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Enquiries to: Mrs J Head  
Telephone: 01768 217226

Our reference: JH

13 March 2013

## **AGENDA**

**TO: THE MEMBERS OF THE JOINT AUDIT AND STANDARDS COMMITTEE**

### **CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT AND STANDARDS COMMITTEE**

A Meeting of the Joint Audit & Standards Committee will take place on **Thursday 21 March 2013** in **Conference Room Two**, Police Headquarters, Carleton Hall, Penrith, at **11.00 am**.

**S Edwards**  
**Chief Executive**

**Note:** Members are advised that allocated car parking for the meeting is available in the Visitors Car Park to the left of the main Headquarters building.

Please note – there will be a seminar session for the committee members from 10.00 am until 11.00 am

### **COMMITTEE MEMBERSHIP**

Mr Patrick Everingham (Chair)  
Mrs Fiona Daley  
Mr Andy Hampshire  
Mr John Jones

## Audit and Standards Committee Terms of Reference

### **Audit Activity**

- To approve, but not direct the Annual Audit Plans.
- To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give over the PCC's and Chief Constable's corporate governance arrangements.
- To consider internal and external audit and inspection reports and a report on the implementation of agreed audit recommendations.
- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance, ie the PCC and the Chief Constable, including the Annual Governance Statement and any changes to the local code of governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission and monitor the effectiveness of the work of the internal and external audit services.
- Advising on the appointment of external auditors.
- To meet privately and separately with External Auditors and Internal Auditors as required.
- To request relevant information from offices and seek their attendance at meetings.
- To review and determine Internal Auditors Terms of Reference.

### **Regulatory Framework**

- To maintain an overview of the constitution in respect of contract procedures rules, financial regulations and codes of conduct and behaviour.
- To review any issue referred to it by the statutory officers of the PCC and/or the Constabulary statutory officers.
- To oversee the production of the PCC's and Chief Constable's Governance Statement and to recommend its adoption.
- To monitor OPCC and Constabulary arrangements for anti-fraud and corruption and the OPCC and Chief Constable's complaints processes.
- To oversee the arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
- To consider the PCC and Chief Constable's compliance with its own and other published standards and controls.

### **Financial Reporting**

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns

arising from the financial statements or from the audit that need to be brought to the attention of the PCC/Chief Constable.

- To consider the external auditor' report to those charged with governance on issues arising from the audit of accounts and to report these to the OPCC and Chief Constable.
- To scrutinise reports dealing with treasury management activity in compliance with the treasury management code of practice and prior to their approval by the Police & Crime Commissioner.

### **Corporate Risk Management**

- To monitor the effective development and operation of risk management within the OPCC and Constabulary.
- Approving the OPCC and Constabulary corporate risk management strategy and framework; ensuring that an appropriate framework is in place for assessing and managing key risks to the OPCC and Constabulary.
- To assess, monitor and manage risks as to the Committee's effectiveness.

### **Standards Activity**

- Monitoring the operation and effectiveness of the PCCs' Code of Conduct
- Monitoring the operation and effectiveness of the PCC's /Officer Protocol.
- Granting dispensation to the PCC from requirements relating to interest set out in the PCC's Code of Conduct.
- To hear and determine appeals in relation to the OPCC's personnel policies and decisions of the Chief Executive where appropriate.
- To hear and determine appeals by Independent Custody Visitors and Independent Members of Police Misconduct Panels from decisions of the Chief Executive.

### **Miscellaneous**

- To receive any reports as necessary to the fulfilling of the statement of purpose and terms of reference
- To periodically review the effectiveness of the committee in fulfilling its role.
- Update from the Chief Finance Officers on current financial issues/developments.

# **AGENDA**

## **PART 1 – ITEMS TO BE CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC**

### **1. APOLOGIES FOR ABSENCE**

### **2. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC**

To consider (i) any urgent items of business and (ii) whether the press and public should be excluded from the Meeting during consideration of any Agenda item where there is likely disclosure of information exempt under s.100A(4) and Part I Schedule A of the Local Government Act 1972 and the public interest in not disclosing outweighs any public interest in disclosure.

### **3. DISCLOSURE OF PERSONAL INTERESTS**

Members are invited to disclose any personal/prejudicial interest which they may have in any of the items on the Agenda. If the personal interest is a prejudicial interest, then the individual member should not participate in a discussion of the matter and must withdraw from the meeting room unless a dispensation has previously been obtained.

### **4. MINUTES OF MEETING**

To receive and approve the minutes of the meeting held on Thursday 7<sup>th</sup> February 2013 and committee action sheet (copies enclosed)

### **5. GRANT THORNTON FEES 2012-13**

To receive from Grant Thornton UK LLP the External Audit Fee 2012-13 for  
(i) Office of the Police & Crime Commissioner; and  
(ii) Cumbria Constabulary

### **6. GRANT THORNTON AUDIT PLAN UPDATE**

To receive from Grant Thornton UK LLP an update and audit plan progress report (copy enclosed)

### **7. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS**

To receive an updated summary of actions implemented in response to audit and inspection recommendations (copy enclosed)

### **8. INTERNAL AUDIT PLAN 2012-13 – PROGRESS REPORT**

To receive a report from the Management Audit Unit regarding the progress of the Internal Audit Plan (copy enclosed)

**9. INTERNAL AUDIT REPORTS**

To receive reports from the Management Audit Unit regarding audits undertaken (copies enclosed)

- (i) Payroll
- (ii) Pensions
- (iii) Capital programme / asset register
- (iv) Creditors / procurement / petty cash / imprests
- (v) Data quality – crime recording
- (vi) Grade 1 follow up – Management of Change Costs

**10. INTERNAL AUDIT PLAN 2013-14**

To receive and consider a report from the Management Audit Unit regarding the proposed 2013-14 Internal Audit Plan (copy enclosed)

**11. TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 & PRUDENTIAL INDICATORS 2013/14 TO 2015/16**

To receive a joint report from the OPCC Chief Finance Officer and Cumbria Constabulary's Chief Finance Officer (copy enclosed)

**12. OPCC RISK MANAGEMENT STRATEGY**

To receive the 2013-14 Risk Management Strategy for the Office of the Police & Crime Commissioner (copy enclosed)

**13. DECEMBER MEETING**

Meeting dates have been arranged up to 23 September 2013. Members are asked to agree a date for a December meeting.

**PART 2 – ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC**

**14. STRATEGIC RISK**

To receive the Strategic Risk Registers for:

- (i) Cumbria Constabulary (copy enclosed)
- (ii) Office of the Police & Crime Commissioner (copy enclosed)
- (iii) Joint Audit & Standards Committee (copy enclosed)

# Joint Audit & Standards Committee – Action Sheet

Agenda Item	Action to be taken	Person Responsible	Report back to Cttee	Date Action Completed
<b>DATE OF MEETING: 14 December 2013</b>				
No 5 – Terms of Reference	(i) Committee members receive a copy of the Treasury Management Code of Practice;	Governance Manager	7/02/2013	(i) Copy provided to all members.
	(iii) committee receive quarterly reports regarding Treasury Management; and	OPCC CFO	Ongoing	(ii) Quarterly Treasury Management reports provided from 21/3/2013
	(iii) committee members receive a 1 hour training seminar in relation to Treasury Management prior to the next committee meeting in March.	OPCC CFO	21/03/2013	(iii) Seminar provide on 21/03/2013
	(iv) Committee members receive short briefings on any current issues of relevance.	OPCC & Constabulary	Ongoing	(iv) To be arranged when required.
<b>DATE OF MEETING: 7 February 2013</b>				
No 4 – Minutes of last meeting	(ii) An action sheet be produced following the production of the draft minutes and circulated appropriately;	Governance Manager	21/03/2013	(ii) Action Sheet produced
	(iii) Draft minutes be published on the Police & Crime Commissioner's website following their production;	Governance Manager	21/03/2013	(iii) Draft minutes published approximately 2 weeks following meeting
	(iv) The minutes of the meeting of 14 December be circulated to the Internal and External Auditors.	Governance Manager	21/03/2013	(iv) Copies of the updated minutes sent to Internal & External Auditors on 14/02/2013
No 5 – Committee Risk Register	(ii) members of the committee to administer their risk register identifying and reviewing the risks appropriately; and	Committee Members	Ongoing	Ongoing
	(iii) Governance Manager to ensure that the risk register is updated following the appropriate committee meetings.	Governance Manager	Ongoing	Ongoing
Other Audit Committees	Enquiries to be made with the Commissioner and Chief Constable as to whether the Committee Chair may use official letterhead to write to most similar force audit committees.	OPCC CFO	21/3/2013	Considered and agreed by the Executive Board on 22 February 2013



## **Agenda Item No 4**

### **CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY**

#### **JOINT AUDIT & STANDARDS COMMITTEE**

Minutes of a Meeting of the Joint Audit & Standards Committee held on  
Thursday 7 February 2013 in OPCC Meeting Room, Police Headquarters,  
Carleton Hall, Penrith, at 11:15 am

#### **PRESENT**

Mr Patrick Everingham (Chair)  
Mrs Fiona Daley  
Mr Andy Hampshire  
Mr Jack Jones

#### **Also present:**

Governance Manager (Joanne Head)

#### **PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC**

##### **11. APOLOGIES FOR ABSENCE**

No apologies for absence were received as all committee members were present.

##### **12. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC**

There were no items of urgent business to be discussed by the committee or any items which required any press or public to be excluded from the meeting whilst being discussed.

##### **13. DISCLOSURE OF PERSONAL INTERESTS**

There were no disclosures of any personal interest relating to any item on the Agenda.

##### **14. MINUTES OF MEETING HELD ON 14 DECEMBER 2012**

The minutes of the meeting held on 14 December 2012 had been circulated with the agenda.

With regard to Minute Number 5 - Terms of Reference, the members asked that the resolution be amended to include the agreement to have quarterly reports on Treasury Management presented to the committee; that an 1 hour seminar session would be held on Treasury Management prior to the next meeting in March; and that the committee members receive short briefings on any current issues of relevance.

In relation to Minute Number 9, Internal Audit – Progress Report, a member asked for clarification regarding the Treasury Management internal audit and that the recommendations



of the audit had been addressed. The Governance Manager would check with the OPCC Chief Finance Officer to clarify that the issues identified had in fact been addressed and amend the minutes accordingly.

A member asked whether or not an action sheet would be produced to monitor outstanding actions from meetings, thus ensuring that they were addressed at the next or subsequent meetings. The Governance Manager advised that this could be produced and circulated to the committee members and any relevant officers or auditors as soon as possible after the meeting to advise them of any actions required to be completed prior to the next meeting.

A member asked when the minutes would be made publically available and whether or not the Internal and External Auditors would have sight of them. The Governance Manager advised that draft minutes would be produced following the meeting and published on the Police & Crime Commissioner's website as a draft minute. These would then be presented to the next meeting of the committee and subsequent to approval the website would be updated accordingly. Copies of the minutes of the meeting held on 14 December 2013 would be provided to the Internal and External auditors to ensure that they were sighted on them.

- RESOLVED,**                    that,
- (i)     subject to the above amendments that the minutes be approved;
  - (ii)    an action sheet be produced following the production of the draft minutes and circulated appropriately;
  - (iii)   draft minutes of the open part of the meeting be published on the Police & Crime Commissioner's website following their production;
  - (iv)    the minutes of the meeting of 14 December be circulated to the Internal and External Auditors.

## **15.     JOINT AUDIT & STANDARDS COMMITTEE RISK REGISTER**

The committee members had a discussion on whether they should have their own risk register to identify the committee's and member risks. This would be a register in addition to the OPCC Strategic Risk Register and the Constabulary's Strategic Risk Register. The members agreed that in order for structures and processes to blend with the OPCC and the Constabulary a similar format for the committee's risk register to that of the two organisations would be used.

The members felt that they should have a process whereby they assessed their own risks enabling them to hold the Police & Crime Commissioner and the Constabulary to account. This would need to be carried out within the committee's framework and terms of reference. Members of the committee had been appointed to the committee on the basis of their skills and experience in many areas of work one of them being with regard to risk management. The consideration of committee risks would need to be carried out as part of the committee meetings and discussion was held on whether this should be in the open or closed part of the meeting.





Members considered that the actual register should be an open document, however if any elements of identified risks required further scrutiny or probing this may need to take place in a closed part of the meeting to ensure that issues were fully identified, discussed and where necessary challenged.

The Chair then asked the members to identify any risks they considered should be included in the risk register. It was recognised that any risk register would be a dynamic process and was likely to change with the committee becoming more established and the changing risk environment. A number of possible risks were identified which would be put onto a template and then emailed to the committee members to consider further.

A discussion then took place on the administration of the risk register. Following which it was agreed the members would be responsible for identifying and reviewing the committee's risks which would be undertaken at committee meetings and the register updated thereafter. Minimal administrative support would be required to assist the committee in this process and ensure that a copy of the committee's risk register was to be included on the committee's meeting agendas.

**RESOLVED** that, the

- (i) committee has its own risk register;
- (ii) members of the committee administer their risk register identifying and reviewing the risks appropriately; and
- (iii) Governance Manager to ensure that the risk register is updated and provided for the appropriate committee meetings.

## 16. OTHER AUDIT COMMITTEES

The Committee Chair asked whether the Commissioner and the Chief Constable would agree to him writing, using official letterhead, to other audit committees of most similar forces to ascertain:-

- How many members they had on their committee
- How frequently they were meeting
- Whether other audit committees had risk registers and if so what were their identified risks.

The Governance Manager stated that she would advise them of the request and update the Committee Chair accordingly. She advised the committee that they would be able to view other OPCC websites to get further information and these could be accessed via the Association of Police & Crime Commissioners (APCC) website. A member advised that they had accessed the APCC website which detailed essential criteria for audit committees. They were pleased to note that the OPCC and Constabulary's Joint Audit & Standards Committee meet the prescribed essential criteria.



**RESOLVED,**

that, enquiries be made with the Commissioner and Chief Constable as to whether the Committee Chair may use official letterhead to write to most similar force audit committees.

**Meeting ended at 12.05 am**

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_



# Grant Thornton

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Ms Ruth Hunter  
Treasurer / Deputy Chief Executive  
The Police and Crime Commissioner for Cumbria  
Carleton Hall  
PENRITH  
Cumbria  
CA10 2AU

Grant Thornton UK LLP  
95 Bothwell Street  
Glasgow  
G2 7JZ

T +44 (0)141 223 0000

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

27 February 2013

Dear Ruth

### **Planned audit fee for 2012/13**

We are delighted to have been appointed by the Audit Commission as auditors to the Office of the Police and Crime Commissioner (PCC) for Cumbria and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for your audit along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

For 2012/13, the Commission has independently set the scale fee for all bodies. Your scale fee for 2012/13 is £45,000. The scale fee for the Chief Constable's office is £20,000. The total fee for the audit of the Police and Crime Commissioner's group financial statements, including the statements of the Chief Constable, is £65,000. This compares to the audit fee of £74,589 for the Police Authority audit in 2011/12, and represents a reduction in total audit costs of 12.9%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: [www.audit-commission.gov.uk/scaleoffees1213](http://www.audit-commission.gov.uk/scaleoffees1213).

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

### **Value for money conclusion**

For police bodies in 2012/13, the Commission is continuing to disapply the specified value for money conclusion criteria relating to financial resilience and prioritising resources. Auditors are required to focus on the risks relating to the abolition of Police Authorities and the transition to the offices of the PCC and the CC, rather than giving their conclusion based on specified reporting criteria. These risks will, however, include consideration of relevant aspects of the two specified value for money criteria, recognising that police authorities have demised but their functions have transferred to the new bodies.

Before issuing our value for money conclusion we will:

- review the Annual Governance Statement (AGS);
- review the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on our responsibilities; and
- undertake local risk-based work taking into account guidance from the Audit Commission.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will continue to assess your arrangements and discuss any additional work required during the year.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess your arrangements and discuss any additional work required during the year.

### **Billing schedule**

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for £33,750 in March 2013 with normal quarterly billing thereafter. Our fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
March 2013	33,750
June 2013	11,250
<b>Total</b>	<b>45,000</b>

**Outline audit timetable**

We will undertake our audit planning and interim audit procedures between February and April 2013.. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in July to September 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	February to April 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of your accounts and VFM conclusion.
Final accounts audit	July to September 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for your consideration.
VFM conclusion	February to September 2013	Report to those charged with governance	As above
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter	The letter will summarise the findings of all aspects of our work.

**Our team**

The key members of the audit team for 2012/13 remain unchanged:

	Name	Phone Number	E-mail
Engagement Lead	Gina Martlew	0141 223 0890 / 07880 456155	<a href="mailto:Gina.F.Martlew@uk.gt.com">Gina.F.Martlew@uk.gt.com</a>
Engagement Manager	Richard McGahon	0141 223 0889 / 07880 456156	<a href="mailto:Richard.A.McGahon@uk.gt.com">Richard.A.McGahon@uk.gt.com</a>
Audit Executive	Richard Robinson	0141 223 0888	<a href="mailto:Richard.Robinson@uk.gt.com">Richard.Robinson@uk.gt.com</a>

**Additional work**

The scale fee excludes any work requested by you that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with you.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Head of Public Sector Assurance [Sarah.Howard@uk.gt.com](mailto:Sarah.Howard@uk.gt.com)

Yours sincerely

A handwritten signature in cursive script that reads "Gina Martlew". The ink is dark and the signature is fluid, with a large initial 'G'.

