



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

Internal Audit Progress Report 2015/16 & 2016/17

June 2016

Presented to the Joint Audit & Scrutiny Panel meeting of: 30th June 2016

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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 2016, together with progress on delivering the 2016/17 Internal Audit Plan which was 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 in 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 2015/16 plan since the last progress report to the JASP, these being in respect of Commissioning and the Savings Programme, the latter being an additional audit to that in the approved plan. A summary of the Savings Programme report was provided in the progress report presented at the 11th February 2016 meeting of the JASP. Additionally, the draft report in respect of Social Impact & Value has been issued and we await management's response. Further details in respect of these reports are provided in Appendix A1.

Nottinghamshire 2015/16 Audits	Report Status	Assurance Opinion		Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Joint Code of Corporate Governance	Final	Satisfactory				2	2
Core Financials	Draft	Limited		5	6	2	11
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	Draft	Limited		2	3		5
Proceeds of Crime	Final	Satisfactory			2	2	4
Procurement	Final	Local - Limited	EMSCU - Limited	3	7	1	11

Nottinghamshire 2015/16 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Commissioning	Final	Satisfactory		3	2	5
Social Impact & Value	Draft	N/A	-	-	-	-
Total			13	30	12	44

- 2.2 As reported in the last progress report, Internal Audit were tasked with undertaking four audits of collaborative arrangements across the region. At the time of writing we have issued one final report, in respect of Forensics, whilst draft reports have been issued in respect of the other three audits and we are awaiting management's comments. Further details are provided in Appendix 1, including the scope of the three reports that are currently in draft, the details of which will be presented at the next JASP.

Collaboration 2015/16 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Forensics	Final	Satisfactory	-	3	2	5
Officers in Kind	Draft					
Covert Payments	Draft					
PCC Board Governance	Draft					
Total			0	3	2	5

2.3 Work in respect of the 2016/17 internal audit plan is underway and, to date, we have issued three draft reports in respect of the Implementation of DMS, Estates Strategy and Establishment Reconciliation, the latter two being additional requests for advisory work from that in the original approved plan, where we await management's response.

Nottinghamshire 2016/17 Audits	Report Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Implementation of DMS	Draft					
Estates Strategy	Draft					
Establishment Reconciliation	Draft					
Total						

2.4 We are in the process of agreeing the scopes of a number of audits that will be carried out over the coming months. These include Risk Management, Savings Programme Follow-up, Data Protection Act Compliance and Effective Audit & Scrutiny. Further details are provided within Appendix A3.

03 Performance 2015/16

3.1 The following table details the Internal Audit Service performance for the year ending 31st March 2016 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)

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

Appendix A1 – Summary of Reports 2015/16

Final Reports

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 meeting of the JASP relating to the 2015/16 Internal Audit Plan:

Commissioning – Community Experience

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

Our audit considered the risks relating to the following areas:

Governance Arrangements

Roles and responsibilities, decision making processes, monitoring and reporting requirements are clearly defined within the Commissioning process to ensure a transparent and well managed 'end to end' process.

Commissioning end to end service.

The approach to Commissioning provides a holistic end-to-end service for Community Safety (reference Commissioning Academy best practice and guidance).

Partnership Arrangements

There are effective oversight and governance arrangements to ensure effective partnership arrangements in relation to the Commissioning process.

Information sharing exists between the partner organisations to ensure that utilisation of Community Safety monies are effective and in line with associated objectives.

Opportunities for joint spending are identified to effectively utilise the available budget and maximise outcomes for Community Safety.

Financial Monitoring/ Funding Impact

Expenditure is monitored to ensure that it is in line with fund requirements.

There is a transparent decision making process across the organisations in respect of allocation of budget to individual projects.

The considerations arising from the Grant Thornton Funding and Impact report have been embedded in current processes.

Outcomes

Monitoring and reporting of projects is undertaken to ensure that outcomes are being achieved and to minimise the risk of duplication.

We raised three significant (priority 2) recommendations where felt that the control environment could be improved. These related to the following:

- A Commissioning Framework should be finalised, including best practice, and communicated to the OPCC’s partners to support effective commissioning across the County.
- A performance reporting framework should be in place to provide a clear and consistent approach that could be adopted by all partners to ensure the OPCC is able to have an efficient and effective performance monitoring of all Community Safety Funds.
- The Independent Review Report should be discussed with partner organisations to ensure that the recommendations that it raises have been fully understood and actions agreed to ensure that weaknesses are addressed and opportunities to improve processes are taken.

Management have confirmed that all agreed actions will be completed by 30th June 2016.

Forensics

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

The East Midlands Special Operations Unit (EMSOU) is a regional tasking structure which has, for more than a decade, made use of expertise and resources from within the East Midlands police forces to investigate many of the most serious crimes which affect the region. EMSOU is an amalgamation of certain key resources provided by the forces to be deployed throughout the region as and when there is an investigative need. Forensic Services (EMSOU-FS) is one of five main branches of EMSOU’s work.

