review of areas of scrutiny for the coming year.

- A review should be carried out of the format and content of the Audit & Inspection Report that is provided to the Panel. The Panel should be asked to comment on whether it currently provides them with the appropriate level of assurance and, if not, how it could be improved.

We also raised three priority 3 recommendations of a more housekeeping nature. These were in respect of meeting with the auditors, Panel training requirements and the Audit Committee Chairs Forum.

Management confirmed that the agreed recommendations would be implemented by the end of July 2017.

Shared Human Resource Service Centre

Assurance Opinion	Satisfactory

Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	1
Priority 3 (Housekeeping)	3

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

- A Section 22 agreement is in place that clearly sets out the decision making and governance framework that is in place;
- A clearly defined Business Plan is in place that sets out the statutory duties, objectives and the key performance indicators for the services to be provided;
- The Business Plan is set in line with the Section 22 agreement and it is regularly reviewed to ensure it remains 'fit for purpose';
- There are effective reporting processes in place to provide assurances to the Forces on the performance of the unit;
- Value for money considerations are regularly reviewed and reported to the Forces; and
- The unit has procedures in place to ensure that risks are identified, assessed recorded and managed appropriately.

We raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. This related to the following:

- The current SLA KPI's should continue to be reviewed to ensure SHRSC are able to clearly report on each one. These should be presented and approved at the next Management Board

  Moreover, a quarterly performance report that includes all SLA KPI's should be created and communicated to both Forces to allow effective scrutiny of SHRSC performance.

We also raised three priority 3 recommendations of a more housekeeping nature. These were in respect of approval of the business plan, risk management and reporting of value for money.

Management confirmed that the recommendations would be implemented by the end of March 2017.

East Midlands Strategic Commercial Unit

Assurance Opinion	Satisfactory

Recommendation Priorities	
Priority 1 (Fundamental)	-
Priority 2 (Significant)	3
Priority 3 (Housekeeping)	-

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

- A Section 22 agreement is in place that clearly sets out the decision making and governance framework that is in place;
- A clearly defined Business Plan is in place that sets out the statutory duties, objectives and the key performance indicators for the services to be provided;
- The Business Plan is set in line with the Section 22 agreement and it is regularly reviewed to ensure it remains 'fit for purpose';
- There are effective reporting processes in place to provide assurances to the Forces on the performance of the unit;
- Value for money considerations are regularly reviewed and reported to the Forces; and
- The unit has procedures in place to ensure that risks are identified, assessed recorded and managed appropriately.

We raised three priority 2 recommendations where we believe there is scope for improvement within the control environment. These related to the following:

- The Forces' and EMSCU should ensure that the Management Board meetings are held on a regular / quarterly basis in order that performance is appropriately reviewed and actions put in place to address areas of weakness where necessary.

    The SLT meeting timetable and agenda should be updated to reflect the move from monthly meetings to quarterly and ensure all standing agenda items listed are addressed at each meeting.

- The Business Plan should be reviewed and approved by the EMSCU Management Board to ensure the Forces have assurance that it meets the requirements of each Force.

- EMSCU should review the current KPI's that are in place and should prepare updated KPI's that can be presented to the Management Board for scrutiny, approval and subsequent regular reporting.

Management confirmed that the recommendations would be implemented by the end of March 2017.

Appendix A2   Internal Audit Plan 2016/17

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Core Assurance					
Risk Management	July 2016			June 2017	Deferred to March 2017 on client request. Planned to start 13th March.
Procurement	Nov 2016	Nov 2016	Nov 2016	Dec 2017	Final report issued.
Core Financials					
Payroll	Oct 2016	Nov 2016	Dec 2016	Dec 2016	Final report issued.
Cash, Bank & Treasury	Oct 2016	Nov 2016	Dec 2016	Dec 2016	Final report issued.
General Ledger	Oct 2016	Nov 2016	Dec 2016	Dec 2016	Final report issued.
Income & Debtors	Oct 2016	Nov 2016	Dec 2016	Dec 2016	Final report issued.
Payment & Creditors	Oct 2016	Nov 2016	Dec 2016	Dec 2016	Final report issued.
Strategic & Operational Risk					
Implementation of DMS	April 2016	May 2016	June 2016	June 2016	Final report issued.
Savings Programme Follow-up	Sept 2016	Oct 2016	Oct 2016	Dec 2016	Final report issued.
Human Resources	Jan 2017	Jan 2017		Mar 2017	Draft report issued.
Data Protection Act Compliance	Aug 2016	Sept 2016	Oct 2016	Dec 2016	Final report issued.

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Data Quality	Feb 2017			June 2017	Deferred to March 2017 on client request. Planned to start 6th March.
Effective Audit & Scrutiny	July 2016	Oct 2016	Feb 2017	March 2017	Final report issued.
Collaboration					
EMCHRS Transactional Services	Dec 2016	Dec 2016	Jan 2017	Mar 2017	Final report issued.
EM Legal Services	Nov 2016	Nov 2016	Nov 2016	Dec 2016	Final report issued.
EMOpSS	Feb / Mar 2017			Mar 2017	Work in progress.
EMS Commercial Unit	Nov 2016	Dec 2016	Jan 2017	Mar 2017	Final report issued.
EMSOU	Jan / Feb 2017			Mar 2017	Fieldwork completed; being reviewed.
Other					
Estates Strategy	-	May 2016	May 2016	June 2016	Final memo issued.
HR Establishment Budgeting	-	May 2016	Sept 2016	Sept 2016	Final report issued.
Commissioning Framework	-	July 2016	July 2016	Sept 2016	Final memo issued.
Core Financial Follow-up	-	July 2016	July 2016	Sept 2016	Final report issued.
Overtime Payments	-	July 2016	July 2016	Sept 2016	Final memo issued.

Appendix A3 – 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 A4 - Contact Details

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A5 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.*
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