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Office of the Police & Crime Commissioner for Nottinghamshire and Nottinghamshire Police
Draft Internal Audit Annual Report 2015/16

May 2016

This report has been prepared on the basis of the limitations set out on page 13.

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01   Introduction

Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police during the 2015/16 financial year, the service for which is provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);

- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and

- A statement on conformation with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;

- The disclosure of any impairments or restriction in scope;

- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;

- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and

- Progress against any improvement plans resulting from QAIP external assessment.

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.

Internal audit provides the Police and Crime Commissioner and Chief Constable, through the Joint Audit & Scrutiny Panel (JASP), 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.

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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.

02   Head of Internal Audit Opinion

Opinions

From the Internal Audit work undertaken in compliance with the Public Sector Internal Audit Standards (PSIAS) for the year ending 31st March 2016, we can provide the following opinions:

ASSURANCE - POLICE & CRIME COMMISSIONER

Our overall opinion is that generally adequate and effective risk management, control and governance processes were in place to manage the achievement of the organisation's objectives. We have, however, identified weaknesses in respect of financial controls that require addressing.

ASSURANCE - CHIEF CONSTABLE

Our overall opinion is that generally adequate and effective risk management, control and governance processes were in place to manage the achievement of the organisation's objectives. We have, however, identified weaknesses in respect of financial controls and some other operational areas that require addressing.

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Basis of the Opinion

Internal Audit applies a risk-based approach and our audits assess the governance framework, the risk management process, as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we can provide assurance that management have in place a generally effective control environment and, whilst further remedial actions are needed in some areas, we are assured that management have in place an effective processes for the implementation of identified areas of weakness.

Corporate Governance

As part of our work this year, we undertook an audit of the controls and processes in place in respect of the Joint Code of Corporate Governance. The specific areas that formed part of this review included: legislation and guidance, production of the annual governance statement's, performance monitoring, roles and responsibilities and the decision making framework. We provided a significant assurance opinion and concluded that risks in terms of the joint corporate governance framework are overall being managed effectively. The arrangements are clearly defined within the 'Corporate Governance and Working Together 2014/18' document which is widely available and published on the Nottinghamshire Police & Crime Commissioner's website.

Risk Management

During the course of delivering the audit programme a key element of each audit scope is to evaluate the control environment and, in particular, how key risks are being managed. As summarised in the 'Internal Control' section belo, we were, on the whole, able to place reliance on the systems of internal control, albeit there are a number of areas where remedial action is required in order to strengthen the control environment. More details are provided in Appendix A2 – Audit Projects with Limited and Nil Assurance 2015/16.

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Internal Control

In summarising the opinions provided as part of the 2015/16 audit programme, as illustrated in the tables below, we have carried out ten audits of which one was of an advisory nature and no opinion was provided. Of the remaining nine audits, one (Core Financials) was split into five separate area opinions and covered both local controls and those in operation within the Multi-Force Shared Service (MFSS). In addition, we have carried out four collaborative audits, of which two were of an advisory nature and no opinion was provided.

The Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police have a generally sound control environment, although we have noted areas where improvements are required. During the 2015/16 year, 54% of internal audit projects received "significant" or "satisfactory assurance". During 2015/16 six (46%) internal audit areas were rated 'limited assurance'. It should be noted, however, that some of the opinions reflect the control environment outside of local control, for example, within EMSCU (Procurement) and the Multi-Force Shared Service (Core Financials). Further details of these audits is provided in Appendix A2 – Audit Projects with Limited and Nil Assurance 2015/16.

Of the four collaborative audits covering the East Midlands policing region, one was rated 'significant assurance', one was rated 'satisfactory assurance' whilst in two instances they related to advisory work and no audit opinion was provided.

The following tables provide a brief overview of the assurance gradings given as a consequence of audits carried out during 2015/16, split between those specific to Nottinghamshire and those undertaken as part of East Midlands regional collaborative audits. More details of the audit opinions and the priority of recommendations for all 2015/16 Internal Audit assignments is provided in Appendix A1 – Audit Opinions and Recommendations.

Nottinghamshire Only

Assurance Gradings	2015/16	
Significant	1	8%
Satisfactory	6	46%
Limited	6	46%
Nil	0	0%
Sub-Total	**13**[1]	
No opinion	1	
Total	**14**	

[1] Core Financials – issued as one report, although split into five areas / opinions.

