

# Internal Audit Annual Report 2016/17

“Providing assurance on the management of risks”



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**POLICE POLICE**

# Internal Audit Annual Report 2016/17

## “Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2016/17 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the control environment that operated during 2016/17 in respect of the Warwickshire and West Mercia Police and Crime Commissioners (PCCs) and the Strategic Alliance.

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### Opinion

Based upon the results of work undertaken during the year my opinion is that the control environments operated by Warwickshire and West Mercia Police and Crime Commissioners and the Strategic Alliance provide **substantial** assurance that the significant risks facing their respective organisations are addressed.

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### Context

This report outlines the work undertaken by the Internal Audit service of Warwickshire County Council for the two Police and Crime Commissioners and Chief Constables between 1 April 2016 and 31 March 2017.

Warwickshire Internal Audit section worked to a joint plan, strategy, service level agreement and audit charter covering all four police bodies agreed by the Joint Audit Committee in March 2016. The original plan was kept under constant review and a number of amendments were agreed by the Joint Audit Committee during the year.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the organisation, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The primary role of audit is to provide assurance to each of the four policing organisations (managers and the Joint Audit Committee) and ultimately the taxpayers that the organisations maintain an effective control environment that enables them to manage their significant business risks. The service helps each organisation achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of each organisation's control environment which feeds into the annual governance statements.

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## Internal audit work during 2016 / 2017

The underlying principle to the 2016/17 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

The methodology adopted in preparing the 2016/17 audit plan, and the plan itself, were approved by the Joint Audit Committee on 14 March 2016.

Since the original plan was approved a number of variations to the plan have proved necessary. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. These changes were agreed initially with the Chair and then subsequently confirmed at the Joint Audit Committee.

Appendix A provides a summary of those jobs completed since the last update report to the Committee on 20 March 2017. A summary of the progress made against the revised 2016/17 audit plan is attached at Appendix B. This appendix shows **all** work completed against the 2016/17 plan including those jobs previously reported to the Committee. A small number of audits started during the year were not completed at year end but have been prioritised for completion in 2017/18 and further work on one audit, Partnerships, has been requested by the Director of Finance and Treasurer. The net effect is that although the work undertaken during the year was very different to that anticipated 12 months ago, 93% of the revised planned days were delivered by 31 March 2017.

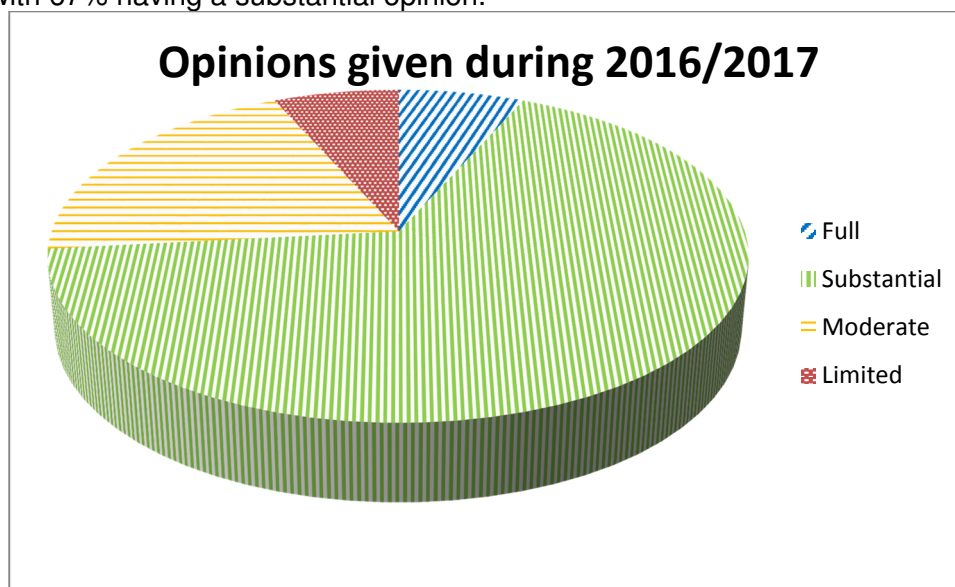
Each final report includes a detailed action plan that has been agreed with the relevant manager. These plans specify the manager responsible for implementing each action and a target implementation date. Where a manager has not agreed a recommendation and is therefore accepting the risks involved this will be noted in progress reports to the Committee.

