

<b>For Information / Consideration</b>	
<b>Public/Non Public*</b>	<b>Public</b>
<b>Report to:</b>	<b>Audit and Scrutiny Panel</b>
<b>Date of Meeting:</b>	<b>30 May 2018</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Report Author:</b>	<b>Charlotte Radford</b>
<b>Other Contacts:</b>	<b>Brian Welch</b>
<b>Agenda Item:</b>	<b>5</b>

## **INTERNAL AUDIT ANNUAL ASSURANCE REPORT**

### **1. Purpose of the Report**

- 1.1 To provide members with the Annual Assurance Report of the Internal Audit Manager for work undertaken in 2017-18.

### **2. Recommendations**

- 2.1 Members are recommended to consider the report and.

### **3. Reasons for Recommendations**

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

### **4. Summary of Key Points**

- 4.1 The attached report details the work undertaken during 2017-18. The report summarises the audits undertaken and the findings of these audits.
- 4.2 The report also provides the assurance that members can obtain from the work undertaken. This is considered to be generally adequate with effective controls, processes and governance in place in both the OPCC and Force.
- 4.3 Significant areas of concern were identified in audits during 2017-18 and these will be followed-up in 2018-19.

### **5. Financial Implications and Budget Provision**

- 5.1 None as a direct result of this report.

### **6. Human Resources Implications**

- 6.1 None as a direct result of this report.

## **7. Equality Implications**

7.1 None as a direct result of this report.

## **8. Risk Management**

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

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

9.1 This report complies with good governance and financial regulations.

## **10. Changes in Legislation or other Legal Considerations**

10.1 None

## **11. Details of outcome of consultation**

11.1 Not applicable

## **12. Appendices**

12.1 Appendix A – Internal Audit Annual Assurance Report 2017-18



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

**Internal Audit Annual Report 2017/18**

April 2018

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 2017/18 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.

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 31<sup>st</sup> March 2018, we can provide the following opinions:



## 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 effective processes for the implementation of identified areas of weakness.

### Corporate Governance

Whilst no specific audit of Governance was carried out during 2017/18, we have carried out a number of audits where governance arrangements were a key aspect. Through the delivery of the internal audit plan and attendance at Joint Audit & Scrutiny Panel (JASP) meetings, we are satisfied that the governance framework for the Office of the Police and Crime Commissioner for Nottinghamshire and Nottinghamshire Police has been effective for the year ended 31<sup>st</sup> March 2018.

### Risk Management

During 2016/17 Internal Audit undertook an audit of the controls and processes in place in respect of risk management. The specific areas that formed part of these reviews included: policies and procedures; risk registers; risk mitigation; reporting arrangements and follow up of previous recommendations. At the time of that audit we identified weaknesses within the system of internal control, and non-compliance with the control framework, which put some of the Force and OPCC objectives at risk. We are, however, assured via the follow-up reports that have been presented to the JASP throughout 2017/18, actions are being taken to address the identified issues.

Whilst a specific audit of risk management was not carried during 2017/18, risk management at an operational level is considered during each of our audit assignments. During the course of delivering the 2017/18 audit programme, a key element of each audit scope was to evaluate the control environment and, in particular, how key risks were being managed. As summarised in the 'Internal Control' section below, we were able to place reliance on the systems of internal control and the manner in which risks were being managed by the Force and OPCC.

### Internal Control

In summarising the opinions provided as part of the 2017/18 audit programme, as illustrated in the tables below, we have carried out nine audits of which two were of an advisory nature, one of which related to an additional request for audit, 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 2017/18 year, five (71.4%) internal audits received "satisfactory assurance", whilst two (28.6%) internal audits were rated 'limited assurance'. In addition, of the four collaborative audits covering the East Midlands policing region, all were rated at least 'satisfactory assurance'.

The following tables provide a brief overview of the assurance gradings given as a consequence of audits carried out during 2017/18, 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 2017/18 Internal Audit assignments is provided in Appendix A1 – Audit Opinions and Recommendations. In addition, further analysis of those areas where systems improvement are required are set out in Appendix A2 – Audit Projects with Limited and Nil Assurance 2017/18.

Nottinghamshire Only

Assurance Gradings	2017/18	
Significant	0	0%
Satisfactory	5	71.4%
Limited	2	28.6%
Nil	0	0%
<b>Sub-Total</b>	<b>7</b>	
No opinion	2	
<b>Total</b>	<b>9</b>	

Collaboration Audits

Assurance Gradings	2017/18	
Significant	2	50%
Satisfactory	2	50%
Limited	0	0%
Nil	0	0%
<b>Total</b>	<b>4</b>	

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.