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Collaboration Audits

Assurance Gradings	2015/16	
Significant	1	50%
Satisfactory	1	50%
Limited	0	0%
Nil	0	0%
Sub-Total	**2**	
No opinion	2	
Total	**4**	

In arriving at our overall audit opinion, and whilst acknowledging that further remedial actions are needed in some areas, we have been assured by management that processes have been put in place for the implementation of recommendations to address identified areas of weakness.

Issues relevant to Annual Governance Statement

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. Internal Audit, through its annual programme of activity, has a duty to bring to your attention any areas of weakness we believe should be considered when producing the Annual Governance Statement. As part of this responsibility, we have highlighted any limited or nil assurance reports within Appendix A2.

Restriction placed on the work of Internal Audit

As set out in the Audit Charter, we can confirm that Internal Audit had unrestricted right of access to all OPCC and Force records and information, both manual and computerised, cash, stores and other property or assets it considered necessary to fulfil its responsibilities.

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03   Performance

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	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.	90% (9/10) [1]
5	Issue of final report	Within 5 working days of agreement of responses.	100% (10/10) [1]
6	Follow-up of priority one recommendations	90% within four months. 100% within six months.	Achieved
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) [1]
9	Customer satisfaction (measured by survey)	85% average satisfactory or above	100% (3/3)

[1] Core Financials – issued as one report, although split into five areas / opinions.

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Quality and Conformance with the Public Sector Internal Audit Standards

In addition to the firm's overall policy and procedures, our internal audit manual and working papers are designed to ensure compliance with the Firm's quality requirements. Furthermore, our internal audit manual and approach are based on professional internal auditing standards issued by the Global Institute of Internal Auditors, as well as sector specific codes such as the Public Sector Internal Audit Standards.

Our methodology and work has been subject to review as part of our internal Quality Assurance Reviews undertaken by our Standards and Risk Management team as well as external scrutiny by the likes of external auditors, as well as other regulatory bodies. No adverse comments have been raised around our compliance with professional standards or our work not being able to be relied upon.

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Appendix A1 - Audit Opinions and Recommendations 2015/16

Auditable Area	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
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Joint Code of Corporate Governance	Final	Satisfactory	-	-	2	2
Core Financials[1]	Final		5	6	2	13
General Ledger		Satisfactory	-	-	-	-
Cash & Bank		Significant	-	-	-	-
Creditors		Limited	-	-	-	-
Debtors		Satisfactory	-	-	-	-
Payroll		Limited	-	-	-	-
Payment Processes & Procedures	Final	Limited	1	2	-	3
Integrated Offender Management	Final	Satisfactory	-	1	2	3
Victims Code of Practice	Final	Limited	2	6	2	10
Savings Programme	Final	Limited	2	3		5
Proceeds of Crime	Final	Satisfactory	-	2	2	4

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Auditable Area	Report Status	Assurance Opinion		Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Procurement	Final	Local - Limited	EMSCU – Limited	3	7	1	11
Commissioning – Community Safety	Final	Satisfactory		-	3	2	5
Social Value Impact	Draft	No opinion given		-	-	-	-
Nottinghamshire Only				**13**	**30**	**13**	**56**

[1] Core Financials – whilst one report was issued which provided an overall limited assurance opinion, individual opinions were provided for each area of the audit. It should be noted that much of the work was carried out within the Multi-Force Shared Service (MFSS), with a number of the recommendations relating to processes within the MFSS.

Auditable Area	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Collaboration						
Forensics	Final	Satisfactory	-	3	2	5
Officers in Kind	Draft	Significant	-	-	3	3
PCC Board Governance	Draft	N/A	-	3	4	7
Covert Payments	Draft	N/A	-	2	1	3
Collaboration Total			**-**	**8**	**10**	**18**

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Appendix A2 - Audit Projects with Limited and Nil Assurance 2015/16