Gina Martlew (Engagement Lead)  
For Grant Thornton UK LLP



# Grant Thornton

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Mr Roger Marshall  
Head of Financial Services  
The Chief Constable for Cumbria Constabulary  
Carleton Hall  
PENRITH  
Cumbria  
CA10 2AU

Grant Thornton UK LLP  
95 Bothwell Street  
Glasgow  
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27 February 2013

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The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for your audit along with the scope and timing of our work and details of our team.

## **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

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The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

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<b>Main Audit fee</b>	<b>£</b>
March 2013	15,000
June 2013	5,000
<b>Total</b>	<b>20,000</b>



### Outline audit timetable

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### Additional work

The scale fee excludes any work requested by you that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with you.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Head of Public Sector Assurance [Sarah.Howard@uk.gt.com](mailto:Sarah.Howard@uk.gt.com)

Yours sincerely

A handwritten signature in dark ink, reading "Gina Martlew". The signature is fluid and cursive, with the first name "Gina" and last name "Martlew" clearly legible.

Gina Martlew (Engagement Lead)  
For Grant Thornton UK LLP



# Joint Audit and Standards Committee Update for Cumbria Police & Crime Commissioner and Cumbria Constabulary

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**Year ended 31 March 2013**

21 March 2013

**Gina Martlew**

Associate Director

T 0141 223 0890 or 07880 456155

E [gina.f.martlew@uk.gt.com](mailto:gina.f.martlew@uk.gt.com)

**Richard McGahon**

Manager

T 0141 223 0889 or 07880 456156

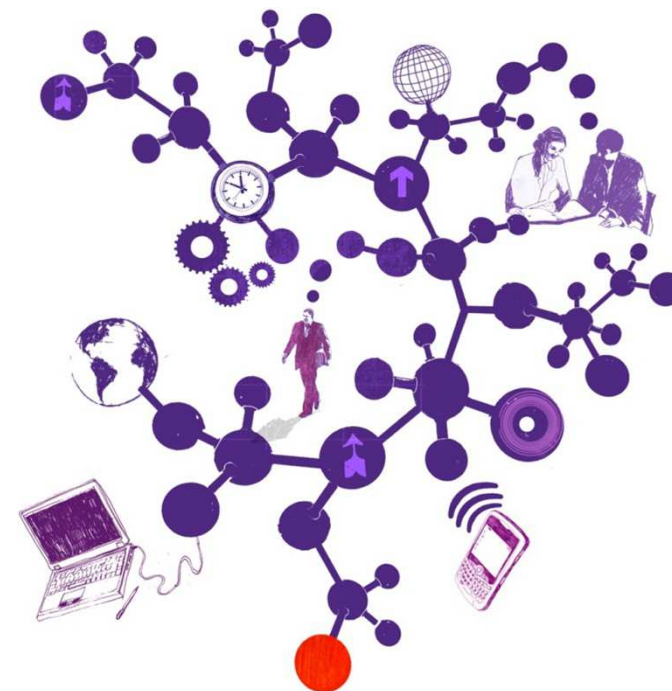
E [richard.a.mcgaon@uk.gt.com](mailto:richard.a.mcgaon@uk.gt.com)

**Richard Robinson**

Executive

T 0141 223 0888

E [richard.robinson@uk.gt.com](mailto:richard.robinson@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Joint Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also includes a summary of emerging national issues and developments that may be relevant to you as a Police and Crime Commissioner (PCC) or Chief Constable (CC) that you may wish to consider.

Members of the Joint Audit and Standards Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications such as:

- Local Government Governance Review 2013
- The developing internal audit agenda
- Preparing for the future
- Surviving the storm: how resilient are local authorities?

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Gina Martlew, Engagement Lead	T 0141 223 0890	M 07880 456156	<a href="mailto:gina.f.martlew@uk.gt.com">gina.f.martlew@uk.gt.com</a>
Richard McGahon, Manager	T 0141 223 0889	M 07880 456156	<a href="mailto:richard.a.mcgahon@uk.gt.com">richard.a.mcgahon@uk.gt.com</a>

# Progress at 5 March 2013

Work	Planned date	Done	Comments
<b>2012-13 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Police and Crime Commissioner (PCC) and the Chief Constable (CC) setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner's and Chief Constable's 2012-13 financial statements.	April 2013	Partial	The Audit Plan includes the results of the interim visit. The interim visit work is scheduled to be completed by early April 2013. The Plan will be presented to the next Joint Audit and Standards Committee after that date. This report provides an update on current progress, highlights emerging issues and gives the PCC and CC an understanding of the audit process at Grant Thornton.  The significant matter we have highlighted at this stage is the issue of accounting treatment and consideration of what is included within which set of accounts for 2012/13.
<b>Interim accounts audit</b> Our interim fieldwork visit will include the following: <ul style="list-style-type: none"> <li>• updated review of the PCC and CC control environment</li> <li>• update understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	March 2013	Partial	Work has started on the interim audit with the main work scheduled for March 2013. Officers are aware of the key financial systems we need to gain an updated understanding for 2012/13.  We have met with senior finance staff and internal audit to start to assess internal control environment.  The Information Technology risk assessment is planned for April 2013 and will be carried out by Grant Thornton IT specialists.  We are using VAT and employee services specialists to gain an understanding of the PCC's and CC's VAT and taxation environment. This review is scheduled to start in March 2013.  We had a joint liaison meeting with Internal Audit and senior finance staff from PCC and CC to discuss each other's plans.  We are currently working on our initial risk assessments for our Value for Money Conclusions.

# Progress at 5 March 2013

Work	Planned date	Done	Comments
<b>2012-13 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the PCC's and CC's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	19 July 2013 to early September 2013	No	<p>We are having discussions with the PCC and CC senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit.</p> <p>We are meeting on 22 March 2013 at a Grant Thornton Northern Police Seminar. This is aimed at auditors and practitioners discussing key aspects of the new accounting framework, key governance risks and challenges, lessons from the Metropolitan Police's experience last year and future challenges and issues.</p>
<b>Value for Money (VFM) conclusion</b> The scope of our work to inform the 2012/13 VFM conclusion is focused on the risks relating to the abolition of police authorities and the transition to the offices of the PCC and the CC. Before issuing our VFM Conclusion we will: <ul style="list-style-type: none"> <li>• review the Annual Governance Statements (AGS)</li> <li>• review the results of the work of the Commission, other relevant regulatory bodies and Her Majesty's Inspectorate of Constabulary (HMIC), to consider whether there is any impact on our responsibilities</li> <li>• undertake local risk-based work if required taking into account guidance from the Audit Commission.</li> </ul>	By early September 2013	No	<p>There are no significant changes in approach to the VFM conclusion work from the previous year with the focus being on the transition to PCC and CC.</p> <p>However, for 2012/13 we will be required to give separate VFM Conclusions on the PCC and the CC.</p>



# Emerging issues and developments

## Accounting and audit issues

### LAAP Bulletin 95 – Accounting for the impact of Police Reform

Two new bodies have been created under the Police Reform and Social Responsibility Act 2011. In December 2012, CIPFA published [LAAP bulletin 95](#) which sets out guidance on accounting for the creation of Police and Crime Commissioners and the Chief Constable.

It outlines two approaches to accounting for the transfer of functions:

- Approach A (the preferred method) - The financial statements restate the financial performance, position and cash flows of the entities involved as if the service or function performed had always taken place in these entities. Assets and liabilities are transferred at their carrying values.
- Approach B – New bodies account from the day of inception with the Police Authority accounting up to the date of transfer. Assets and liabilities are transferred at carrying values but there are no comparators for the new bodies.

The LAAP bulletin also notes that the Police and Crime Commissioner (and by implication the Chief Constable) will need to consider their relationship and substance of transactions in determining whether to recognise income, expenditure, assets and liabilities in their financial statements.

Senior finance staff in the PCC and CC have decided to use Approach A (the preferred method) and good progress has been in considering and documenting the basis for which transactions will be included in the PCC financial statements and which will be included in the CC financial statements.

# Emerging issues and developments

## Accounting and audit issues

### Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- **Redundancy costs** –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'. Given the continuing Chief Constable's Change programme this will need to be considered for 2012/13.
- **Mutual Municipal Insurance (MMI)** – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect a creditor to be recognised or, if the timing or amount of the payment is uncertain, a provision in the financial statements. In finalising the 2011/12 audit it was agreed that finance staff would consider whether a creditor or provision would be required for MMI as part of the production of the 2012/13 financial statements.

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# Emerging issues and developments

## Grant Thornton

### **'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '**

In December 2012, Grant Thornton published ['Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'](#). This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. Although this report was produced on the basis of information from local authorities, the messages in this report are still relevant to you. The report provides a summary of the key issues, trends and good practice emerging from the review.

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# Emerging issues and developments

## Local government guidance

### Auditing the Accounts 2011/12 report

In December, the Audit Commission published '[Auditing the Accounts 2011/12](#)'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

### Striking a balance: improving councils' decision making on reserves

In December, the Audit Commission published '[Striking a balance: improving councils' decision making on reserves](#).' The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them. Although this report was produced on the basis of information from local authorities, the messages in this report are particularly pertinent to you.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

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# Emerging issues and developments

## Local government guidance

### **Tough Times: Councils' financial health in challenging times**

In November, the Audit Commission published '[Tough times 2012: Councils' financial health in challenging times](#).' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils. Although this report was produced on the basis of information from local authorities, the messages in this report are still relevant to you.

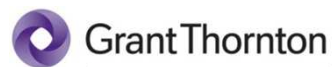
The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

### **Protecting the public purse 2012**

In November, the Audit Commission published '[Protecting the public purse 2012: Fighting fraud against local government](#)'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

If you have any fraud queries, talk to your audit manager to see how Grant Thornton could help.



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# Monitoring Key Audit Recommendations

## Introduction

This report is designed to monitor the implementation of recommendations and actions arising from Audit and Inspection.

If fulfills the assurance responsibilities of the Audit and Standards Committee with regards to the implementation of control recommendations and best practice arising from Audit and Inspection work.

## Report Summary

Ongoing Actions	<b>3</b>
New Actions since last report	<b>0</b>
Actions Completed since last report	<b>4</b>
Total Actions this report	<b>7</b>
Total Actions last report	<b>7</b>

### Key to actions:



Completed



Ongoing





timescale exceeded




not yet due


### Key to Grade:



1. Major recommendation that indicates a fundamental control weakness that must be addressed
2. Recommendation to be addressed in order to establish a satisfactory level of internal control
3. Minor recommendation made to improve the system under review


Recommendation	Grade/Person Responsible	Agreed / Intended Action	Target Date	
<b>Creditors February 2012</b>				
<p>Staff should be reminded of the Financial Regulations, to ensure that:</p> <ul style="list-style-type: none"> <li>Only authorised staff, as per the budget delegation sheet, authorise orders;</li> <li>Order are completed for all purchases;</li> </ul> <p>There is segregation of duties in the ordering and receiving process</p>	2 Roger Marshall – Head of Financial Services	<p>May 2012 update - The new oracle I-procurement module of the upgraded finance system was implemented on 01/04/12. September Update - new budget protocols were agreed by the Chief Officer Group and have been communicated to budget holders. Revised budget responsibilities and delegations are being formalised. March 13 - A formal list of budget-holders and their agreed delegations, including limits and areas of responsibility has been prepared and communicated to the Central Services Dept (CSD). The budgetary responsibilities have been built into the approval hierarchy in the financial system. It has also been amended to reflect revised Directorate structures. CSD staff have been reminded of the importance of ensuring that requisitions are attached to the correct expenditure category, which will ensure that systems orders are correctly approved and coded. The same budget authorisations are applied to non order expenditure, however it is aimed that as many orders as possible are placed through the system. An exercise to formally communicate the revised Financial Regulations and Rules to relevant staff will be undertaken once they have been agreed by the PCC and Constabulary.</p>	June 2013	

<b>Capital Programme Monitoring and Asset Register May 2012</b>				
The guidance / procedural notes for maintaining and completion of the asset registers should be updated and circulated to all relevant staff	3 Financial Services Manager	The guidance notes will be updated when current resource pressures within the finance team subside. March 13 – Guidance notes have been produced and issued to finance staff and other stakeholders who have responsibility for completing and signing off asset registers	March 2013	
<b>Partnerships November 2011</b>				
A value for money exercise should be carried out for all joint-working arrangements. Those arrangements that	2 Strategic Development	The work is completed for all but 2 of the major partnerships. The 2 outstanding partnership assessments are work in progress. Update March 2013 - the outstanding assessments are	March 2013	



do not demonstrate added value to the constabulary should be ceased.		scheduled to be completed by end March 2013.		
<b>VFM and Efficiency Savings November 2011</b>				
The approach to delivering VFM should be reflected in an updated strategy document and this should be linked to the detail held within the VFM statement	2 Head of Corporate Improvement – Head of Financial Services	The present strategy runs until 2012 and will be refreshed for the forthcoming financial year. A large element of the strategy is the Change Programme work which is regularly reported to the Authority. VFM work is continuing in the form of delivering the Change Programme. March 13 – A revised VFM strategy which will incorporate the objectives within the Policing Plan , the Constabulary's Change Programme, the workforce plan, Police Objective Analysis and HMIC VFM profiles is being developed. This will be presented to the Constabulary's Chief Officer Group by the end of the current financial year. This will subsequently be communicated to the Police and Crime Commissioner.	March 2013	

<b>Management of Sickness Absence November 2011</b>				
The analysis and reporting of overtime reasons should be extended to all units / departments of the Constabulary.	2 Head of Human Resources	We should be able to identify what overtime related specifically to sickness cover. We agree this will continue for Comms as a priority and then one TPA to pilot. All TPAs are routinely monitoring overtime arising for any reason. Further work is to follow with regard to monitoring the reasons for police staff overtime	31 March 2013	
<b>04 December 2009: Action Plan in relation to recommendations made in PURE relating to 2008-09</b>				
<b>Workforce Planning</b>				
R6 Adopt a more comprehensive workforce strategy to provide a longer term framework for workforce planning / development. The strategy should set out key objectives, challenges and principles, directly linked to strategic priorities and how these will be met.	2 Financial Services Manager	<p>A workforce plan has been developed and agreed for the constabulary establishment.</p> <p>Update August 2012 – Update from Change Programme - work has been undertaken between HR and Finance to reconcile the establishment, which can they be used as a base line.</p> <p>Retirements and staff allocation have been mapped to the rank of Sgt for a reasonable period of time (it is unrealistic to map it out for more than a couple of years as people could be subject to change). The work force plan is heavily interdependent on the General Policing Review, and CID stage 1 reviews, and as these reviews are still in the research and options development stage final work around the workforce cannot be undertaken. Holding measures have been put in place in relation to promotions, with HR and finance working closely with the Senior Management Teams, to ensure the workforce plan can be delivered.</p> <p>March 13 – The workforce plan is now substantially in place covering all ranks of police officer and police staff. This document has been utilised as a basis for developing staffing options for inclusion in the 2013-14 budget and MTFF. Monthly meetings now take place between finance and HR to monitor actual and forecast staffing numbers against establishment. The results are communicated to the DCC and subsequently to the Chief Officer Group as a basis for decision making in</p>	30 June 2013	

		relation to staffing. It is recognised that there are still minor anomalies in relation to the extraction of accurate staffing figures from the HR system which are actively being worked on and that the plan will inevitably need to be dynamic in the current environment of significant structural change.		
<b>Main Financial Systems</b>				
Manual adjustment journals should be initiated and input to Oracle by different staff	2 Financial Services Manager	<p>We will review this issue and agree a practical way forward with internal audit. This is not perceived as a high risk and any anomalies should be brought to light as part of the budget monitoring process.</p> <p>August 2012 Update – A list of journals will be produced and signed on a monthly basis. At this stage we are awaiting the go-live of the Qlikview reporting tool in order to extract the journal information in order to complete this check.</p> <p>March 13 – Significant non payroll journals (proposed as over £50k) will be extracted and signed off by a senior member of the finance team. This will operate from the start of the 2013-14 financial year.</p>	30 April 2013	

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**From: HEAD OF INTERNAL AUDIT**

- 2.1 The Audit and Standards Committee is recommended to note this report and the proposals to ensure delivery of the audit plan for 2012/13.