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## Summary of assurance work

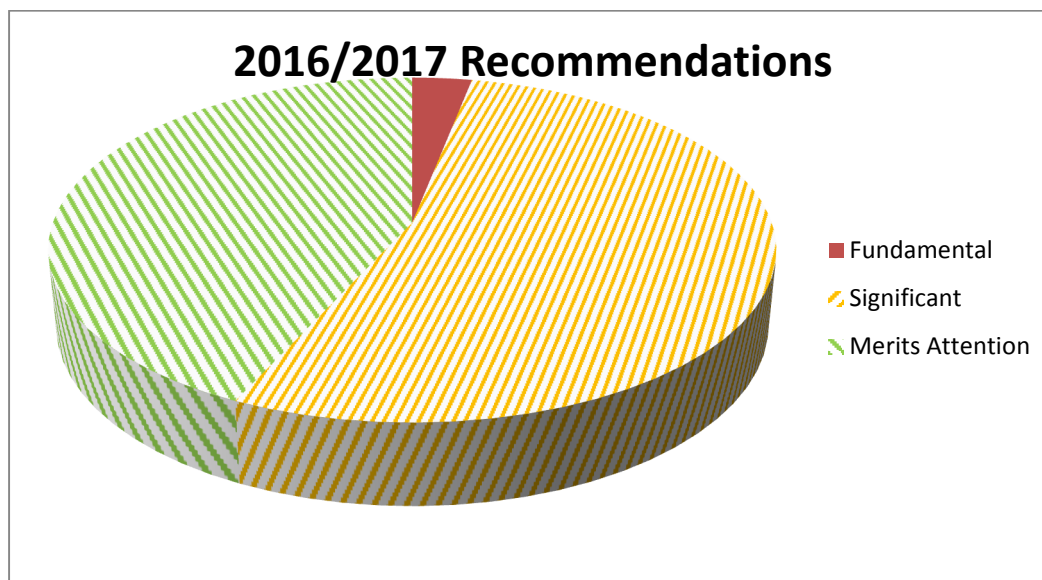
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

As shown in the following chart all but one of this year's audits have resulted in a positive opinion with 67% having a substantial opinion.



A full list of the assurance work undertaken during the year is included in Appendix B. One audit, Contract Management, was given a limited opinion in 2016/17 (one limited opinion was also given in 2015/16). A summary of this audit is included in Appendix A.

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental. During the year 65 recommendations, the majority of which were categorised as significant, were made to address weaknesses in control which would otherwise not have been identified. The following chart shows the proportion of audits given each level of opinion:



Responsibility for implementing agreed recommendations rests with the Chief Executives and Chief Constables who have implemented monitoring arrangements to establish progress on implementing audit recommendations. A summary of the outcome of monitoring exercises is reported regularly to the Joint Audit Committee.

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## Summary of non-assurance work

### Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service provided consultancy input into the following areas:

- The CIPFA Fraud Surveys were completed on behalf of the Warwickshire and West Mercia Police and Crime Commissioners.
- Assistance was provided in submitting the required data for the National Fraud Initiative. (NFI).

## Special Investigations

Special investigations within the organisation are largely dealt with by Professional Standards, although on occasion we may be asked to undertake an investigation into suspected irregularities. We did not undertake any investigations during the year.

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## Effectiveness

This section of the report sets out information on the effectiveness of the audit service, and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

When the standards were first introduced a number of actions were identified to improve compliance. These actions have all been completed and self-assessments against the standards by both Worcestershire and Warwickshire were completed during 2014/15 which showed both audit services fully complied with the standards. Processes have not changed significantly since that was done but the self-assessment is currently being refreshed to reflect the introduction of revised standards from April 2017. As required by the standards compliance will need to be confirmed by an external assessment which we are aiming to complete in the second half of the year.

Internal audit processes are reviewed annually by external assessors as part of our ISO 9001 accreditation. This inspection provides independent assurance that processes outlined in the audit manual (which is based on PSIAS) are being followed. The last accreditation visit proved to be very successful with no non-conformances identified. Internal audit therefore continues to be registered under this exacting standard.

In accordance with best practice there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process.

Following each audit a “post audit questionnaire” is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, etc. A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys.

Warwickshire Internal Audit continued to rate very highly during 2016/17 with an overall average score of 4.5 (out of a maximum of 5). A number of positive comments and compliments about the service provided have been received, including:

- The relationship with the Risk and Assurance officer is professional and productive; the audit is conducted with an understanding of the workload and production cycles of the finance team.
- Very professional.
- The audit was conducted very professionally. Enables clear discussion through the whole process.
- The face to face contact with the audit staff adds value and we benefit from having auditors who understand and have an interest in our business.
- The work was undertaken efficiently and was appropriate to the task. Audit team I have dealt with have always been professional and friendly.
- Easy for us to comply with the review. We also had plenty of notice to ensure we had all the information to hand.
- The Auditor has a good understanding of PCR 2015 and the challenges that Procurement functions face, particularly in a Bluelight /emergency environment. In

addition the Auditor has seen how, and commented on, we have taken on board previous recommendations, to improve the governance and service we provide to internal stakeholders and the tax payer.