## 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.

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

## 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.

## Appendix A1 - Audit Opinions and Recommendations 2017/18

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

Collaboration Audits 2017/18	Status	Assurance Opinion	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
EMCHRS Learning & Development <sup>1</sup>	Final	Satisfactory		2	3	5
EMSOU Forensic Services <sup>1</sup>	Final	Significant			3	3
EMCHRS Occupational Health <sup>1</sup>	Final	Significant			3	3
Criminal Justice (EMCJS) <sup>1</sup>	Final	Satisfactory		1	2	3
POCA <sup>1</sup>	Draft					
<b>Total</b>			<b>-</b>	<b>3</b>	<b>11</b>	<b>14</b>

<sup>1</sup> Denotes those collaborative arrangements which Nottinghamshire are a part of.

## Appendix A2 - Audit Projects with Limited and Nil Assurance 2017/18

Project	Grading	Summary of Key Findings
Road Safety Partnership	Limited	<p>We raised three priority 1 recommendations and two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:</p> <ul style="list-style-type: none"> <li>• The RSP Strategy should be reviewed and updated to ensure that it is aligned with the aims and objectives of its partners. The Strategy should explicitly set out the roles and responsibilities of partners and, in particular, the management of the RSP's finances and each partners responsibilities for joint funded activities. (Priority 1)</li> <li>• The review of the Strategy / Terms of Reference of the Partnership Board should include an analysis of its membership, ensuring that those who attend, and therefore make decisions, are of sufficient seniority and have delegated approval to make such decisions. (Priority 1)</li> <li>• A corrective action plan should be put in place to determine the income and expenditure of the partnership to ensure that a budget deficit for 2017/18 does not occur. (Priority 1)</li> <li>• Clear guidance should be produced, and communicated to the relevant staff / officers, with regards what is deemed to be relevant expenditure and can be charged to the partnership budget. (Priority 2)</li> <li>• The RSP should be required to produce an annual report which, amongst other things, sets out actual performance against it strategic aims, and provides a transparent record of expenditure made against the partnership budget. (Priority 2)</li> </ul>
Seized Property	Limited	<p>We raised five priority 1 recommendations, four priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. The priority 1 and 2 recommendations are set out below:</p> <ul style="list-style-type: none"> <li>• Officers should be reminded to ensure property is checked in and out correctly whenever property has been moved from the temporary locations. (Priority 1)</li> <li>• Cash should be stored securely in a safe at all times when not in use. This should be held within a holding safe or the main vaults at the Northern, Central or Southern Main Stores in line with the cash handling procedures. (Priority 1)</li> </ul>

		<ul style="list-style-type: none"> <li>• Access to the Temporary Stores should be restricted to only police officers or the Archive &amp; Exhibit Team who require access. Those who do not have a job related purpose should have their access to these areas removed. (Priority 1)</li> <li>• The Main Vault in the main stores should be subject to an audit on a periodic basis, every 6-12 months. This audit should be completed to ensure that all valuables and cash stated to be held in the vault is accounted for. (Priority 1)</li> <li>• Temporary Locations should be reviewed and audited during the collection and delivery runs. Where discrepancies are identified, these should be raised with the Officer in Case to verify the location of property. (Priority 1)</li> <li>• The Insurance Policy should be updated to ensure that the coverage limit matches that held within the Vaults at Nottinghamshire Police. This should include the use of the Vault by the East Midlands Special Operations Unit (EMSOU). (Priority 2)</li> <li>• Property should be logged onto Niche at the point of seizure, or earliest opportunity, prior to being placed in a temporary store. Items held within the temporary store that have not been appropriately logged should be raised with the responsible officer. (Priority 2)</li> <li>• Officers within the Force should be provided with further Niche Training in relation to the continuity of property management, including the checking in and out of property from temporary storage. (Priority 2)</li> <li>• Policies and Procedures in relation to seized property should be updated to reflect the current adopted process since implementation of Niche in February 2016. (Priority 2)</li> </ul>
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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
<b>Significant Assurance:</b>	There is a sound system of internal control designed to achieve the Organisation's objectives.	The control processes tested are being consistently applied.
<b>Satisfactory Assurance:</b>	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.
<b>Limited Assurance:</b>	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.
<b>No Assurance</b>	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
<b>Priority 1 (Fundamental)</b>	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
<b>Priority 2 (Significant)</b>	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
<b>Priority 3 (Housekeeping)</b>	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

### 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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