### 3.0 SUMMARY OF WORK COMPLETED

3.1 The following table summarises the total number of audit evaluations made during 2012/13.

	<b>Total</b>	<b>%</b>
Good	5	63
Satisfactory	2	25
Fair	1	12
Weak	-	-
<b>Total to date</b>	<b>8</b>	<b>100</b>

3.2 The summary below gives a brief outline of the audit assignments undertaken to date from the 2012/13 plan.

<b>Assignments</b>	<b>Main Points</b>	<b>Assessment</b>	<b>Current Status</b>
Annual report 11/12	Agreed at Governance Committee 15 May 2012.	N/A	Complete
Annual plan 12/13			
Annual Governance Statement 11/12	Agreed at Governance Committee 29 June 12.	N/A	Complete
Treasury Management	Controls over treasury management are well established and continue to operate well. Generally, there is compliance with the approved treasury management strategy and activity is reported to the Police Authority on a regular and timely basis.	Good	To Governance Committee 11 September 2012
Data Quality – Sanction Detections	Data Quality assurance systems have been streamlined with some reduction in resources and changes to roles.  All officers have a responsibility for data quality and this is communicated and reinforced through training and supervision. Guidance material relating to data quality is widely available at an operational level to aid officers and ensure that crime data is recorded accurately, consistently, completely and in accordance with Home Office requirements.	Good	To Governance Committee 16 October 2012

Assignments	Main Points	Assessment	Current Status
Payroll	Payroll processes are well established and no major areas of concern were identified as a result of testing. However, there is a need to ensure that appropriate arrangements are in place to cover tasks during staff absence and peak pressures.	Good	To Audit and Standards Committee 21/03/13
Pensions	Police Pension processes are well established and no major areas of concern were identified as a result of testing. There are good working relationships with Capita and there is appropriate monitoring of performance.	Good	
Capital Programme / Asset Register	Preparation and approval of the capital programme and link to the capital strategy is good. Reporting on individual projects and programme is in place. Asset registers are maintained and tie back to the ledger.	Satisfactory	
Creditors & Petty Cash	<p><b>Creditors:</b> A new electronic procurement system was introduced in April 2012. Items processed through the system were appropriately authorised.</p> <p>Reconciliations between the accounts payable ledger and control account balance in the general ledger were not undertaken on a timely basis due to staff absence and peak pressures in the financial services department.</p> <p><b>Petty cash:</b> reimbursements and reconciliations are undertaken regularly and expenditure appeared reasonable.</p>	<p>Satisfactory</p> <p>Good</p>	

Assignments	Main Points	Assessment	Current Status
Data Quality – Crime Recording	<p>Data quality assurance systems have been streamlined this year with some reduction in resources and changes to roles.</p> <p>The audit showed that data quality standards had declined in the first six months of 2012/13.</p> <p>The Force Crime Registrar's audit of crime and incident data undertaken in June 2012 identified data quality issues. The Constabulary has put an improvement plan in place to address the need for improvement in data quality management.</p>	Fair	To Audit and Standards Committee 21/03/13

## 4.0 **GRADE 1 RECOMMENDATIONS – PROGRESS ON AGREED ACTIONS**

- 4.1 One Grade 1 recommendation was made during 2011/12 in relation to the internal audit review of Management of Change Costs. Internal audit has followed this up and audit testing identified that the recommendation has been implemented. During 2012/13 there were two grade 1 recommendations made in respect of the data quality audit of crime and incident recording.

RECOMMENDATION	PERSON RESPONSIBLE	AGREED / INTENDED ACTION	IMPLEMENTATION DATE
<b>Management of Change Costs</b>			
Formal written evidence of Voluntary Redundancy approval from the Deputy Chief Constable should be secured in all cases, in accordance with the Voluntary Redundancy Scheme	Head of Personnel Services	The Deputy Chief Constable will be requested to sign a Formal Written Approval for all future VR Applicants	Immediate
<b>Internal Audit follow up findings:</b> Internal Audit testing identified that, since the audit, formal written evidence of Voluntary Redundancy approval is obtained from the Deputy Chief Constable in accordance with the Voluntary Redundancy Scheme.			

RECOMMENDATION	PERSON RESPONSIBLE	AGREED / INTENDED ACTION	IMPLEMENTATION DATE
<b>Crime and incident recording:</b>			
Ongoing monitoring is required to assess the effectiveness of quality assurance arrangements and make reasonable adjustments to secure an acceptable level of data quality.	Force and crime registrar	Following publication of this report and an internal audit report, (Nov 2012) a further retrospective audit of data will be instigated by the Force Crime Registrar in Feb/March 2013 to measure data quality compliance. This audit together with the findings to date will inform and assist the on-going implementation of activities within the Constabulary Improvement plan for this area of business.	March 2013
Data quality risks should be re-assessed and managed according to the Constabulary's risk appetite.	Force and crime registrar	The results of the above action will inform how data quality is managed by the Constabulary in the future. This may result in maintaining current audit levels or a return to 'real time' audit in an effort to manage data quality more effectively.	March 2013

## 5.0 WORK PLANNED FOR NEXT PERIOD



- 5.1 Work on the remaining audits in the plan is underway. The resultant Internal Audit reports will be presented to the Audit and Standards Committee in June 2013. The work is scheduled as follows:

Assignment	Provisional date of audit fieldwork	Audit contact	Current Status
Debtors, income and banking	Fieldwork carried out in February 2012	M Bellis	Report drafted
Oracle Financials Security	March 2013	M Carter	Work underway
Budgetary Control	March 2013	M Bellis	Work underway
Main accounting system	March 2013	M Bellis	Work underway
Allowances & Special Payments	March 2013	A Hunter	Not started
Territorial Policing Areas	March 2013	A Hunter	Not started

**Emma Toyne**  
**Audit Manager**  
**March 2013**



# **SHARED INTERNAL AUDIT SERVICE**

## **AUDIT REPORT**

**FOR:  
THE CUMBRIA OFFICE OF THE POLICE AND CRIME  
COMMISSIONER**

**ON:  
PAYROLL**

**Draft Report Issued: December 2012  
Final Report Issued: March 2013**

## 1.0 INTRODUCTION

- 1.1 Internal Audit undertook a review in November 2012 of the controls in place for the administration of Police payroll as part of the 2012/13 internal audit plan.
- 1.2 The provision of the payroll service is currently undertaken by Cumbria Police Payroll staff. The Northgate Resourcelink payroll system is used. This is owned and maintained by Capita Business Services Ltd. ("Capita") which is based in Carlisle. The calculation of gross to net pay is undertaken by Police payroll staff with Capita being responsible for the pay advices, undertaking system maintenance and producing end of year returns by Electronic Data Interface (EDI) to HM Revenue and Customs.
- 1.3 A restructure has taken place since the previous audit review of payroll, which has seen the payroll and HR functions coming together under Employee Services within the Central Services Department. It was stated that there may be future changes to roles where payroll and HR staff have more of a dual role, particularly when a move is made to better integrate the HR and payroll systems which is the current plan. If this occurs it should be ensured that an adequate segregation of duties remains in place.
- 1.4 The Payroll and Transactional Services Manager has recently been appointed and is currently in the process of training the Employee Services Team Leader in the payroll process.
- 1.5 Further future plans include the development of a self-service tool for online payslips and for the introduction of online overtime and expense systems. This is not yet in place and the testing of these payments during this review related to manual claim forms only.
- 1.6 Gross Police payroll year to date costs for April to November 2012 are approximately £44.5 million, averaging £5.6 million a month.
- 1.7 The following staff provided information for this review:
  - Alison Hunter, Payroll and Transactional Services Manager
  - Michelle Blenkinsopp, Administrative Officer
  - Jennifer Horn, Administrative Officer
  - Nicky Mair, Administrative Officer.

## 2.0 SCOPE

- 2.1 The following table indicates the associated risks for each individual area reviewed:

KEY CONTROL AREA	KEY POTENTIAL RISKS
Access	Unauthorised access. Inappropriate amendment. Loss of data or processing facilities.
Procedures	Inability to operate system due to lack of operating instructions and unavailability of experienced staff. Erosion of key controls due to operating shortcuts.

KEY CONTROL AREA	KEY POTENTIAL RISKS
Input	Unauthorised / incorrect payment. Delays in processing. Uncorrected errors. Payment to unauthorised bank account.
Deductions	Incorrect deductions. Late payment to third parties, potentially resulting in financial penalty for statutory deductions.
Reconciliation	Inaccurate or incomplete accounting information. Unidentified errors.

### 3.0 SUMMARY

#### 3.1 EVALUATION

3.1.1 The evaluation of controls is based on testing carried out at the time of the review, including sampling. Internal Audit assesses the controls operating in each area under review as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.

3.1.2 Evaluations of controls following testing carried out during this review:

PAYROLL CONTROL AREA	EVALUATION	RECOMMENDATIONS			REPORT REF
		GRADE			
		1	2	3	
Access	Good	-	-	-	5.1
Procedures	Good	-	-	-	5.2
Input	Good	-	-	-	5.3
Deductions	Good	-	-	-	5.4
Reconciliation	Satisfactory	-	1	-	5.5
Overall evaluation	Good	-	1	-	

#### 3.2 CONCLUSION

3.2.1 Payroll processes are well established and no major areas of concern were identified as a result of testing. However, there is a need to ensure that appropriate arrangements are in place to cover tasks during staff absence and peak pressures.

#### 3.3 RECOMMENDATIONS

3.3.1 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:

Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed

- Grade 2: Recommendation to be addressed in order to establish a satisfactory level of internal control
- Grade 3: Minor recommendation made to improve the system under review

3.3.2 One recommendation has been made as a result of testing carried out, and is included in Appendix A – Summary of Recommendations and Action Plan.

## 4.0 FOLLOW-UP

4.1 No recommendations were made during the previous review of Police Payroll in January 2012.

## 5.0 PAYROLL RESULTS

### 5.1 Access

5.1.1 The payroll system is owned and administered by Capita. Access is restricted to authorised users and can be read only if necessary. Current users with access to the system were appropriate.

5.1.2 Suitable physical and electronic security is in place to protect payroll records.

5.1.3 Disaster recovery procedures are covered as part of the contractual agreement with Capita and are considered adequate by Central Services. Any known issues would be reported to the Payroll and Transactional Services Manager / Head of Central Services.

### 5.2 Procedures

5.2.1 Detailed sets of operational procedures are maintained within Payroll. It was stated that these are to be reviewed in light of some minor changes and with the intention of including HR processes in them as well, now that the sections have joined together. Timetables are produced annually, which detail various deadlines for the input of data and payroll processing.

5.2.2 To ensure all stages of the process are completed in the appropriate order and to the required timescales “pay cycle checklists” are used which break the complete pay-run down into a series of actions which must be completed. These are used to control the workload, and are signed off by the Employee Services Team Leader / Payroll and Transactional Services Manager as each stage is completed.

5.2.3 With the planned implementation of more integrated HR and payroll systems it is anticipated that HR and payroll staff will fulfil a dual role. If this occurs it should be ensured that an appropriate segregation of duties is maintained.

### 5.3 Input

5.3.1 A sample of employees was traced from the payroll system to source documentation. Details were entered correctly into the system and documents were approved by appropriate staff.

- 5.3.2 Overtime claims for Police Officers and Police Staff are reconciled to the payroll system prior to payment. A sample of entries within the payroll system was verified to official, approved documentation.
- 5.3.3 Expense claims were included as part of testing. All payments agreed from the payroll system to the supporting documentation.
- 5.3.4 A sample of five sickness payments was tested. Audit testing was limited to confirming that manual self certification / doctors notes were received for the period of absence being paid for and that payments were at the correct rate. One of the sample had been paid for two days more than the doctors note covered (based on the date the employee stated absence had ended), and this was being followed up by payroll staff.
- 5.3.5 A sample of five maternity payments was tested. Dates agreed from the MATB1 forms to the payroll system and the employees appeared correctly paid based on the constabulary's occupational maternity scheme and statutory entitlements.
- 5.3.6 A sample of new starters from the current financial year was selected for testing. All had evidence of vetting and references on file, where applicable. It was found that one had a different address recorded on the payroll system to the HR system, otherwise all details agreed between the two systems. It was discovered that the employee had subsequently changed address and that this change had been reported to HR so that system had been updated. Payroll had not received this notification, though they would have if the employee had used the self service tool to update their address as payroll receives automatic email notifications via this method. It was stated that Payroll and Transactional Services Manager would ensure that all staff know that notifications sent direct to HR should be passed to payroll and that planned data cleansing of the HR and payroll systems in December 2012 should identify any further discrepancies.
- 5.3.7 A sample of leavers was also selected for testing. It was confirmed that pay ceased on the last day for the entire sample and that where appropriate payments were made in respect of unused annual leave / time off in lieu.
- 5.3.8 Testing performed on the sample provided adequate assurance that controls are in place to ensure the accuracy of information entered into the system.
- 5.3.9 A monthly exception reporting routine is in place, which identifies specific anomalies within the pay-run. These are checked by the Administrative Officers and the Employee Services Team Leader / Payroll and Transactional Services Manager to identify and correct anomalies prior to processing. Reports are produced, checked and cleared on a monthly basis.
- 5.3.10 Basic salaries on a graded scale are attached to individual posts within the payroll system. Standard salaries are input to the system on an annual basis, based on nationally agreed pay-scales provided by the Police Negotiating Board. Police staff earning below £21,000 received a pay increase in September 2012 (along with a one off lump sum payment), but police officers did not receive one. Employees sampled were all paid salaries in accordance with guidance.

## 5.4 Deductions

- 5.4.1 Deductions are automatically calculated within the payroll system. The Payroll section extracts deductions from system prints and maintains a spreadsheet of deductions due within the current month. Appropriate creditor payments and journals are arranged from information in the spreadsheet.
- 5.4.2 A walk through of a sample of September's deductions was undertaken which confirmed that deductions were accurate, authorised and paid to the appropriate third party on a timely basis.

## 5.5 Reconciliation

- 5.5.1 Cost allocation details are included on costing files from Capita, which are received and actioned in Payroll. Payment runs are uploaded to the Main Accounting System by Finance.
- 5.5.2 Financial Services Officers are no longer issued with monthly reports detailing all payroll payments charged to their delegated cost centres as employee numbers are now recorded in the main accounting system against pay transactions, meaning they can now access the required information themselves. The monitoring of payroll budgets has been centralised with officer and PCSO pay monitored by one Financial Services Officer and police staff pay by another.
- 5.5.3 The Payroll and Transactional Services Manager reconciles gross to net pay as part of the monthly checking process. Variations within the various pay elements are analysed monthly.
- 5.5.4 The Payroll and Transactional Services Manager reviews and approves payment runs, which are then initiated by Capita.
- 5.5.5 Several control accounts have been set up within the accounting system, which effectively reconcile uploaded accounting information to payments made. Reconciliations are performed on a monthly basis. A review of reconciliations found that they were not undertaken for the current financial year until August. We were informed that this was due to a combination of a new financial reporting tool, implemented as part of the upgrade of the financial system, not being available in the early months of the year; staff maternity leave and other staff prioritising year-end work. Reconciliations were brought up to date once maternity leave had ended and had been reviewed by a senior officer (all reconciliations were reviewed in October 2012). Even with staff absence, reconciliations should be undertaken and reviewed timely wherever possible so that any issues can be identified and resolved promptly.

RECOMMENDATION		
Ref	Recommendation and Grade	Risks if not Actioned
R1	Appropriate arrangements should be put in place to ensure that tasks (reconciliations) are undertaken timely during staff absence and peak pressures. (Grade 2).	<ul style="list-style-type: none"> <li>Issues not identified timely.</li> </ul>

**CUMBRIA CONSTABULARY  
PAYROLL ADMINISTRATION**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN**  
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	Appropriate arrangements should be put in place to ensure that tasks (reconciliations) are undertaken timely during staff absence and peak pressures.	2	Financial Services Manager	The demands on the financial services team at the start of the 2012-13 financial year were extraordinary, following the upgrade of the financial system, which required workload to be prioritised based on an analysis of risk. On an on-going basis it is intended that payroll control account reconciliations will be undertaken on a timely basis.	October 2012

<b>ACTION PLAN AGREED BY:</b>	<b>Michelle Bellis – Financial Services Manager</b>	<b>DATE:</b>	<b>01 March 2013</b>
<b>ACTION PLAN APPROVED BY THE HEAD OF FINANCIAL SERVICES:</b>	<b>Roger Marshall – Head of Financial Services</b>	<b>DATE:</b>	<b>08 March 2013</b>





# **SHARED INTERNAL AUDIT SERVICE**

## **INTERNAL AUDIT REPORT**

**FOR:  
THE CUMBRIA OFFICE OF THE POLICE AND CRIME  
COMMISSIONER**

**ON:  
PENSIONS ADMINISTRATION**

**Draft Report Issued: January 2013  
Final Report Issued: March 2013**

## 1.0 INTRODUCTION

- 1.1 Internal Audit undertook a review in November 2012 of the controls in place for the administration of Police pensions as part of the 2012/13 internal audit plan.
- 1.2 Police Pension Scheme administration is provided by Capita Hartshead. Police Pension calculations for both the Police Pension Scheme 1987 and the New Police Pension Scheme 2006 and the maintenance of all serving officers' records is undertaken by Capita in Banstead with the Police Pension payroll and lump sum payments being instigated by Capita in Darlington.
- 1.3 Gross Police pensions are around £1.84 million per month, with year to date costs for April to November 2012 of approximately £14.7 million. In addition, most retiring officers opt to commute the maximum allowable amount of their pension into a lump sum payment.
- 1.4 The following staff provided information for this review:
  - Alison Hunter, Payroll and Transactional Services Manager
  - Michelle Blenkinsopp, Administrative Officer
  - Mark Carter, Financial Services Officer - Corporate.