Project	Grading	Summary of Key Findings
Core Financial Systems	**Limited**	Whilst one report was issued, the audit covered a number of specific areas – General Ledger, Cash & Bank, Creditors, Debtors and Payroll. A limited assurance opinion was given in respect of Creditors and Payroll, although it should be noted that part of the opinion reflects the control environment outside of local control, for example, within the Multi-Force Shared Service (MFSS). We raised five priority 1 recommendations, six priority 2 recommendations and two priority 3 recommendations where we believe there is scope for improvement within the control environment. The priority 1 recommendations are set out below: • Segregation of duties should be introduced into the process for creating or amending supplier details within Oracle. In addition, new suppliers should only be set up upon receipt of an approved new supplier form and this should include key details that then can be verified by MFSS, for example identification of directors of the company so the reputation and current financial status of the company can be verified. Consideration should be given to reviewing a sample of new suppliers set up since the implementation of MFSS processes to ensure appropriate checks have been made. • Negotiation should take place between the Nottinghamshire Office of the Police & Crime Commission, Nottinghamshire Police and MFSS to establish how the current authorisation limits, as agreed within the scheme of delegation, can be embedded into the current purchasing process. All approval of purchases should then be in line with the agreed Scheme of Delegation and Financial Regulations. • The Purchasing Process and controls/ access within Oracle system should be reviewed to ensure that at least two members of staff are involved in the ordering, receipt and payment approval process for goods and services which exceed the value of £250. • Leaver notifications should be submitted by managers within the Force at the point the employee makes their resignation. MFSS should liaise with HR to ensure that notifications are forwarded to them at the earliest opportunity.

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		MFSS should ensure that service requests are timely allocated to Payroll to allow records to be updated and the Payroll closed. Payroll Officers should implement adequate checking processes to ensure that all requests for unpaid leave are actioned in a timely manner. • The Force should review its expense policy to ensure it remains fit for purpose and includes clear guidance on all categories of expenses and which are appropriate to be claimed through the self-serve systems. The review should also ensure that authorised limits for categories of expenditure remain valid. Consideration should also be given to instructing staff to provide uploaded receipts for all claims made to instil further accountability in the self-serve process and ensure claims identified through the spot check processes are not delayed through missing receipts. Following review and update, the policy should be reissued to all officers and staff to ensure awareness and compliance. This should include consequences for staff who breach the policy. Overpayments made to staff who have claimed invalid or inappropriate rates for expenses should also be recouped by the Force.
Payment Processes & Procedures	Limited	We raised one priority 1 recommendation and two priority 2 recommendations where we believe there is scope for improvement within the control environment. The priority 1 recommendation was in respect of the following: • The NOPCC should request the following from the Force lead and MFSS: ➢ The option to approve without authorisation is removed. ➢ That an analysis print is of all payments made to date without authorisation across the Force and OPCC. That this printout is checked in detail as to the validity of those payments.
Victims Code of Practice	Limited	We raised two priority 1 recommendations, six priority 2 recommendations and two priority 3 recommendations where we believe there is scope for improvement within the control environment. The priority 1 recommendations are set out below:

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		• All victims should be provided with the Victim Information Pack and/ or referred to the information available on the Nottinghamshire Police Victim website. Confirmation that this information has been communicated should be recorded on the VCOP working sheet within the CRMS. • The reports detailing officers who are still to complete the Victims Code training should be located and the system for following up non-compliance established to provide assurance that all officers are adequately trained to ensure compliance with the Code.
Procurement	**Limited**	Our audit opinion was split between the control environment within the shared East Midlands Strategic Commercial Unit (EMSCU), who a responsible for procurement above £25k, and that which are the responsibility of Nottinghamshire Police at a local level. Responsibility for the recommendations raised were divided into EMSCU and local level action managers. We raised three priority 1 recommendations, seven priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. The priority 1 recommendations are set out below: • Contracts should be in place for all purchases over £25,000 and these should be signed by all parties prior to the commencement of the contract. (EMSCU responsibility) • A formal approval process should be established within the Force before new suppliers are entered on the Oracle system. The Force should ensure that the MFSS does not pay any supplier who has not already been approved. (Local Responsibility) Management should look to implement an exception reporting system in conjunction with MFSS team from the finance system. The exception reports should look to identify, as a minimum: ➢ Duplicate invoice numbers; ➢ Invoices paid without a purchase order; ➢ Purchase orders raised without an approved requisition; ➢ Purchase orders raised after the invoice; ➢ Changes in supplier details; ➢ New suppliers added to the system. The frequency and detail of these reports needs to be established. The responsibility for monitoring this information within the Force should be clearly identified. (Local Responsibility)

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Savings Programme	Limited	We raised two priority 1 recommendations and three priority 2 recommendations where we believe there is scope for improvement within the control environment. The priority 1 recommendation was in respect of the following:
		• Management should produce a detailed procedural document to support the finance strategy setting out the exact process to be followed for developing, delivering and reporting against the savings programme.
		• Management should agree on the approach which is to be taken to address the shortfall. This should be formally approved at Board level and then monitored regularly to make sure the delivery of this is achieved.

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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.

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Appendix A4 - Contact Details

Contact Details

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Appendix 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.

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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