- I found that the report and meeting with the lead auditor was focussed upon suggestions around service improvement. This meant that the focus was a positive rather than a negative.
- The audit was conducted in an open and transparent way, with regular communication, and a real sense that our information was taken on board and understood.

These comments are consistent with the comments received across all clients.

It is clearly important for any audit service to keep abreast of best professional practice. Warwickshire Internal Audit Services are fortunate in having strong links with colleagues both within the midlands and nationally. The service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. At a regional level there are networking opportunities for auditors specialising in police audit. As well as good opportunities for sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

The PCCs and Forces can be confident that a best practice quality internal audit service continues to be provided.

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## Opinion

It is the responsibility of both PCCs and Chief Constables to develop and maintain their internal control framework. In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the respective organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance. The work of internal audit is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, I have taken into account:

- all audits completed during the year;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- Anticipated outcome from audits currently in draft;
- work in progress;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Organisation's systems; and
- matters arising from previous reports to the Audit Committee.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. The full and substantial opinion audits include a number on major items of expenditure (for example Payroll, Creditors and Capital) and key

risk areas (for example Treasury Management). However, it is clearly important that issues identified during the year are addressed.

Based upon the results of work undertaken during the year my opinion is that the control environments operated by Warwickshire and West Mercia Police and Crime Commissioners and the Strategic Alliance provide **substantial** assurance that the significant risks facing their respective organisations are addressed.

**Garry Rollason**  
**Head of Audit**

**Jackie Sparkes**  
**Contract Manager**

## Appendix A: Summary of audits either completed since previous report or currently issued in draft.

Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
Creditors	<p>The objective of the audit was to provide an assurance opinion on the overall management of Creditors and procurement cards. The creditor system controls overall were sound consequently a substantial assurance opinion has been given but a number of issues arose with the use and management of procurement cards covering a minor element of total expenditure. These include:</p> <ul style="list-style-type: none"> <li>• Purchase cardholders are not asked to sign employee undertaking forms to confirm that they understand their responsibilities for holding a purchase card and agreement to the procedures for the Alliance's purchase card scheme.</li> <li>• A number of purchase card holders do not have their transaction logs countersigned by another manager to demonstrate that their log and card statement has been reviewed and that expenditure is appropriate.</li> <li>• Exception reports are not used to identify potential inappropriate purchase card transactions or monitor expenditure such as high value transactions and expenditure against certain categories.</li> <li>• Receipts not always provided to evidence expenditure incurred.</li> </ul>	Substantial	0	3	3
Payroll	The objective of this audit was to provide an assurance opinion on the management of risks	Full	0	0	1



Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
	<p>associated with the payroll systems and processes in place. Only one issue was identified:</p> <ul style="list-style-type: none"> <li>Salary parameters for police staff had not been updated to reflect the most recent pay Circular issued by the Police Staff Council. Circular 88 was issued in October 2016 to address rounding errors (the variances amounted to £1.50 per employee affected) contained in the circular for the September 2016 national pay award. The Payroll Manager took immediate action to correct the salary scale points affected.</li> </ul>				
Contract Management	<p>The objective of the audit was to provide an opinion on the overall arrangements in place with regard to Contract Management.</p> <p>Our key concerns are as follows:</p> <ul style="list-style-type: none"> <li>Performance indicators are not always in place and performance expectations are not always clear.</li> <li>Contract monitoring arrangements are not always in place and/or there is no audit trail over contract monitoring.</li> <li>Contracts are not always independently reviewed, and some errors were noted within contracts reviewed, which could have implications for managing contracts.</li> <li>There was not always a sound audit trail in place as regards contract extensions.</li> </ul>	Limited	1	7	1

Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
	<ul style="list-style-type: none"> <li>Instances were identified where the charges for goods/services were not verified against the contract.</li> </ul>				
Safer Roads Partnership – Income & Expenditure	<p>The objective of the audit was to provide an opinion on the overall arrangements in place with regard to income and expenditure associated with the Safer Roads Partnership.</p> <p>Our key concerns are as follows:</p> <ul style="list-style-type: none"> <li>There is no strategic plan in place for the use of reserves. Whilst it was apparent from discussions held with the Partnership Manager and the Road Safety Operations Manager that there are some plans around how reserves will be used, these are not documented.</li> <li>In West Mercia, half of motorway enforcement income received is paid into the Operational Support Budget, however all costs associated with motorway enforcement are paid via the Safer Roads Budget.</li> <li>The ownership of cameras and vehicles is not clear in Warwickshire, and this could lead to potential issues in any future changes to the current arrangements.</li> </ul>	Substantial	0	3	1
Treasury Management#	The objective of the audit was to provide an opinion on the overall arrangements in place with regard to Treasury Management and the extent to	Substantial	0	1	2

Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
	<p>which existing controls are operating and are effective.</p> <p>Our key concerns include:</p> <ul style="list-style-type: none"> <li>• There is no independent check of the calculation of the amount to be invested prior to the deal being arranged with the brokers.</li> <li>• Current staffing levels mean that cover for the Treasury Management function is limited. Although there are other members of staff trained to undertake the daily dealing procedures the process notes have not been updated to include the arrangements for updating the Lloyds banking system for any transactions relating to Warwickshire.</li> </ul>				
Crime Property & Cash Handling#	<p>A sample of 5 Police Stations across both Forces was visited and each received a report highlighting the key findings and areas of best practice. Following these visits a combined report has been prepared.</p> <p>Cash handling in all locations visited is generally well controlled with no significant issues found.</p> <p>There has been a considerable improvement in Crime Property overall and all items of property in the samples selected were located successfully. However, a number of procedural non-compliances were identified including:</p>	Moderate	0	3	2

Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
	<ul style="list-style-type: none"> <li>• A small number of items of cash were not stored in cash only bags in 3 of the 5 locations;</li> <li>• Some items in the sample were not corroborated in 2 of the 5 locations;</li> <li>• A “main safe” in one location was only a filing cabinet;</li> <li>• Records on Property Management System (PMS) not updated promptly in 2 of the 5 locations;</li> <li>• A small number of seal numbers not recorded on PMS in 2 of the 5 locations;</li> <li>• Old storage locations were recorded on PMS for Firearms and green ‘made safe’ labels were not always attached in one location;</li> <li>• Keys for lockable property cabinets not securely stored in 2 of the 5 locations however key safes are now in place following the audit;</li> <li>• Items returned to owner had not been marked as such on PMS meaning they remain ‘current’ in one location;</li> </ul>				
West Mercia Youth Justice Service (YOS)	<p>The objective of the audit was to provide an opinion on the effectiveness of the controls and arrangements in place within the Youth Justice Service.</p> <p>Our key concerns are as follows:</p> <ul style="list-style-type: none"> <li>• The Terms of Reference for the Management Board have not been reviewed and updated to reflect the change in hosting arrangements</li> </ul>	Substantial	0	3	0

Audit	Key findings	Opinion on level of assurance provided by controls	Number of recommendations		
			Funda-mental	Significant	Merits Attention
	<p>from Worcestershire County Council to the Office of the Police and Crime Commissioner.</p> <ul style="list-style-type: none"> <li>• The Scheme of Delegation has not been updated following the recent restructuring of the Service.</li> <li>• The review of a sample of 15 purchase orders identified 6 where the order was not raised and authorised until after the invoice had been received.</li> </ul>				
Covert Funds#	<p>The objective of the audit is to provide an opinion on the overall management of Covert funds at Warwickshire Police and West Mercia Police. Processes were sound with issues only being identified in connection with the operation of an imprest account. This is a sensitive topic and further details have been provided to the Chair.</p>	Substantial	0	2	2

# indicates audits only in draft at time of writing.

## Appendix B: Summary of progress against the 2016/17 workplan

Topic	Latest Status	Opinion on level of assurance provided by controls.
<b>PCCs</b>		
West Mercia Youth Justice Service (YOS)	Final report issued	Substantial
<b>Chief Constables<sup>1</sup></b>		
Change Programme	Advice provided	N/A
IT – Service delivery standards	In progress	
IT – Programme/projects benefits realisation	In progress	
Crime Property#	Draft report issued	Moderate
Demand Management	Deferred	
Capital Programme Management	Final report issued	Substantial
Vetting	Final report issued	Moderate
Health and Wellbeing	Final report issued	Substantial
Bank Reconciliation	Final report issued	Substantial
Partnerships (including Place Partnership, Warwickshire MASH and regional collaborations)	In progress (further work requested)	
IT – Active Directory management	In progress	
Covert Funds#	Draft report issued	Substantial
Risk Management (Forces only)	Final report issued	Moderate
Treasury Management#	Draft report issued	Substantial
Cashiers/Collection of Income	Final report issued	Substantial
Creditors including Purchase Cards	Final report issued	Substantial
Contract Management	Final report issued	Limited

<sup>1</sup> Unless otherwise stated these jobs cover both forces.

Topic	Latest Status	Opinion on level of assurance provided by controls.
Firearms Licensing	Deferred	
Payroll	Final report issued	Full
<b>Reserve Jobs</b>		
Safer Roads Partnership	Final report issued	Substantial
<b>Completion of 2015/2016 audits</b>		
Pensions Data Migration	Final report issued	Substantial

#Indicates audits only in draft at time of writing.