## 2.0 SCOPE

- 2.1 The following table indicates the associated risks for each individual area reviewed:

KEY CONTROL AREA	KEY POTENTIAL RISKS
<b>Pensions</b>	
Contract	Police liability for any contractor errors. Poor service quality.
Entitlement	Incorrect calculation of pension/lump sum entitlement.
Payments	Incorrect payments made. Payments to those not/no longer entitled to receive these.
Deductions	Incorrect deductions.
Accounting	Pension transactions not fully/accurately reflected in Oracle GL.

## 3.0 SUMMARY

### 3.1 EVALUATION

- 3.1.1 The evaluation of controls is based on testing carried out at the time of the review, including sampling. Internal Audit assesses the controls operating in each area under review as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.
- 3.1.2 Evaluations of controls following testing carried out during this review:

PENSION CONTROL AREA	EVALUATION	RECOMMENDATIONS			REPORT REF
		GRADE			
		1	2	3	
Contract	Good	-	-	-	5.1
Entitlement	Good	-	-	2	5.2
Payments	Good	-	-	-	5.3
Deductions	Good	-	-	-	5.4
Accounting	Good	-	-	-	5.5
Overall evaluation	Good	-	-	2	

### 3.2 CONCLUSION

3.2.1 Police Pension processes are well established and no major areas of concern were identified as a result of testing. There are good working relationships with Capita and there is appropriate monitoring of performance.

### 3.3 RECOMMENDATIONS

3.3.1 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:

- Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed
- Grade 2: Recommendation to be addressed in order to establish a satisfactory level of internal control
- Grade 3: Minor recommendation made to improve the system under review

3.3.2 Two recommendations have been made as a result of testing carried out, and are included in Appendix A – Summary of Recommendations and Action Plan.

### 4.0 FOLLOW-UP

4.1 No recommendations were made during the previous review of Police pensions (January 2012).

### 5.0 PENSION RESULTS

#### 5.1 Contract

5.1.1 A contract is in place between the Police and Capita Hartshead for the provision of Police pension administration and payroll. The initial 2-year contract expired on 31 August 2008, but this has now been extended five times and currently runs to 31 August 2013. Confirmation of this latest renewal has not yet been received from Capita but they continue to provide the service.

5.1.2 The contract includes a detailed specification of work to be carried out by Capita and also includes a set of performance measures that are reported on a monthly basis to the Head of Central Services. The latest performance measures show that the contract is operating well and no issues have been noted.

5.1.3 The contract clearly states Capita's responsibility for ensuring that calculations and subsequent payments are correct and made on time. It also specifically requires Capita to immediately re-imburse the Police for any overpayment and then seek recovery from the party that was overpaid.

## 5.2 Entitlement

5.2.1 Employee Services informs Capita of forthcoming pensioners and provides them with standard details for each new pensioner including age, length of service and pensionable pay, which are the key factors in determining pension entitlement. Additional information is also provided by the retiring officer to confirm, for example, their commutation option and to which bank account they want their lump sum and monthly pension to be paid into. Details are reviewed and authorised by the Payroll and Transactional Services Manager prior to submission to Capita.

5.2.2 Capita calculates the monthly pension due and the amount of the lump sum. A copy of the calculation is then sent to Employee Services so that the lump sum amount can be noted for subsequent checking, when Capita request release of the funds. Where an officer has opted not to commute any part of their pension into a lump sum, copy calculations are not provided, as no checks are made by the Police over individual monthly entitlements. Reliance is placed on Capita to calculate these correctly and there are provisions in the contract to protect the Police if errors are made.

5.2.3 A sample of six new pensions was tested. All were supported by authorised forms from retiring officers and approved requests/supporting information to Capita. Pensionable pay calculations were checked back to payroll and length of service was agreed to personal files and payroll. The entire sample had a change of circumstance form, copy of their retirement letter or a letter informing them they were to be retired on ill health grounds on file.

5.2.4 Change of circumstances forms have recently stopped being completed for leavers and instead a copy of their retirement / resignation letter is passed to payroll after authorisation. It was stated that this would not be processed if it had not been authorised by a Chief Officer (as all police officer posts require) but it should be determined if an HR signature is required on it also. One letter sampled had been signed by HR but one had not (though it had been actioned by them).

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R1	It should be determined whether leaver notifications require signing by a member of HR before being processed. (Grade 3)	Incorrect processing of information.

5.2.5 In terms of ongoing pension entitlement, Capita is informed directly of any deaths of pensioners by the next of kin, so that the necessary adjustments can be made to the pension payroll. The Police subscribe to the biennial National Fraud Initiative (NFI) data matching exercise run by the Audit Commission and have recently uploaded the information required for the 2012/13 exercise.

5.2.6 Capita have been asked to provide Employee Services with information on transfer values in. While this information is not checked, it is useful for the projection of costs and determining employees earliest retirement date. It is also useful to know for requesting pension estimates for employees. Employee Services do not know when transfers in of service have been completed and so cannot monitor that they have received all information from Capita. Only one of a sample of three transfer values in received this year had this information on file and while it was stated the others could be in documentation requiring filing, it was stated that Capita has had to be chased for this information previously.

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R2	Consideration should be given to adding to the KPI's reported on by Capita for transfer values in so that it can be determined that Employee Services have received all information on these. (Grade 3)	Requested information not provided promptly.

### 5.3 Payments

5.3.1 Both lump sum payments and monthly pensions are initiated by Capita, Darlington. For lump sums, Employee Services maintain a spreadsheet record of lump sums due, taken from copy calculations provided by Capita. As each lump sum falls due, Capita requests approval to release payment and this is confirmed via email by an appropriate officer. Appropriate checks and authorisation of lump sums is in place, based on sample testing.

5.3.2 A monthly pension file is provided to Employee Services for approval prior to payment. The Payroll and Transactional Services Manager reviews the overall level of payments and deductions in relation to previous periods, prior to authorising payment via BACS. Appropriate checks and authorisation of the monthly pension payroll is in place, based on sample testing.

5.3.3 Further sample audit checks were made to ensure individual payments to new pensioners reflected calculated amounts. It was confirmed that the correct monthly amounts had been paid to individual pensioners based on the latest payroll (November 2012). Similarly, correct lump sums had also been paid.

### 5.4 Deductions

5.4.1 New contribution rates for employees came into effect in April 2012 and are based on employee earnings.

5.4.2 Employee pension deductions are automatically calculated within the payroll system. A sample of pension deductions was manually rechecked and this confirmed that the correct percentage deductions were being applied to the appropriate pay components.

5.4.3 It was found that one of the sample had an arrears payment taken as pensionable on one payslip that should not have been. This had been identified and corrected on the subsequent payslip.

5.4.4 Employer pension contributions for the same sample were also manually rechecked and found to be at the correct rate.

## **5.5 Accounting**

5.5.1 A monthly costing file of Police pension payments is provided by Capita, Darlington, to enable transactions to be entered into Oracle GL. The costing file is uploaded via standard ADI journal templates and checks are made on screen to ensure that all code validation rules have been met and the total data has been accepted by the Oracle system. This process is carried out by staff in Finance and a system report is retained to evidence the upload. This was seen for a sample period and the totals agreed to the pension payroll summary.

5.5.2 An Oracle query report is run to ensure that net pay is correct. Sampling results proved its accuracy.

5.5.3 A sample of lump sum payments was successfully agreed to Oracle.

5.5.4 One lump sum coded as an 'ill health' lump sum in Oracle was confirmed by Employee Services as an 'ordinary' lump sum. Finance had coded the payment as per the information provided by Capita and this miscoding would have been identified at the year end through reconciliations with Employee Services information. It was stated that more regular reconciliations would hopefully be undertaken to reduce time spent at the year-end but that this had not yet taken place.

5.5.5 Receipts for transfer values in to the pension scheme and for transfer values out of the scheme are separately recorded in Oracle. Again Capita deal with these and for transfers in, deposit cheques into the Police bank account from Darlington and then advise the Police of this. Similarly request for payments of transfers out also originate from Capita. Transfer values in and out for the current financial year were traced from Oracle to the bank statements and for transfers out to the authorisation of the payments.

5.5.6 It was discovered that one amount coded as a transfer value in, in Oracle, actually related to a returned pension payment. It was stated that the Administrative Officer in Employee Services would contact Finance to get this re-coded. Again, Finance coded this based on the information supplied by Capita (who were provided with a list of the new pension codes) and it was stated that this would have been identified during year-end reconciliations.

**CUMBRIA CONSTABULARY  
PENSIONS ADMINISTRATION**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN**  
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	It should be determined whether leaver notifications require signing by a member of HR before being processed.	3	Ann Dobinson Head of Central Services	It has been formally agreed to change the process so that all police leaver notifications are accepted once signed off by Chief Officers and the completion of a change of circs form signed by Personnel staff/Employee Services staff has been removed.	4 March 2013
R2	Consideration should be given to adding to the KPI's reported on by Capita for transfer values in so that it can be determined that Employee Services have received all information on these.	3	Ann Dobinson Head of Central Services	Capita Hartshead has been informed to add an additional report providing details of all completed Transfer Values in to the monthly performance standards report. The first report will be included in the February 2013 performance standards report.	4 March 2013

<b>ACTION PLAN AGREED BY:</b>	Ann Dobinson – Head of Central Services	<b>DATE:</b>	04 March 2013
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<b>ACTION PLAN APPROVED BY THE HEAD OF FINANCIAL SERVICES:</b>	Roger Marshall – Head of Financial Services	<b>DATE:</b>	08 March 2013
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*Serving the People of Cumbria*

# **SHARED INTERNAL AUDIT SERVICE**

## **INTERNAL AUDIT REPORT**

**FOR:  
THE CUMBRIA OFFICE OF THE POLICE AND CRIME  
COMMISSIONER**

**ON:  
CAPITAL PROGRAMME MONITORING & ASSET REGISTER**

**Draft Report Issued: February 2013**  
**Final Report Issued: March 2013**



## 1.0 INTRODUCTION

- 1.1 Internal Audit undertook an audit review of capital programme monitoring and the asset register as part of the 2012/13 internal audit plan.
- 1.2 The following staff provided information during this review:
- Lorraine Holme, Financial Services Officer;
  - Roger Marshall, Head of Financial Services;
  - Clive Davidson, Business Team Leader;
  - Angela Humes, Business Services Administration Officer.

## 2.0 AUDIT SCOPE

- 2.1 The following table indicates the associated risks reviewed by Internal Audit for each individual area:

KEY CONTROL AREA	KEY POTENTIAL RISKS
Capital Programme Monitoring & Asset Register	<ul style="list-style-type: none"> <li>• Capital projects / assets not in line with business needs;</li> <li>• Capital projects are unaffordable;</li> <li>• Capital costs /assets are not recorded properly;</li> <li>• Capital costs are not controlled / monitored.</li> </ul>

## 3.0 OVERALL EVALUATION, CONCLUSION & RECOMMENDATIONS

### 3.1 EVALUATION

- 3.1.1 The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Internal Audit assesses the controls operating in each audited area as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.
- 3.1.2 Table A: Evaluations of controls following testing carried out during this audit review:

AREA REVIEWED	EVALUATION	RECOMMENDATIONS			REPORT REF
		GRADE			
		1	2	3	
Capital Programme Monitoring & Asset Register	Satisfactory	-	-	4	5.1

### 3.2 CONCLUSIONS

- 3.2.1 A medium term capital strategy and annual programme was approved by the Police Authority informed by the various asset strategies and replacement programmes. Capital spend in 2012/13 is projected to be just over £8.2 million. Individual schemes

are managed effectively and are subject to regular scrutiny and review, though it was noted that project managers do not sign and return all monthly monitoring reports they receive. Overall monitoring reports are presented to the Governance Committee and Police Authority on a regular basis. From November 2012, the monitoring reports will be provided to the Chief Officer Group and the Police and Crime Commissioner.

- 3.2.2 Costs are duly recorded against specific capital schemes and sampled payments appeared reasonable. 55% of the capital invoices sampled related to orders placed before the new i-procurement system was introduced. 30% of the sample had been processed through the i-procurement system and had been authorised in line with the scheme of delegation provided. The remaining 15% of the sample were non-order invoices, with 10% of these not authorised in line with the i-procurement scheme of delegation.
- 3.2.3 Asset registers are maintained on an annual basis by financial services, who calculate depreciation charges for upload into Oracle. All asset registers had been updated for 2011/12 and tied back to the ledger, but only one had been formally certified as accurate and signed by the department.
- 3.2.4 The capital strategy clearly sets out the anticipated costs of the programme and how this will be funded and this is reflected in both the medium term financial forecast and the prudential indicators.
- 3.2.5 Risk in respect of capital is included as part of the Financial Services Risk Register and control measures stated in the register are in place and operational.

### **3.3 RECOMMENDATIONS**

- 3.3.1 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:
  - Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed.
  - Grade 2: Recommendation which should be addressed in order to establish a satisfactory level of internal control.
  - Grade 3: Minor recommendation made to improve the system under review.
- 3.3.2 Four recommendations have been made as a result of testing carried out, which are included in this report as: Appendix A – Summary of Recommendations and Action Plan.

### **4.0 FOLLOW UP TO THE PREVIOUS AUDIT REVIEW**

- 4.1 Monitoring arrangements for the capital programme were last reviewed in February 2012 and were assessed as good. The one recommendation made in the previous report was examined to determine the action taken. See below table.

RECOMMENDATION	GRADE	AUDITEE RESPONSE TO ORIGINAL ACTION PLAN	ACTIONS IDENTIFIED THIS AUDIT
The guidance / procedural notes for maintaining and completion of the asset registers should be updated and circulated to all relevant staff.	3	The guidance notes will be updated when current resource pressures within the finance team subside. The implementation date stated was March 2013.	This has not yet been done, though the stated implementation date has not yet passed. This will be reviewed during the next audit.

## 5.0 DETAILED FINDINGS & RECOMMENDATIONS

### Strategy / Programme

- 5.1.1 The Estates Strategy for 2012/13 was approved by the Police Authority in February 2012. It clearly states the strategy principles and provides information on the estates review. There are also rolling fleet replacement and adaptation programmes and an ongoing IT replacement programme.
- 5.1.2 The capital strategy is derived from these strategies and the current overall capital programme for 2012/13, including schemes brought forward from previous years, was approved by the Police Authority in February 2012. It included details of estates, fleet and ICT capital schemes for the next ten years. Individual capital schemes require a business case to be approved by the Police Authority/PCC in advance of work starting, and a sample of schemes were agreed to approved business cases. One project was funded by a virement and was approved by the Governance Committee as per the Financial Regulations.
- 5.1.3 Further detailed capital reports have also been considered by the Governance Committee in June (2011/12 year-end details) and October (2012/13 figures to September) 2012 and the Police Authority received various capital business cases for approval in June, September and October 2012. Reports on the Capital programme include detailed explanations of any slippages against timescale and any material cost variances.
- 5.1.4 All capital projects are allocated a budget holder and project manager, so responsibility for delivering individual schemes is clear. Monthly and quarterly capital monitoring reports are distributed by Financial Services so that costs can be checked and reviewed against budget. Controls are in place to ensure that information is accurate and complete.

### Monitoring

- 5.1.5 All project managers complete a monthly capital project monitoring report which requires an estimate of future costs and timing of payments, together with explanations of any variances. The information from the monthly reports is subject to financial diligence by the Financial Services Manager and is then used to collate overall capital monitoring reports on a quarterly basis for the Police Authority's Governance Committee (PCC from November 2012). These reports are signed off by the Head of Finance prior to dispatch to Governance Committee. Minutes from these meetings are also presented to the Police Authority. In addition, project highlight

## SHARED INTERNAL AUDIT SERVICE

reports for those schemes managed by the Constabulary Project Management Unit are reported to the Chief Office Group. It was confirmed that reports on overall progress against the capital programme are made on a regular and timely basis. Final governance arrangements are yet to be determined now that the Police and Crime Commissioner is in place but that it is expected that formal quarterly reporting will continue to take place.

- 5.1.6 Monthly reports for the current financial year were not produced until August 2012 due to having no access to the Qlikview reporting tool. It was stated that to obtain the figures directly from Oracle would have been time consuming but that figures were provided where requested.
- 5.1.7 All quarterly reports reviewed were signed by both the project manager and budget holder (though not necessarily dated). It was noted that not all monthly monitoring reports had been signed, dated, and returned by the project managers, however Finance reported that they follow up responses on bigger projects and where it is believed items may need reporting or follow up.
- 5.1.8 A sample of project figures was traced from the Governance Committee report to the monthly monitoring report and to the list of capital transactions extracted from Oracle. Costs from one capital scheme have been moved from one reporting line on the Governance Committee report (against which they are reported on monthly reports to project managers) to show them against a different line. It was noted; however, that a credit note relating to this scheme was not reported on the same line in the report. This has affected two reporting lines in the Governance Committee report but the overall figures remain unaffected.

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R1	All costs / credits against a specific project should be reported on the same scheme line in Committee reports. (Grade 2)	Misleading figures reported.