Our audit considered the following area objectives:

- *Governance, Performance Monitoring and Accountability* - There are effective arrangements in place to ensure performance (both operational and financial) is effectively monitored with regular reporting and accountability measures through an appropriate governance structure.
- *Expenditure and budget management processes* - Roles and responsibilities in respect of budget management and oversight of expenditure are appropriate. Appropriate internal control systems and delegations exist to ensure that expenditure from the retained Force Forensic budgets is appropriately managed and there are adequate controls around the ordering, receipting and payment processes in respect of those budgets.
- *Work for external bodies and associated income* - Work for external bodies is appropriately approved, managed and monitored. Processes ensure that debtors are raised for the provision of services provided by Forensics and that income is subsequently realised within the associated budget.

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

- The current dip sampling process should be documented to include the percentage of invoices subject to verification each month and the approach taken for selection of the sample. In addition, the outcome of the checks should be evidenced to provide assurance that these have been completed and reliance can be placed on this risk-based approach.

It is noted, however, that the new marketing approach proposed for Forensic Services for implementation in August 2016, would negate the need for the dip sampling process in this regard, as procurement would be based on a fixed annual contract value rather than the current 'pay as you go' model.

- Official orders should be raised for goods or services or alternatively be agreed within the list of exemptions approved by Derbyshire Police.
- All works for external bodies (current and future) should be formalised in an agreement to include outline agreed services, associated charges and insurance arrangements. This should be approved by the Director of Finance (where works are not expected to exceed £200k per annum).

Management confirmed that all actions will be undertaken by 30th June 2016.

Draft Reports

In this section we provide brief summaries of the scope of those audits relating to the 2015/16 Internal Audit Plan for which the reports are currently in draft. Management are currently considering their responses and full details will be included in the next progress report once the final reports have been issued.

Social Impact & Value

In line with the approved Internal Audit Plan for 2015/16 for the Office of the Nottinghamshire Police and Crime Commissioner and Nottinghamshire Police, we have undertaken an audit of controls in place in respect of Social Value as prescribed in the Public Services (Social Value) Act 2012.

In agreement with Senior Management within the OPCC, this review has been undertaken as an advisory piece of work to assess the current requirements of the Act against the processes already in place within the OPCC and Force and to advise on action to be taken to address any gaps in compliance or opportunities for improvement.

The specific areas that formed part of this review included: Social Value strategies, associated methodologies, governance and purchasing arrangements and measurement and reporting of requirements.

It was concluded that although the OPCC and Force have wider policies in place which go some way to addressing the requirements of the Public Services (Social Value) Act 2012, there are areas that need to be addressed to ensure full compliance and embed processes as business as usual. The documentation, approval and roll out of a dedicated Social Value Policy will allow guidance for those with key procurement and commissioning responsibilities and ensure social value forms part of routine procurement processes, tender requirements and ongoing contract monitoring. Once this has been introduced, it will provide a basis for ongoing compliance to be monitored and a further internal audit review can be undertaken to ensure new controls are operating effectively.

We provide an action plan which included recommendations for areas where controls in respect of Social Value can be improved or implementation to ensure compliance with the Public Services (Social Value) Act for future procurement and commissioning within the OPCC and Force:

- Nottinghamshire OPCC should document a social value policy in consultation with both the Force and EMSCU as their procurement partner. This should act as a framework and guidance to inform social value commissioning across the organisation and have defined links to the organisational priorities, well-being of the local area and also EMSCU procurement strategies.

The policy should also outline requirements of a procurement strategy, public consultation and needs analysis and also define roles and responsibilities for key staff.

- For further tender adverts where expenditure is expected to exceed the EU threshold, the suggested template as defined by the Social Enterprise UK should be included so that potential bidders are aware of requirements in this area. In addition, specific weighting allocation should be assigned to the Social Value elements of bids to demonstrate compliance with the Act and to ensure value for money is achieved in this area.

- The OPCC should ensure that for all contract extensions, EMSCU are giving consideration to social value requirements and, where these do not exist, reviews should be undertaken at the time of extension or renewal to ensure clauses are added where appropriate.

Effective contract management/ monitoring arrangements should be in place to measure social value in terms of contract outcomes, with reporting to management to ensure value for money in this area to be quantified and reported.

- The requirements of Social Value should be communicated to key staff with responsibilities for procurement, commissioning and contract monitoring to ensure they understand the required approach in terms of achieving value for money and compliance with the Public Services (Social Value) Act 2012.