### Audit tests

- 5.1.9 Capital invoices are clearly coded and costs for specific projects are allocated to unique codes. A sample of invoices was selected for testing and of these 30% related to orders placed through the recently introduced i-procurement system. All these were authorised in line with the scheme of delegation provided, with the exception of one which was authorised by an individual who has since left the authority (though was in a suitable position to be authorising invoices). The majority of the others related to items that had been ordered with manual order forms, prior to the introduction of i-procurement. We were informed that in the interim period the authorisation process for these were not enforced and that an authorised order was accepted as authorisation. However, the majority of these authorisations looked appropriate based on previous testing. Our sample had three non-order invoices which had been forwarded to the CSD non-order invoice mailbox for processing. Only one of these had been forwarded by the person who would have authorised it if it had been processed through the i-procurement system. The Business Services Team Leader informed us that all items should be authorised in line with the scheme of delegation designed for the new i-procurement system. A recommendation regarding this has been raised in the Creditors audit report so will not be re-stated here. Coding appeared to be reasonable.

5.1.10 We were provided with the list of capital codes and it was noted that it included a section entitled 'repairs and maintenance' and that several code descriptions included 'maintenance' in the title, thus implying revenue rather than capital expenditure. It was stated that the capital code list was copied from the revenue list prepared for the upgrade of Oracle so that a new set of codes did not have to be learnt / used but that in hindsight changes should have been made to the code description. Capital expenditure is subject to review by project managers and Finance staff who are confident that items have been coded correctly but that code descriptions are misleading. The one item in our invoice sample coded to a code with 'maintenance' in its description was confirmed as capital expenditure. It was stated that improvements to the code descriptions will be looked into and the code list has since been updated, with the changes to be included in Oracle during March 2013.

5.1.11 It was confirmed that no changes have been made to how capital accruals and retentions are dealt with at year-end routines:

- At year end the value of the work completed on an individual capital project (mainly estates projects) is reviewed and a figure agreed by the project manager, if this is more than the expenditure paid to date the value is accounted for including an accrual and if the valuation is less than the expenditure paid to date the value including a prepayment will be accounted for. If the project has been completed any retention monies will be accrued in the accounts.

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R2	The capital coding list should be reviewed to ensure that descriptions are not misleading. (Grade 3).	Items coded to capital expenditure appear to be revenue expenditure due to coding descriptions.

### Asset register

5.1.12 There are a total of six asset registers which are maintained by Finance on excel spreadsheets on behalf of the respective departmental business owners who are responsible for the accuracy of the base data. The asset registers are as follows:

- Intangible Assets;
- Equipment;
- Plant;
- IT Fixed Assets;
- Vehicles;
- Land & Buildings.

5.1.13 These registers are collated on an annual basis at the year-end from Oracle GL and depreciation charges are calculated for input to Oracle GL (this has not yet been done for 2012/13). As part of the final accounts process asset registers are forwarded to relevant departmental managers to check that they are accurate and complete and agree to local records. A signed copy should then be returned to Finance – only one register (land and buildings) had been signed as agreed for the year ending March 2012.

5.1.14 Asset register spreadsheets are held on the Finance department network, within the technical folder. It was stated that this folder is restricted to Finance employees, but that only relevant members of staff access and amend the registers.

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R3	Asset Registers should be signed annually as accurate and complete and a copy retained on file by Finance. (Grade 3).	Asset registers may not be accurate and assets may not be reflected in accounts.

### Depreciation

- 5.1.15 A sample of assets was tested to confirm that the 2011/12 depreciation charged was calculated in accordance with the Authority's accounting policy and reflects the estimated useful lives of relevant assets. No issues were noted.

### Capital funding

- 5.1.16 The funding of the capital programme is clearly set out in the capital strategy (2012-13 and beyond). Over the 5 year period from April 2011 to March 2016, approximately £26 million is required. The sources of funding are capital receipts (£3m), capital grants (£8.2m), revenue contribution to capital (£6.4m), capital reserves (£5.2m) and borrowing (£3.3m). Proposed financing for the capital programme 2011/12 to 2021/22, amounting to almost £42m, was presented to the Police Authority in February 2012 as part of the latest capital programme 2012-13 and beyond. This highlights a shortfall in Capital financing from 2017/18 if the programme continues at its current funding requirement, however, this has already been identified in the Police Authority's risk register with proposed action of undertaking an exercise to fundamentally review capital expenditure in February 2013.

### Procedures

- 5.1.17 Both the Police Authority Financial Regulations and the Constabulary Financial Rules include sections on the Capital Programme and Assets, setting out the overall framework and control in this area. An updated version of the Regulations is currently in draft following the move to a Police and Crime Commissioner and the Rules will be updated once these have been agreed. A list of responsibilities in relation to capital projects was distributed to staff in May 2011 setting out finance, budget holder and project manager responsibilities. The operational guidance / procedure notes for maintaining and completion of asset registers still need to be brought up to date. This was raised in the previous audit review where an implementation date of March 2013 was stated. As this date has not yet passed, no recommendation will be made regarding it in this review but it will be followed up in the next audit review.
- 5.1.18 Procedures relating to the compilation of the monthly capital monitoring reports require updating to incorporate the changes to the financial system.

RECOMMENDATIONS		
Ref	Recommendation & Grade	Risks if not Actioned
R4	The guidance / procedural notes for compiling the monthly capital monitoring reports should be updated. (Grade 3)	Guidance / procedural notes are not up to date. No instruction if usual staff are not available.

### **Risk Management**

5.1.19 The Financial Services Risk Register includes a risk relating to capital projects / expenditure. This was reviewed by the Head of Financial Services in December 2012 and again in February 2013 and control measures stated in the register are in place and operational.



**CUMBRIA CONSTABULARY  
CAPITAL PROGRAMME MONITORING & ASSET REGISTER**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN  
(FOR THE ATTENTION OF THE HEAD OF FINANCIAL SERVICES)**

REPORT REFERENCE	AREA	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	Capital Reporting	All costs / credits against a specific project should be reported on the same scheme line in Committee reports.	3	Financial Services Manager	A review will be undertaken to ensure that all costs are correctly reported to COG and PCC.	March 2013
R2	Capital Reporting	The capital coding list should be reviewed to ensure that descriptions are not misleading.	3	Financial Services Officer - Corporate	Capital code list has been reviewed and descriptions amended as appropriate.	March 2013
R3	Asset Registers	Asset Registers should be signed annually as accurate and complete and a copy retained on file by Finance.	3	Financial Services Manager	Procedure notes for the completion of assets registers have now been developed and include a step to get asset registers signed by the relevant Head of Service prior to inclusion in the final accounts file. The Financial Services Manager will check to ensure that this has been done.	April 2013
R4	Capital Reporting	The guidance / procedural notes for compiling the monthly capital monitoring reports should be updated.	3	Financial Services Officer - Corporate	The procedure notes will be updated and circulated to all relevant staff.	April 2013

<b>ACTION PLAN AGREED BY:</b>	<b>Michelle Bellis – Financial Services Manager</b>	<b>DATE:</b>	<b>01 March 2013</b>
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**ACTION PLAN APPROVED BY  
THE HEAD OF FINANCIAL  
SERVICES:**

**Roger Marshall - Head of Financial Services**

**DATE:**

**08 March 2013**

**Draft Report Issued: February 2013**

**Final Report Issued: March 2013**



*Serving the People of Cumbria*

# **SHARED INTERNAL AUDIT SERVICE**

## **INTERNAL AUDIT REPORT**

**FOR:  
THE CUMBRIA OFFICE OF THE POLICE AND CRIME  
COMMISSIONER**

**ON:  
CREDITOR PAYMENTS  
& PETTY CASH**

**Draft Report Issued: February 2013**  
**Final Report Issued: March 2013**

## 1.0 INTRODUCTION

- 1.1 Internal Audit undertook a review of the controls in place for creditor payments and HQ Petty Cash in January 2013 as part of the 2012/13 internal audit plan.
- 1.2 The Constabulary introduced a new i-Procurement purchasing system in April 2012 and now all orders are processed through it.
- 1.3 As at the end of December 2012, creditor payments for the current financial year totalled just over £35.5 million.
- 1.4 Information during this review was provided by staff in the Central Services and Financial Services departments.

## 2.0 SCOPE

- 2.1 The following table indicates the associated risks for each individual area reviewed:

KEY CONTROL AREA	KEY POTENTIAL RISKS
Creditor Payments	<ul style="list-style-type: none"> <li>• Payment of incorrect amount</li> <li>• Inappropriate purchases</li> <li>• Payment to wrong supplier</li> <li>• Delay in payment</li> <li>• Accounts do not reflect actual expenditure</li> </ul>
Petty cash	<ul style="list-style-type: none"> <li>• Inappropriate use of petty cash</li> <li>• Unauthorised transactions</li> <li>• Unsupported transactions</li> </ul>

## 3.0 SUMMARY

### 3.1 EVALUATION

- 3.1.1 The evaluation of controls is based on testing carried out at the time of the review, including sampling. Internal Audit assesses the controls operating in each area under review as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.
- 3.1.2 Evaluations of controls following testing carried out during this review:

CONTROL AREA	EVALUATION	RECOMMENDATIONS			REPORT REF
		GRADE			
		1	2	3	
Creditors	Satisfactory	-	2	1	5.0
Petty Cash	Good	-	-	-	6.0

## 3.2 CONCLUSION

### Creditors

3.2.1 A new electronic procurement system has been implemented this financial year. All items processed through this system were authorised as per the built in hierarchy determined by the Constabulary. The requisitions approval list for non-order invoices should be updated so that there are no codes without authorisers against them. This will assist staff responsible for obtaining authorisation for non-order invoices to confirm the appropriate authoriser.

3.2.2 There are reconciliations in place both within the Accounts Payable ledger, undertaken by Central Services Department staff, and between the Accounts Payable ledger and the control account balance in the General Ledger, which are undertaken by staff within the Financial Services department. These reconciliations are now undertaken monthly. However, the first reconciliation of the Accounts Payable Ledger to the General Ledger did not take place until September 2012 due to staff time pressures.

### Petty Cash

3.2.3 Since the previous audit review, the imprest level has been reduced and all petty cash bank accounts have been closed. Reimbursements and reconciliations are undertaken regularly and expenditure appeared reasonable.

## 3.3 RECOMMENDATIONS

3.3.1 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:

- Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed
- Grade 2: Recommendation to be addressed in order to establish a satisfactory level of internal control
- Grade 3: Minor recommendation made to improve the system under review

3.3.2 Three recommendations have been made as a result of testing carried out, and are included in Appendix A – Summary of Recommendations and Action Plan.

## 4.0 FOLLOW-UP

4.1 One recommendation was made during the previous review of Creditor Payments (January 2012) and two recommendations were made during the previous review of Petty Cash (February 2011).

4.2 Actions taken to address these were followed up below:

RECOMMENDATION & GRADE	POTENTIAL RISK IF NOT ACTIONED	AGREED ACTION (IMPLEMENTATION DATE)	ACTION TAKEN / COMMENTS
Staff should be reminded of the Financial Regulations, to ensure that: <ul style="list-style-type: none"> <li>only authorised staff, as per the budget delegation sheet, authorise orders;</li> <li>orders are completed for all purchases;</li> <li>there is segregation of duties in the ordering and receiving process.</li> </ul>	2 <ul style="list-style-type: none"> <li>Poor financial management</li> <li>Unauthorised expenditure</li> </ul>	W.e.f. 1 April 2012 the current financial system will be upgraded and a procurement element implemented. This will completely change the way orders are processed, and the new system will ensure all orders are authorised in line with the Constabulary's authorisation hierarchy. (1 <sup>ST</sup> April 2012)	I-Procurement element implemented and Financial Regulations are currently in draft following the move to a Police and Crime Commissioner.
The list of staff authorised to receive CHIS payments should be kept up to date	3 <ul style="list-style-type: none"> <li>Poor financial management</li> </ul>	Update the list of staff authorised to receive CHIS payments (15/12/11 – Completed).	N/A – CHIS payments no longer made via petty cash.
Outstanding advances should be regularly reviewed and included in the petty cash reimbursements as soon as practicable	3 <ul style="list-style-type: none"> <li>Poor financial management</li> </ul>	Review all outstanding advances and process through the Petty Cash imprest (31/03/11).	Outstanding advances processed.

## 5.0 CREDITOR RESULTS

- 5.1.1 The Financial Regulations are currently in draft following the change to a Police and Crime Commissioner and the Financial Rules are due to be updated. Once approved they will be placed on the force intranet as with previous versions.
- 5.1.2 With the implementation of a new i-Procurement system relevant staff were provided with training and support materials. The Central Services Department has also produced its own process maps and documents on certain aspects of the system.
- 5.1.3 Under the new system individuals' tasks are restricted by their system access levels and mandatory fields ensure all required data is present before the system will process requests.
- 5.1.4 Requests for goods or services are initiated by completing a request form on Sharepoint which then must be authorised by the appropriate Manager. The completed Sharepoint form is automatically sent to the individual's line manager for approval (this is taken from information in the Origin HR system).

- 5.1.5 Following approval, these Sharepoint forms are automatically forwarded to the Central Services Department for processing. A requisitioner within CSD procurement desk picks up the request, turns it into a requisition. All requisitions are then forwarded automatically for authorisation as per the approvals hierarchy built in to the system (based on category codes of items being requested and requisition values). Depending on the category code of the items in the requisition, some requisitions under £250 in value are designated as self-approved as set out in the scheme of delegation. It was noted that requisitioners are able to alter who the requisition is sent to for approval but the requisition will not go forward to the next stage of processing if the value exceeds the approvers limit or the approver does not have authority to approve expenditure on the category. Alternative approvers are only generally sought when an approver is absent and has not activated vacation rules within the system.
- 5.1.6 A small number of people outside the Central Services Department were specifically chosen to also be requisitioners so that they could raise their own requisitions due to the specialist nature of some items, for example in estates, fleet and IT. Some of these requisitioners are also able to authorise requisitions and if, as per the approvals hierarchy, they are able to approve the requisition they raise themselves the requisition is auto-approved and goes to the next stage of processing. Furthermore, some of these requisitioners can also goods receipt. Therefore there are a limited number of people able to raise a requisition, 'approve' it where it relates to an item they can approve and also goods receipt it. There is an adequate segregation of duties within the process as these requisitioners cannot turn the requisition into an order.
- 5.1.7 Processed requisitions are turned into supplier orders by 'buyers'. Six staff (three in the Central Services department and three in procurement) have 'buyer' access levels but it was stated that only two of these staff actually perform the role. 'Buyers' cannot raise a requisition or receipt goods so there is an adequate segregation of duties in the process.
- 5.1.8 A variation to the normal process is in regards to hire car and travel and accommodation bookings where normal i-procurement processes are followed for the requisition and approval stages, however orders are subsequently placed directly via supplier websites as per the agreed booking process with Enterprise and Redfern Travel, rather than from the Oracle system.
- 5.1.9 If an order is over £10,000 it is automatically sent for further authorisation, based on a separate purchasing hierarchy set up in the system, before it is sent to the supplier. This is designed to ensure that the proper procurement processes are followed in accordance with contract standing orders.
- 5.1.10 Items ordered through the i-Procurement system must be 'goods receipted' onto the system before payment can be made to the supplier (even if the invoice has already been entered). Currently, 83 people are able to receipt goods in the system, including Central Services staff and some front counter / administrative staff.
- 5.1.11 There are a number of reasons where invoices entered on the creditors system relating to an order will automatically be placed on hold and not paid (for example where the goods have not been receipted or where prices do not agree to the order). Reports are run regularly to determine where further action can be taken to reduce the number of invoices on hold and pay them.

- 5.1.12 A number of purchases remain outside the i-Procurement system for items where orders are not used, for example utility bills. These are referred to as non-matched invoices and work is ongoing within the Central Services Department to reduce the number of non-matched invoices for processing.
- 5.1.13 The hierarchy of individuals (by their job title) authorised to approve requisitions is used by Central Services staff to determine who can authorise non-order invoices. This list is managed and updated by the Financial Services department who have control over who has authorisation to approve requisitions.
- 5.1.14 It was noted that there are a number of category codes on the hierarchy list which do not have authoriser details against them and not all codes in use are on the list. A complete list of codes and authorisers should be maintained to inform staff seeking authorisation for non-order invoices of approved authorisers.
- 5.1.15 A sample of 46 payments to suppliers was reviewed. 15 of these had been processed through the i-Procurement system, 27 were non-order invoices and four were orders entered on the existing Tranman (fleet) system.
- 5.1.16 Invoices reviewed were bona fide, expenditure and coding appeared reasonable and in line with business requirements based on the description of items as per the invoices.
- 5.1.17 All items sampled that were processed through the i-procurement system followed the specified route and hierarchy determined by the Constabulary.
- 5.1.18 Four invoices, authorised by the same person, appeared incorrectly authorised based on the coding of the invoices and the requisition approvals hierarchy provided. However, these invoices were correctly authorised as this person had authorisation under the scheme of delegation and this was confirmed by the Financial Services Officer but this was not reflected in the approvals hierarchy listing. This list has since been updated. One of these invoices was coded to a code not on the hierarchy list.
- 5.1.19 A further two invoices sampled were coded to codes not on the requisitions hierarchy list so it could not be determined who could authorise them, though authorisations appeared appropriate.
- 5.1.20 Two other non-order invoices were incorrectly authorised based on coding and the requisition approvals hierarchy.
- 5.1.21 During processing, invoices are scanned and attached to the record in Oracle, which allows people to drill down and view the invoice without the need to request a paper copy of it.
- 5.1.22 The majority of payments are processed by BACS. Access to the BACS system is restricted and effectively controlled. Prior to the payment run a list of all proposed payments is sent to Finance for approval. Once received, the payment is processed and reports from pre and post-processing are taken to Finance for signing.

- 5.1.23 Cheque payments are written out by staff who have access to enter invoices into the system. Whilst it is advisable to have a segregation of duties between these roles, it is noted that cheques and the documents initiating their payment require two authorised signatures before being sent out and that the Business Services Team Leader updates the system to show the invoices as paid.
- 5.1.24 Controls are in place to prevent duplicate payments occurring, including the creditors system not allowing an identical invoice number to be entered against a supplier account where it has already been processed. This control relies on staff entering invoice numbers in a consistent manner and it was stated that this has been discussed with them by the Business Services Team Leader. Cumbria Constabulary is also involved in the biennial National Fraud Initiative data exercise which helps to identify any duplicate creditor payments and submitted its data for the latest exercise in October 2012. No major issues were identified in the 2010/11 exercise and findings were reported to the Governance Committee.
- 5.1.25 The Accounts Payable ledger balance is reconciled to the control account balance in the general ledger, this process takes place in two stages. Firstly, Central Services Department staff carry out a reconciliation of the creditors system within itself (i.e. outstanding invoices brought forward + new invoices raised – invoices paid = outstanding invoices at the end of the period). This reconciliation is undertaken on a monthly basis before the AP period (month) is closed down and moved forward. The second reconciliation takes place within Financial Services and reconciles the above figures to the figures held within GL in the creditors control account. Whilst the first stage was undertaken on a monthly basis from April the reconciliation between AP and GL was only brought up to date in September 2012, by the Financial Services Manager, covering the first five months of the financial year. They were not independently reviewed. As of October these reconciliations have been undertaken each month and reviewed by a senior employee. Reconciliations should be undertaken and reviewed on a timely basis, even during staff absence and times of work pressure, so that any issues can be identified and resolved promptly.
- 5.1.26 A sample of 25 new / amended suppliers was selected for testing to ensure that the change was appropriately documented. 24 of these had supporting documentation for the change and details agreed from these to the system. The remaining one was set up via a series of emails but no paperwork could be found to confirm the details needed to set up the supplier.
- 5.1.27 Supplier set up / amendment is restricted to six current employees. During the months of April and May 2012, due to workloads and the new system implementation staff undertook checks on a sample of entries to ensure that details had been entered correctly. However, since June 2012 all new supplier entries are checked by a second member of staff to ensure details have been entered correctly. Several of the sample tested had no evidence of checking by a second person. This review should be evidenced on all forms.



5.1.28 The first report on the promptness of invoice payments was produced in January 2013. The delay was due to the reporting tool not being available until August 2012 and staff requiring training on how to use it. The report shows that overall at the end of December, an average of 58% of invoices had been paid to terms (with individual months ranging from 33% – 72%). The reason for this lower average is due to the implementation of a new system in April 2012 and the initial backlog of invoices processed during May and June 2012, which resulted in a 44% and 33% payment in terms. It was stated that the report will now be produced monthly and will be monitored to ensure performance improves. The Business Services Team Leader stated that some supplier terms may need changing in the system so that a truer picture is reflected. The figure will also be affected if suppliers are slow to respond to queries on particular invoices or managers are slow to accept invoices where the price varied from the order.

<b>RECOMMENDATION</b>		
<b>Ref</b>	<b>Recommendation and Grade</b>	<b>Risks if not Actioned</b>
R1	The scheme of delegation should be fully updated and authorisation levels adhered to, to ensure that only authorised staff approve invoices for payment (Grade 2).	<ul style="list-style-type: none"> <li>• Unauthorised approval of expenditure.</li> </ul>
R2	Appropriate arrangements should be put in place to ensure that tasks (reconciliations) are undertaken on a timely basis during staff absence and peak pressures (Grade 2).	<ul style="list-style-type: none"> <li>• Issues not identified in a timely manner.</li> </ul>
R3	All checks on new supplier records / amendments should be evidenced on the change form (Grade 3).	<ul style="list-style-type: none"> <li>• Payments made incorrectly.</li> <li>• Fraudulent details set up.</li> </ul>

## **6.0 PETTY CASH RESULTS**

6.1.1 The HQ petty cash is administered and held by the Central Services Department.

6.1.2 Since the previous audit review all petty cash bank accounts have been closed and the petty cash is administered from the Constabulary's main fund account.

6.1.3 The overall petty cash imprest is £3,500 which is split between the areas as follows:

- HQ - £2,000
- Kendal / Barrow - £500 (£250 each)
- Workington - £500
- Carlisle - £500

6.1.4 Expenditure is recorded on vouchers and area offices send these along with receipts to HQ when reimbursement is required. The Business Services Team Leader signs off reimbursements (which are made for all areas collectively) and a cheque is raised for the required amount which is signed by two authorised signatories. Two members of staff from the finance team cash the cheque and the cash to be reimbursed to the areas is given to the Area Commander or Chief Inspector who sign for it when they are at HQ.

- 6.1.5 The HQ and area petty cash activity was reviewed for the current financial year and usage was found to be reasonable and supported by vouchers and VAT receipts where applicable. The HQ petty cash was reconciled to the imprest level of £2,000 at the date of the audit.
- 6.1.6 Expenditure appeared reasonable for the business and for petty cash.
- 6.1.7 A number of fuel payments had been made through the petty cash and it was stated that this was due to Fleet fuel cards being rejected if they were used more than twice in one day. This resulted in staff having to pay for fuel themselves. Staff have now been informed not to fill fleet cars more than once in a day to resolve this.
- 6.1.8 Regular reconciliations of the petty cash are undertaken and one reimbursement made each month for HQ and areas together (when all supporting paperwork has been received from the areas).
- 6.1.9 Petty cash and the cheque book are held securely in a keypad safe in the Central Services Department with restricted access.
- 6.1.10 Covert Human Intelligence Source (CHIS) payments are no longer made through the petty cash system.

**CUMBRIA CONSTABULARY  
CREDITOR PAYMENTS & PETTY CASH**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN  
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)**

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	The scheme of delegation should be fully updated, and authorisation levels adhered to, to ensure that only authorised staff approve invoices for payment.	2	Michelle Bellis, Financial Services Manager & Ann Dobinson, Head of Central Services	<p>The approvals hierarchy will be reviewed and will ensure that</p> <ul style="list-style-type: none"> <li>• All expenditure categories have appropriate expenditure authorisers attached to them.</li> <li>• All codes are linked to an expenditure category.</li> <li>• That the approvals hierarchy accords with agreed budget delegations.</li> </ul> <p>A process to regularly update the approvals hierarchy will be put in place. All staff will be reminded of the importance of ensuring that expenditure is appropriately authorised in accordance with financial regulations.</p>	April 2013

**CUMBRIA CONSTABULARY  
CREDITOR PAYMENTS & PETTY CASH**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN  
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)**

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R2	Appropriate arrangements should be put in place to ensure that tasks (reconciliations) are undertaken on a timely basis during staff absence and peak pressures.	2	Michelle Bellis, Financial Services Manager	The demands on the financial services team at the start of the 2012-13 financial year were extraordinary, following the upgrade of the financial system, which required workload to be prioritised based on an analysis of risk. On an on-going basis it is intended that accounts payable control account reconciliations will be undertaken on a timely basis.	October 2012
R3	All checks on new supplier records / amendments should be evidenced on the change form.	3	Ann Dobinson, Head of Central Services	Procedures have been revised to ensure that all new supplier records are checked by two people and that the supplier form is countersigned by both members of staff. All relevant staff have been informed.	1 March 2013

<b>ACTION PLAN AGREED BY:</b>	Michelle Bellis , Financial Services Manager & Ann Dobinson Head of Central Services	<b>DATE:</b>	01 March 2013
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<b>ACTION PLAN APPROVED BY THE HEAD OF FINANCIAL SERVICES:</b>	Roger Marshall, Head of Financial Services	<b>DATE:</b>	08 March 2013
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# **SHARED INTERNAL AUDIT SERVICE**

## **INTERNAL AUDIT REPORT**

**A REPORT FOR  
CUMBRIA OFFICE OF THE POLICE & CRIME COMMISSIONER**

**A REPORT ON**

**Management of Change Costs – Grade 1 Recommendation Follow Up**

**Draft Report Issued: 5th March 2013**  
**Final Report Issued: 11<sup>th</sup> March 2013**

## 1.0 INTRODUCTION

- 1.1 In March 2012 Internal Audit undertook a review of Management of Change Costs, as part of the 2011/12 internal audit plan. One grade 1 recommendation was made as part of this review:

*'Formal written evidence of Voluntary Redundancy approval from the Deputy Chief Constable should be secured in all cases, in accordance with the Voluntary Redundancy Scheme'.*

- 1.2 In March 2013 Internal Audit conducted a follow up audit of this grade 1 recommendation to ensure it had been implemented.
- 1.3 The contacts for this review were:-
- Andrew Taylor – Head of Human Resources
  - Kerry Rogerson – HR Business Partner (Directorates)

## 2.0 SCOPE

- 2.1 The scope of the audit was to ensure that the grade 1 recommendation made in the March 2012 audit report had been implemented and to ascertain whether the controls in place for authorising voluntary redundancies are adequate and are being adhered to.

## 3.0 CONCLUSION

- 3.1 Internal Audit concludes, that on the basis of testing, the grade 1 recommendation has been implemented and controls around the mechanism for securing Deputy Chief Constable approval have been tightened.

## 4.0 DETAILED FINDINGS & RECOMMENDATIONS

- 4.1 One grade 1 recommendation was made during the March 2012 Internal Audit Review of Management of Change Costs (Assignment Ref J110011). The recommendation is reviewed, in conjunction with the action agreed following the audit, to determine progress made.

Report Ref: 4.3.11 (Grade 1)		
Detailed Recommendation	Person Responsible	Agreed Action
Formal written evidence of Voluntary Redundancy approval from the Deputy Chief Constable should be secured in all cases, in accordance with the Voluntary Redundancy Scheme.	Head of Personnel Services	The Deputy Chief Constable will be requested to sign a Formal Written Approval for all future VR Applicants

## SHARED INTERNAL AUDIT SERVICE

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- 4.2 Voluntary redundancy applications are subject to a business case. A tightly controlled system is in place whereby each case must be considered and costed against predetermined criteria. The cost benefits must be clarified and a risk analysis undertaken to support the rationale for approval recommendation. For instance there is a need to demonstrate that a voluntary redundancy generates a cheaper alternative to the compulsory redundancy of someone on the at risk register.
- 4.3 Change Management Policy and Procedures require that each business case is presented to the Deputy Chief Constable for consideration. An employee cannot be released until written confirmation is received from the Deputy Chief Constable. This confirmation was sighted for 70% of the cases reviewed during the March 2012 audit review, leading to the above grade 1 audit recommendation.
- 4.4 In response to the grade 1 audit recommendation the Head of Personnel Services agreed to request formal written approval for all future voluntary redundancy applications from the Deputy Chief Constable. This agreed action would be implemented on 1st May 2012. A 'Voluntary Redundancy Consideration' form was developed for this purpose. The form requires the Deputy Chief Constable to indicate whether the voluntary redundancy application has been approved, rejected or approved with conditions before signing and dating. The form is presented with each business case for completion.
- 4.5 The Human Resources Department provided details of voluntary redundancies during the 2012/13 financial year to date. There were 17 cases on the list and a sample of 10 was selected for review. Approval for four of the cases pre-dated the audit recommendation for formal hard copy sign off. However tests confirmed that the Deputy Chief Constable had signed a formal approval document for the remaining six voluntary redundancy cases in accordance with the Voluntary Redundancy Scheme.





<b>JOINT POLICE &amp; CRIME COMMISSIONER AND CUMBRIA CONSTABULARY</b>  <b>AUDIT &amp; STANDARDS COMMITTEE</b>	<p>Paper No.</p> <p><b>10</b></p>
<b>Meeting Date: 21 MARCH 2013</b>	
<b>From: HEAD OF INTERNAL AUDIT</b>	

## **PROPOSED INTERNAL AUDIT PLAN 2013/14**

### **1.0 EXECUTIVE SUMMARY**

- 1.1** *This report sets out the proposed areas for Internal Audit reviews in 2013/14. As in 2012/13 an interim plan has been produced. This identifies the core audits (around the main financial systems) that will be delivered and incorporates contingency to enable internal audit to respond to developments and the need for emerging work.*

### **2.0 RECOMMENDATION**

- 2.1** The Committee is requested to review this report and approve the proposed internal audit plan for 2013/14. In addition to the 140 base days the plan includes an additional 3 days to reflect efficiency savings from the Shared Service and 23 internal audit days brought forward from 2012/13 (20 days for data quality on selected measures in the Policing Plan and 3 days for Winsor).

### **3.0 DRAFT INTERNAL AUDIT PLAN**

- 3.1** The audit plan has been prepared based on a risk assessment taking into account significant financial systems and risks set out in both the PCC and Constabulary strategic risk registers. The risk assessment includes separate consideration of fraud risk as recommended by the external auditor. The plan also reflects the requirement for Internal Audit to contribute to the review of the Annual Governance Statement.
- 3.2** Consultation has taken place with the Office of the Police and Crime Commissioner and Constabulary (via the Chief Finance Officers).
- 3.3** Certain financial systems reviews are considered necessary on an annual basis given the materiality of the systems and the requirements of the managed audit approach by the external auditor.

3.4 The following should be noted:

<b>Audit area</b>	<b>Commentary</b>
<p><b><i>Main financial systems</i></b></p> <p><b><i>(58 days)</i></b></p>	<p>Key controls within the main financial systems require annual audit coverage to support assertions made in the Annual Governance Statement, and to underpin the reliability of annual financial statements – this includes payroll, creditors, debtors, main accounting system and treasury management.</p> <p>Pension calculations and payments are also reviewed annually as pension costs are material to the Police accounts.</p> <p>Work on allowances and special payments (Winsor review) will be completed when changes have been fully implemented.</p>
<p><b><i>Governance</i></b></p> <p><b><i>(5 days)</i></b></p>	<p>Internal audit will review the Annual Governance Statement and verify supporting evidence on a sample basis.</p>
<p><b><i>Selected reviews / reactive work / contingency</i></b></p> <p><b><i>(55 days)</i></b></p>	<p>This includes two data quality audits around selected measures in the Policing Plan (public / customer satisfaction and prolific &amp; other priority offenders) which were deferred from 2012/13 at the request of the OPCC Chief Finance Officer.</p> <p>A review of integrity will be undertaken concentrating on use of corporate credit cards, gifts &amp; hospitalities and contracting &amp; secondary employment. 10 days has been allocated to this audit.</p> <p>The remaining internal audit time will be used on areas identified during the year as they emerge.</p>
<p><b><i>Counter fraud</i></b></p> <p><b><i>(2 days)</i></b></p>	<p>This includes the provision of the Whistleblowing Hotline and training on counter fraud awareness for the Audit and Standards Committee.</p>
<p><b><i>Planning &amp; management</i></b></p> <p><b><i>(23 days)</i></b></p>	<p>This includes provision for planning and scheduling work and finalising reports. It includes preparation of the annual plan, annual report and interim progress reports to the Audit and Standards Committee throughout the year. Time spent preparing for and attending the Audit and Standards Committee is included here.</p> <p>This also includes time for liaison with Constabulary and OPCC management and the External Auditor.</p>

- 3.5 A summary of the estimated days for completing the 2013/14 internal audit plan is set out below:

<b>Audit area</b>	<b>2012/13</b>	<b>2013/14</b>
Main financial systems	67	58
Annual Governance Statement	5	5
IT audit (Oracle security)	8	0
Territorial Policing Areas	4	0
Selected reviews / contingency / reactive work	47	55
Counter fraud / Whistleblowing Hotline	2	2
Planning & management	23	23
<b>Baseline Total</b>	<b>140</b>	<b>143</b>
Work b/fwd from previous year	16 (included above)	23
<b>Total Internal Audit days</b>	<b>156</b>	<b>166</b>

- 3.6 2013/14 sees the continuation of the shared internal audit service for the County Council with Carlisle City Council and Copeland Borough Council. The Police Authority joined the Internal Audit Shared Service as a participant in July 2012.
- 3.7 The base cost for 2013/14 will remain at £38,142 for 140 plus 3 days. The Cumbria Office of the Police and Crime Commissioner has opted to take the 2% efficiency saving from participating in the Shared Service as additional audit days. Any further additional days will be charged at the daily rate.

**Emma Toyne**  
**Audit Manager**  
**March 2013**



# Joint Audit & Standards Committee

## **Title:** Treasury Management Activities for the period October 2012 to February 2013

**Date:** 21 March 2013

**Agenda Item No:** 11

**Originating Officer:** Michelle Bellis, Financial Services Manager

**CC:**

### **Executive Summary:**

The purpose of this paper is to report on the Treasury Management activities, which have taken place between October 2012 and February 2013, in accordance with CIPFA's Code of Practice on Treasury Management.