Officers in Kind

The audit review considered the following control objectives:

- There are clear and agreed procedures in place between EMSOU and each regional force with regards the funding model for officers in kind.
- Costings in respect of officer in kind funding are understood, accurate, supported by a clear funding model and are communicated to the regional forces in a timely manner.
- Estimates of each forces contribution are given at the outset and supported by monthly outturn projections.
- Charges made to the regional forces are supported by clear documentation / funding assumptions.
- Variations to the number and grade of officers provided by each regional force are taken into account within the funding model, including year-end adjustments.
- There is clear, timely and complete management information in place to support the funding model and to enable forces to manage their budgets.
- Each regional force has sound budget processes in place that enable them to manage officer in kind payments, including projected year-end adjustments.
- The current accounting procedure and process for the treatment of Officers in Kind is an efficient and effective model for the secondment of officers working in regional units.

Covert Payments

The audit review considered the following control objectives:

- Procedures and policies are in place to support the effective administration of the function and are communicated to all relevant staff.
- There are clear and understood procedures in place for the authorization and setting up of bank accounts.
- Transfers between bank accounts are approved and documented.
- Systems and data are adequately protected to reduce the risk of them being open to abuse.
- New and amended vendor details can only be processed by authorised officers.
- There are agreed and effective processes in place for the authorisation of covert payments.
- Payments made in respect of covert activities are valid and appropriate.
- There are effective controls in place with regards accounting for covert payments.
- Timely and accurate management / payment information is available to support the delivery of covert activities.

PCC Board Governance

Our audit considered the following area objectives:

- *Governance Arrangements* - There are defined arrangements for the Board with documented roles and responsibilities, accountability and decision making processes. Structure of meetings is effective and outcomes, actions and decisions are well documented.
- *Collaboration Arrangements* - There is effective oversight of Section 22 collaboration arrangements to ensure the effective use of resources and delivery of required outcomes.
- *Decision Making* - Decision making processes are clearly defined and operate effectively to ensure transparency in terms of value for money and effective use of resources.
- *Change Management* - Horizon scanning is undertaken to ensure informed change managements. Considerations of changes in responsibility and 'churn' of officers is embedded with the board operations.
- *Performance Management and Accountability* - There is a consistent approach to performance management and ensuring accountability of Chief Constables. Financial planning and budget approval for regional collaboration is consistent and effective.

Appendix A2 Internal Audit Plan 2015/16

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Core Assurance					
Joint Code of Corporate Governance	Aug 2015	Sept 2015	Nov 2015	Dec 2015	Final report issued.
Financial Controls – MFSS	Oct / Nov 2015	Nov 2015	Dec 2015	Feb 2016	Final report issued.
Financial Controls – PBS	Postponed	Postponed	Postponed	Postponed	Due to Strategic Alliance developments, audit postponed.
Strategic & Operational Risk					
Integrated Offender Management	Sept 2015	Oct 2015	Dec 2015	Dec 2015	Final report issued.
Social Impact / Value	Feb 2015	March 2016		June 2016	Draft report issued; awaiting management response.
Proceeds of Crime	July 2015	Sept 2015	Jan 2016	Dec 2015	Final report issued.
Commissioning	Feb 2016	Feb 2016	May 2016	June 2016	Final report issued.
Code of Practice for Victims of Crime	Sept 2015	Oct 2015	Dec 2015	Feb 2016	Final report issued.
Collaboration					
Procurement	Aug 2015	Oct 2015	Jan 2016	Dec 2015	Final report issued.
Officers in Kind	Nov 2015 – Mar 2016	Apr 2016	May 2016	June 2016	Draft report issued.
Forensics	Nov 2015 – Mar 2016	Apr 2016	May 2016	June 2016	Final report issued.
Covert Payments	Nov 2015 – Mar 2016	Apr 2016	May 2016	June 2016	Draft report issued.

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
PCC Board Governance	Nov 2015 – Mar 2016	Apr 2016	May 2016	June 2016	Draft report issued.
Other					
Payments Processes & Procedures	July 2015	Sept 2015	Oct 2015	Dec 2015	Final report issued.
Savings Programme	Aug 2015	Sept 2015	Feb 2016	Dec 2015	Final report issued.

Appendix A3 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			Sept 2016	
Core Financial Systems	Oct 2016			Dec 2016	
Procurement	Nov 2016			Feb 2017	
Strategic & Operational Risk					
Implementation of DMS	April 2016	May 2016		June 2016	Draft report issued.
Savings Programme Follow-up	Sept 2016			Dec 2016	
Human Resources	Jan 2017			Feb 2017	
Data Protection Act Compliance	Aug 2016			Dec 2016	
Data Quality	Dec 2016			Feb 2017	
Effective Audit & Scrutiny	July 2016			Sept 2017	
Collaboration					
Collaboration	Sept 2016 – Jan 2017			Dec 2016 & Feb 2017	

Auditable Area	Planned Fieldwork Date	Draft Report Date	Final Report Date	Target JASP	Comments
Other					
Estates Strategy	April 2016	May 2016		June 2016	Draft report issued.
Establishment Reconciliation	April 2016	May 2016		May 2016	Draft report issued.
Commissioning Framework	July 2016			Sept 2016	

Appendix A4 – 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 A5 - Contact Details

Contact Details

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A6 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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