Treasury Management activities are undertaken in accordance with the Treasury Management Strategy Statement and Treasury Management Practices approved by The Commissioner in February each year.

### **Recommendation:**

Members are asked to scrutinise the contents of the report.



# **1. Economic Background**

- 1.1. The period since the last report has been characterised by little change in the overall economic outlook as the Governments of most developed economies implement policies to reduce unsustainable levels of sovereign debt, which has had the effect of depressing economic activity. However, since the start of 2013 there have been significant and contradictory movements on equity and currency markets.
- 1.2. The world economic situation remains fragile with all the major economies in the Eurozone, together with that of the USA contracting to varying degrees in the final quarter of 2012. Whilst intervention from the European Central Bank appears to have averted the immediate threat of a break up of the Euro the fundamental problem of how to stimulate growth, whilst reducing public spending remains unanswered. In the UK GDP grew unexpectedly strongly in the third quarter of 2012, partly driven by the effect of the Olympics, however this was reversed in the fourth quarter with GDP contracting by 0.3%, principally as a result of reduced manufacturing output. The potential that the UK will experience an unprecedented triple dip recession is now a real possibility. Against this backdrop in February the credit rating agency Moody's downgraded the UK's triple AAA rating, based on the likelihood of slow economic growth in the UK over the next few years.
- 1.3. Whilst the loss of the AAA rating had been widely forecast in financial markets, it does seem to be symptomatic of a general reduction in confidence over the prospects for the UK economy, which has been manifested by a 7% reduction in the value of the pound against major currencies since the start of 2013. The Bank of England had previously signalled that the rate of Inflation, as measured by the Consumer Price Index (CPI), is likely to stay above the Government's 2% target until 2016. The prospect of higher import prices including oil as a result of the devaluation of sterling is likely to push the rate of CPI above the current level of 2.7% in the short term.
- 1.4. The latest UK unemployment figures continue to defy the trend in economic growth, with unemployment for the three months to December 2012 standing at 7.5%, which represents a fall of 0.1%.

- 1.5. In contrast to the pervading gloom in the real economy, financial market sentiment is somewhat perplexing, with the footsie index of leading UK shares showing a five year high and the Dow Jones reaching a record high level. This may, however, be more indicative of the low levels of return available in alternative investments than any fundamental increase in confidence over future economic prospects.
- 1.6. The latest Bank of England Monetary Policy Committee minutes reveal that whilst recognising the likelihood that inflation would exceed the 2% target for a prolonged period into the future and that this should remain a longer term objective, in the short term the most pressing policy priority is to stimulate economic growth. Whilst the committee ultimately voted to retain the base rate at the current level of 0.5% and that further quantitative easing measures should not be sanctioned at the current moment, alternative policy instruments to stimulate the economy have been actively considered. Some economic commentators have speculated that this may ultimately extend to the radical concept of negative interest rates. Arlingclose Ltd, the Authority's treasury advisors, continue to forecast that the base rate will remain at its current level for the foreseeable future, however gilt yields have recently started to increase, which will result in higher long term borrowing costs from the Public Works Loans Board.

A graph showing past UK Bank of England Base Rate movements together with Arlingclose projections for the next two years is shown for the Committee's information as **Appendix 1**.

## **2. Treasury Management Operations and Performance Measures**

- 2.1. The PCC's day to day treasury management activities are undertaken on behalf of the Commissioner's Chief Finance Officer (PCCCFO) by the financial services team under the management of the Chief Constable's Chief Finance Officer (CCCFO). Authority to transact is set out in the Commissioner's scheme of delegation.
- 2.2. Management of cash balances
- Members are reminded that the aim is to invest surplus cash and minimise the level of uninvested cash balances, whilst following the Treasury Management Strategy to limit risks to the PCC's funds. Actual uninvested balances for the months of October 2012 to February 2013 for the PCC's main bank account are summarised in the table below:-

	<b>Number Days</b>	<b>Average Balance £</b>	<b>Largest Balance £</b>
Days in Credit	142	4,303	302,742
Days Overdrawn	9	(353)	(1,051)

The largest un-invested balance occurred on 17 December and was as a result of an oversight where a planned investment with a money market fund of £300k was not transacted. The interest forgone as a result of the non-investment of this sum for one day would be approximately £3.

The largest overdrawn balance occurred on 9 November and was as a result of a cheque being presented where the payee banked with the same branch of Nat West as the PCC and as such the cheque cleared the same day.

Within the Treasury Management Strategy a target is set to achieve a daily balance of +/- £2k on the PCC's main bank account. Whilst the daily treasury management process always calculates the anticipated balance within these limits, daily transactions through the bank of which we are not aware (e.g. banking of cash/cheque receipts) can alter the closing balance for the day. During the year to date (April 2012 to February 2013) the balance was within the £2k limit for 259 out of 334 days (78%), the potential interest foregone as a result is estimated at £16.

### 2.3. Investment Activity

Until recently, investments were restricted to AAA rated money market funds, the Debt Management Office (DMO) and other Local Authorities only. On 22<sup>nd</sup> February 2013, The Commissioner approved the treasury management strategy statement for 2013/14 and the remainder of 2012/13 which removed the above restriction. As a consequence, there was only 1 investments made (27/02/13) with financial institutions that fall into category 1 of the approved investment counterparties (major UK Banks) during the period October 2012 to February 2013.

The table below illustrates the number and value of investments made with Major UK Banks (category 1), other Local Authorities (category 3) and the Debt Management Office (category

4) of the approved investment counterparties on a month by month basis:-

Month	Number of Investments	Total Value of Investments £m
October 2012	4	6.7
November 2012	3	4.6
December 2012	3	4.6
January 2013	3	5.4
February 2013	6	8.9

In addition to the above there are regular smaller investments made via liquidity funds (category 2).

A schedule detailing the individual investments that make up the £20.772m total invested at 28 February 2013 is attached at **Appendix 2**.

A further illustrative analysis is provided of the balance outstanding at **Appendix 3**, where the first chart analyses the outstanding balance by the credit rating of the investment counterparty and the second shows the maturity structure of investments by the credit rating of the counterparty. Members are reminded that the PCC's current policy is that investment counterparties have minimum credit rating of A-. (The greater the number of A's the higher the credit rating).

As can be seen from **Appendix 4** below, the PCC sets a limit for "non-specified" investments of over 364 days at time of investment, for 2012/13 this limit was set at £5m. The PCC currently has only one investment of over 364 days in duration. The details of the investment are as follows:

Borrower	Value £(m)	Period (Days)	Date Invested	End Date	Actual Rate (%)
Barclays Bank Plc	1	366	27/02/13	28/02/14	0.91

#### 2.4. Interest Earned

Interest earned for the period of the report and the average return on investment that it represents is set out in the table below:-



Month	Interest Amount (£)	Average Total Investment (£)	Average Return on Investment (%)
October 2012	7,205	27,468,194	0.31
November 2012	6,681	26,794,733	0.30
December 2012	6,690	25,789,097	0.31
January 2013	6,844	27,126,419	0.30
February 2013	5,334	23,949,421	0.29
<b>Total</b>	<b>32,754</b>	<b>26,267,025</b>	<b>0.30</b>

Total interest earned during the first 11 months of 2012/13 has amounted to £97k. The current forecast of interest receipts which will be generated in 2012/13 is slightly below the budget at £105k.

A comparison of this figure against budget is outlined in the table below.

	Amount (£000's)
Original Estimate 2012-13	110
Forecast position as at July 2012	109
Forecast position as at September 2012	110
Forecast position as at February 2013	105
Forecast shortfall compared to Estimate	5

## 2.5. Investment Performance

As a performance measure for the quality of investment decisions, the rate achieved on maturing longer term investments of over three months is compared with the average Bank of England base rate over the life of the investment. The table below outlines the rates actually achieved against the average base rate for loans maturing during the period October 2012 to February 2013:-

<b>Borrower</b>	<b>Value £(m)</b>	<b>Period (Months)</b>	<b>Actual Rate (%)</b>	<b>Avg. Base Rate (%)</b>
Midlothian Council	2	3	0.27	0.50
Dumfries & Galloway Council	2	3	0.27	0.50
Debt Management Office (DMO)	1.5	3	0.25	0.50
Barnsley Metropolitan Borough Council	2	7	0.28	0.50
Salford City Council	2	7	0.28	0.50

As can be seen from the above table, all the maturing investments of over 3 months in duration all failed to meet the target rate of the Bank of England Base rate. This is due largely to the operation of a cautionary treasury management strategy for the majority of the year (up to 22 February 2013) which restricted investments to AAA rated money market funds, other local authorities and the DMO only.

### **3. Compliance with Prudential Indicators**

- 3.1. The constabulary can confirm that it has to date complied with its treasury related Prudential Indicators for 2012/13, which were set in February 2012 as part of the annual Statement of Treasury Management Strategy. Further details can be found at **Appendix 4**.

### **4. Implications**

- 4.1. Financial – As detailed in main body of report above.
- 4.2. Legal – None
- 4.3. Risk – The report advises members about treasury activities. Given the large unsecured sums invested with financial institutions treasury management can be a risky area. Nevertheless, procedures are in place to minimise the risks involved, including limits on the sums to be invested with any single institution and reference to credit ratings are set down in the PCC's treasury strategy and in particular the treasury management practices (TMP1 Treasury Risk Management).
- 4.4. HR / Equality – None

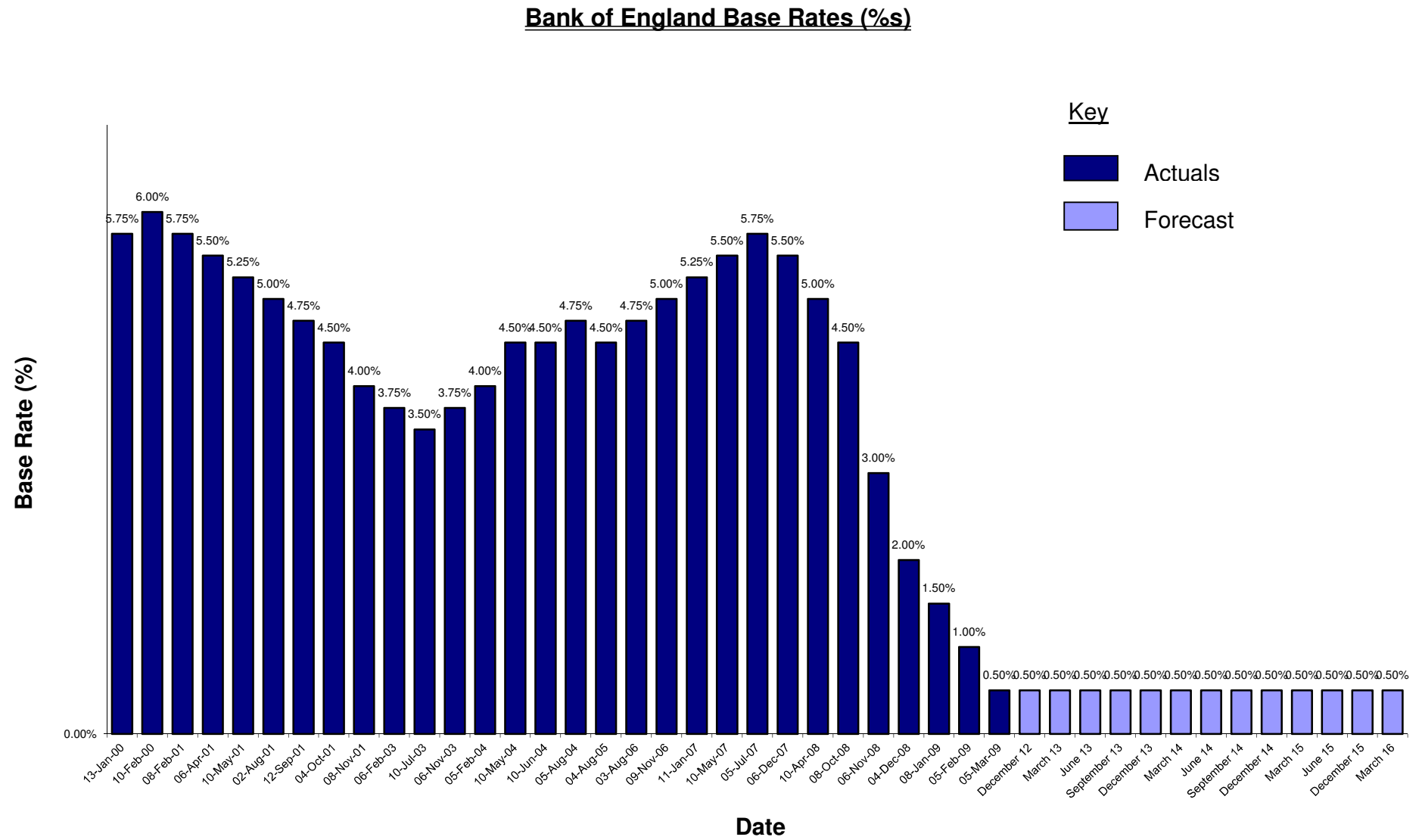
4.5. I.T – None

4.6. Procurement – None

## **5. Supplementary information**

### Attachments

Appendix 1	Recent history and projections of Bank Base Rates
Appendix 2	Schedule of Investments as at 28 February 2013
Appendix 3	Analysis of Investments as at 28 February 2013
Appendix 4	Prudential Indicator Compliance



## Appendix 2

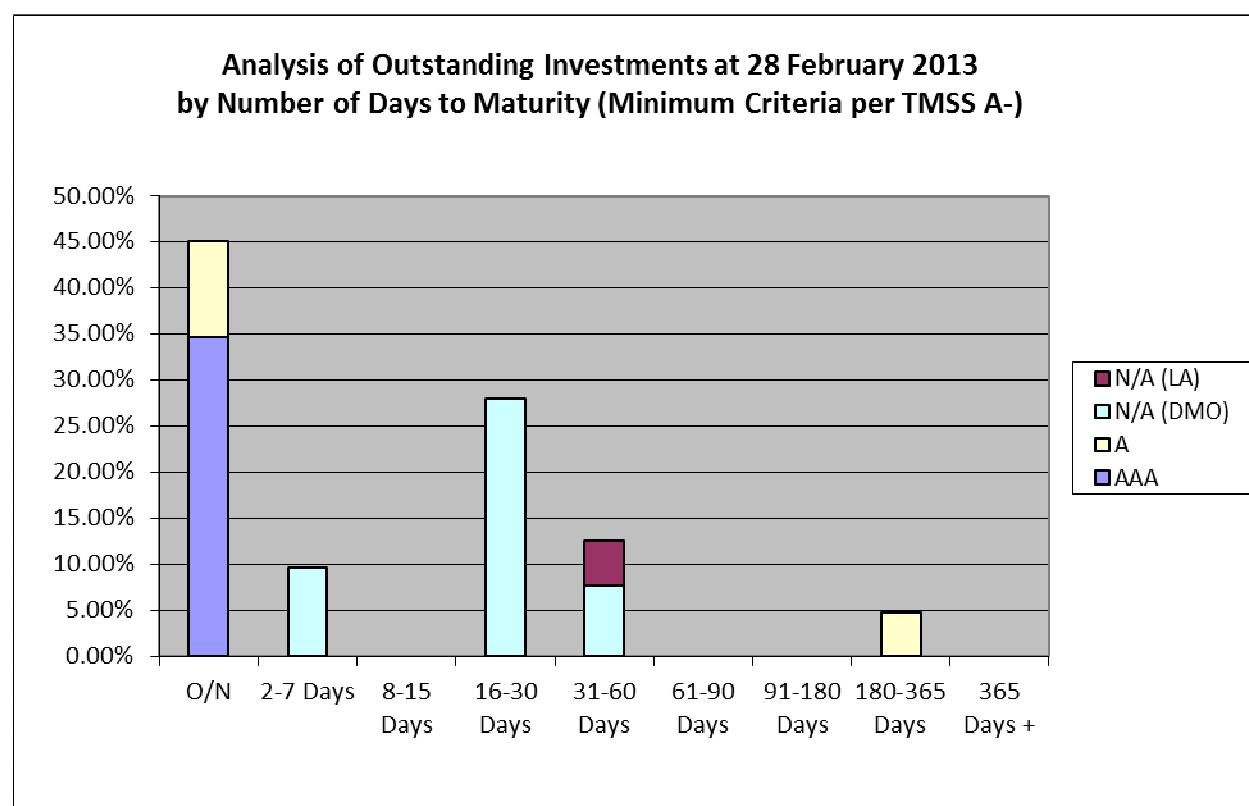
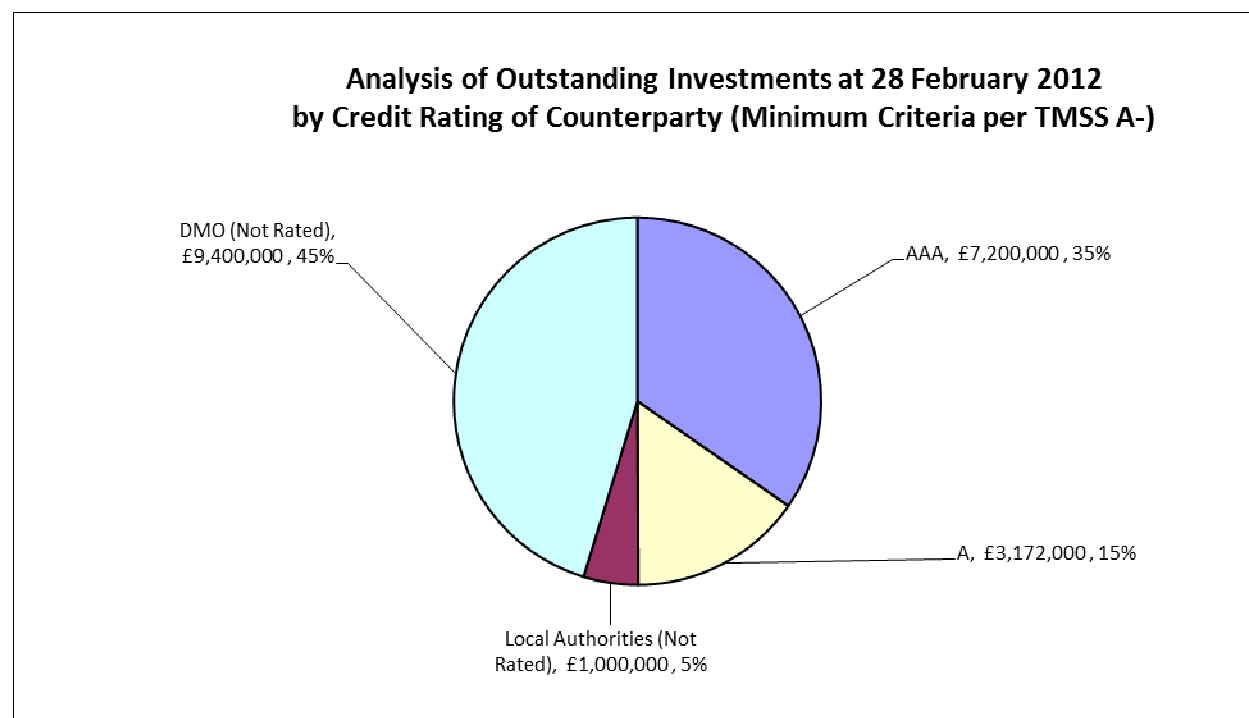
**Schedule of Investments as at 28 February 2013**

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate %	Amount £	Counterparty Total £
<b>Category 1 - Major Banks &amp; Building Societies</b>							
- Barclays	A	27/02/2013	28/02/2014	365	0.910%	1,000,000	1,000,000
- National Westminster Bank (Liquidity Select Account)	A	28/02/2013	01/03/2013	O/N	0.800%	2,172,000	2,172,000
						<b>3,172,000</b>	<b>3,172,000</b>
<b>Category 2 - Money Market Funds (AAA Rated)</b>							
- Black Rock	AAA	Various	On demand	O/N	Various	1,700,000	1,700,000
- Goldman Sachs	AAA	Various	On demand	O/N	Various	0	0
- IGNIIS	AAA	Various	On demand	O/N	Various	1,500,000	1,500,000
- Invesco Aim	AAA	Various	On demand	O/N	Various	2,000,000	2,000,000
- Scottish Widows	AAA	Various	On demand	O/N	Various	2,000,000	2,000,000
						<b>7,200,000</b>	<b>7,200,000</b>
<b>Category 3 - Other Local Authorities</b>							
- Salford City Council	N/A	11/02/2013	11/04/2013	42	0.250%	1,000,000	1,000,000
						<b>1,000,000</b>	<b>1,000,000</b>
<b>Category 4 - Debt Management Office</b>							
- Debt Management Office	N/A (DMO)	27/12/2012	28/03/2013	28	0.250%	1,000,000	1,000,000
- Debt Management Office	N/A (DMO)	03/01/2013	03/04/2013	34	0.250%	1,600,000	1,600,000
- Debt Management Office	N/A (DMO)	04/01/2013	28/03/2013	28	0.250%	1,800,000	1,800,000
- Debt Management Office	N/A (DMO)	25/01/2013	28/03/2013	28	0.250%	2,000,000	2,000,000
- Debt Management Office	N/A (DMO)	05/02/2013	04/03/2013	4	0.250%	2,000,000	2,000,000
- Debt Management Office	N/A (DMO)	11/02/2013	28/03/2013	28	0.250%	1,000,000	1,000,000
						<b>9,400,000</b>	<b>9,400,000</b>
<b>Total</b>						<b>20,772,000</b>	<b>20,772,000</b>

Note – the credit ratings shown in the above table relate to the standing as at 28 February 2013, as discussed in the main body of the report, the ratings are constantly subject to change.

The TMSS sets limits for maximum investment with counterparties. These limits are currently set at £2m per institution/banking group in category 1 and £2m per Money Market Fund in category 2. The limit for other Local Authorities is set at £2m and there is no limit for investments with the DMO. The above table illustrates that these limits have not been exceeded.

## Appendix 3

**Analysis of Outstanding Investments as at 28 February 2013**

Note – the credit ratings shown in the above charts relate to the standing as at 28 February 2012, as discussed in the main body of the report, the ratings are constantly subject to change.

## Appendix 4

**Prudential Indicator Compliance****(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the PCC to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached during the year.
- The PCC's Affordable Borrowing Limit was set at £26.50m for 2012/13.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2012/13 was set at £25.00m.
- The actual amount of external borrowing as at 28 February 2012 was £31,300 which is well within the above limits. No new external borrowings have been undertaken in the current financial year.

**(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

- These indicators allow the PCC to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2012/13 £m</b>	<b>Actual Borrowing at 28/02/13 £m</b>	<b>Compliance with Limits ?</b>
<b>Upper Limit for Fixed Rate Exposure</b>	26.50	0.031	Yes
<b>Upper Limit for Variable Rate Exposure</b>	1.50	0	Yes

**(c) Maturity Structure of Fixed Rate Borrowing**

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual Fixed Rate Borrowing as at 28/02/13 £m</b>	<b>% Fixed Rate Borrowing as at 28/02/12 %</b>	<b>Compliance with Set Limits?</b>
Under 12 months	100	0	0.031	100	Yes
12 months and within 24 months	100	0	0	0	Yes
24 months and within 5 years	100	0	0	0	Yes
5 years and within 10 years	100	0	0	0	Yes
10 years and above	100	0	0	0	Yes

## Appendix 4

(d) **Total principal sums invested for periods longer than 364 days**

- This indicator allows the PCC to manage the risk inherent in investments longer than 364 days.
- The limit for 2012/13 was set at £5m.
- As at 28 February 2013, the PCC had one investment for a period of greater than 364 days. Please see additional details within paragraph 2.3 above.





# Cumbria Office of the Police and Crime Commissioner

Risk Management Strategy  
2012/2013

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**15.** Strategic Risk Register Template

**16.** Strategic Risk Register

# Introduction

The Office of the Police and Crime Commissioner for Cumbria is committed to providing the highest quality of policing services to the people of Cumbria. We do this in a constantly changing and challenging environment. This strategy is about the approach and arrangements we have in place to manage the risks we encounter in doing this.

Risk management involves the identification, assessment and prioritisation of risks and taking action to control, minimise and monitor them. Risks are threats that have potential to impact on our organisation and the delivery of our objectives and services. Sometimes they can be positive as well as negative. Risk management activity ensures we protect against negative threats whilst recognising and taking advantage of positive opportunities.

Our strategy sets out responsibilities for risk management, what we do and how we do it. It incorporates a number of key objectives and what we aim to achieve from the arrangements we have in place. In doing so our strategy provides assurance and contributes to the overall arrangements we have for governance.

## Our Approach to Risk Management

Police and Crime reduction services are delivered in a high risk environment. Like many public service organisations we are continually challenged to change the way we do things, to improve and to reduce cost. In doing this the level of risk we take as an organisation increases. Our approach to risk management recognises this by seeking to ensure we have a structured approach to manage those risks. Our approach seeks to ensure that our people and organisation are protected without stifling innovation or adversely restricting the taking of risks where we can see there are positive benefits from doing so. We describe this as being risk aware. This strategy sets out the things we have in place to embed a risk aware culture. These are:

- **Risk Management Objectives:** Our overall aims that set out what we want to achieve from the arrangements we have in place for risk
- **Risk Management Methodology:** The way we review our risks to understand their impact and decide how we will manage them
- **Risk Management Framework:** The specific things we have in place that supports the delivery of our objectives
- **Risk Management Responsibilities:** Specific responsibilities for different areas of risk for which our Commissioner, chief officers, staff, committee and auditors are accountable

The rest of this strategy sets out more information on our objectives, framework, methodology and responsibilities. It also sets out how we record our risks on our risk register and the strategic risks we currently manage.

# Risk Management Objectives

Risk management makes an important contribution in helping to achieve our aims and deliver better services. Through being aware of risk and having an understanding of its impact we can make better decisions about what and how we do things. Risk management works best when we have a culture that is risk aware. Our strategy aims to achieve this by providing a framework that helps to integrate and embed risk management into our day to day business. To do this we have identified a number of objectives that we are committed to. This section of our strategy sets out what they are and what we will do to achieve them.

**Objective 1:** We will ensure that Risk management is part of the process for delivering policing and crime reduction in Cumbria through the Constabulary and our wider Partners. We will do this by:

- Maintaining an effective risk management strategy, a framework through which the strategy is implemented and a risk register to manage risks
- Holding the Constabulary and wider Partners to account in respect of their arrangements for risk management

**Objective 3:** We will ensure that there is clear ownership and accountability for risks. We will do this by:

- Establishing clear roles and responsibilities in relation to risk management within our strategy
- Ensuring all risks on our risk register has a risk owner and an action owner

**Objective 2:** We will ensure that our organisation is risk aware and that arrangements for risk management comply with best practice. We will do this by:

- Providing communications and guidance through our website to spread good practice
- Ensuring our officers are appropriately trained in risk management practice
- Subjecting our risk management arrangements to annual review

**Objective 4:** We will provide a framework for evaluating and responding to risks that is easy to understand and supports decision making. We will do this by

- Setting out a framework for risk management
- Including within the framework a methodology for scoring risks and timescale for risk review based on the risk score.

# Risk Management Framework

Our risk management framework sets out the things we have in place to manage risk and who is responsible for them. They form the substantive part of what we do to achieve our risk management objectives. The framework comprises:

## RISK MANAGEMENT FRAMEWORK

### Risk Register

Our risks are recorded on a risk register. The register holds key information about each risk including a description of the risk, a score for the risk, what we are doing to manage the risk currently and any further actions we plan to take. It identifies the risk owner and the score determines how frequently that owner will review the risk to ensure we are taking appropriate action. The risk register groups risks into three risk categories; strategic risks, operational risks and project risks.

## RISK MANAGEMENT FRAMEWORK

### Risk Classification

Risks are grouped on our risk register into one of three classifications. The classification determines who is responsible for managing the risk and how those risks are managed. The classifications are:

- Strategic Risks – risks that threaten the achievement of strategic objectives such as those in our policing plan and other core strategies.
- Operational Risks – these are risks to our operating systems, service delivery and the objectives in our business plans.
- Project Risks – risks identified as being significant to the projects being undertaken by the Commissioner.

## RISK MANAGEMENT FRAMEWORK

### Risk Methodology

Risk Methodology is about how we score our risks. Our strategy sets out a consistent way to do this that takes account of the impact of the risk and likelihood of it occurring. The higher the risk score the more frequently we will assess the actions that we have in place to mitigate the risk. We score both the inherent risk and the mitigated risk. The inherent risk score tells us what the impact of the risk could be if we took no action whilst the mitigated score tells us how much we have reduced the risk as a result of things we do to manage it.

## RISK MANAGEMENT FRAMEWORK

### Strategic Planning and Business Planning

We identify most of our risks through our processes for developing strategic plans and business plans. As part of the work developing these plans consideration is given to the risks inherent in achieving our objectives. Strategic risks are incorporated within the strategic risk register which is approved by the Police and Crime Commissioner and presented to Audit Committee for scrutiny. Operational risks are included within the operational risk register and are actively managed through the Commissioner's Office under the direction of the Chief Executive.

## RISK MANAGEMENT FRAMEWORK

### Project Risks

Project risks are managed very dynamically due to the more limited timescale across which projects are typically delivered. They are reviewed prior to each project board and presented to each meeting. This means that the pace of the project and the frequency of meetings is aligned to the review of risks. The terms of reference for all project boards includes responsibility for managing project risks.

## RISK MANAGEMENT FRAMEWORK

### Risk Review

Our overall arrangements for risk are reviewed annually by the Chief Finance Officer as part of the review of wider governance arrangements. The review is reported in the Annual Governance Statement alongside our Statement of Accounts. The Police and Crime Commissioner approves the Annual Governance Statement. The statement is subject to external audit and presented with the Accounts to our Audit Committee.

## RISK MANAGEMENT FRAMEWORK

### Risk Responsibility

Our strategy allocates specific roles and responsibilities to members and officers for Risk Management. This ensures there is clarity and accountability for ensuring our practices are embedded and our objectives are achieved.

## RISK MANAGEMENT FRAMEWORK

### Internal Audit

Our arrangements for risk management and those of the Constabulary are subject to internal audit. Our independent Audit Committee receives the findings of audit work. The Audit Committee monitors the implementation of actions following any audit recommendations.

## RISK MANAGEMENT FRAMEWORK

### Decision Making and Risk

Our reporting formats include a section on the risk implications of any decision and course of action. This ensures that decisions are taken on an informed basis and agreement can be reached on how risks should be managed.

## RISK MANAGEMENT FRAMEWORK

### Lead Officer for Risk

Our Governance Manager is designated as lead officer for risk. This means that one of our staff has specific responsibility for maintaining an up to date awareness of risk management practices and ensuring we embed a risk aware culture. Our lead officer attends risk management meetings with the Constabulary to assure their arrangements and that our risk registers are aligned where it is appropriate. This is one of the ways we hold the constabulary to account for their risk management arrangements.

Collectively this framework ensures that we have a systematic approach to managing our risks. It facilitates proper consideration of the implications of decisions and actions and provides a mechanism through which we can evaluate how well our approach is working in practice. Internal and external audit provide a further layer of validation and scrutiny of our arrangements.



# Risk Management Methodology

This strategy adopts a risk management methodology to assess the impact of a risk should it materialise and the likelihood of this happening. This methodology plays an important part in determining how much attention we need to give to managing specific risks through helping us to consider the implications should they arise. The methodology involves scoring risks based on the likelihood of the risk happening and the impact. It uses a 5x5 matrix that produces a risk score of between 1 and 25.

## Risk Likelihood

**1 Very Low:** A risk has a very low score if the likelihood of it happening is less than 5% over 100 years. Basically, it could happen but it is most likely that this would never happen.

**2 Low:** A risk has a low score if the likelihood of it happening is between 5% and 25% at some point in the next 25 years. This means we don't expect it to happen but it is possible.

**3 Medium:** A risk has a medium score if the likelihood of it happening is between 20% and 65% over the next 10 years. This means it may happen occasionally.

**4 High:** A risk has a high score if there is a 65% to 90% likelihood of it happening at some point over the next 3 years. Basically, it probably will happen but it won't be too often.

**5 Very High:** A risk has a very high score if there is a 90% or more chance of it happening every year

## Risk Impact

**1 Very Low:** The impact for a very low score has to be insignificant. This would mean no service disruption or financial losses, no press interest or no obvious harm or injury from the risk arising.

**2 Low:** There is some implication for services, financial loss or some harm but these are only slight. There could be some reputational impact but this would be short term. The overall impact would not last beyond a 2 to 6 month period.

**3 Medium:** There is service interruption, significant financial loss, injury, and adverse publicity with some reputational damage and/or legal implications. The overall impact would last between 6 months and a year.

**4 High:** The implications on service provision are significant, there is major financial loss, fatality, major adverse publicity and/or major loss of confidence in the organisation. The overall impact would last between one and two years.

**5 Very High:** We could not fulfil our obligations, incurred severe financial loss, multiple fatalities occurred with highly damaging implications for our reputation and a severe loss of public confidence. The overall impact would be expected to last for more than two years.

## RISK MANAGEMENT METHODOLOGY

### Using the Methodology

There are a number of steps to using our methodology to ensure that risks are effectively considered and appropriate controls are put in place to manage them.

Firstly the inherent or base risk is calculated. This is the risk score that would result if there is no action taken to manage the risk. Using the matrix above a score would be calculated by multiplying the likelihood score with the impact score. It is important to understand this base risk. It helps us to assess what might happen if the measures we put in place to manage the risk fails or if we put nothing in place. It supports decision making on the level of effort that should be directed towards reducing the risk.

Once the base risk has been scored, consideration is given to what we can do and what we are doing to reduce the risk. These are our risk control measures. The risk is then scored again, taking into account the effects of our actions. This produces a mitigated risk score against which we can then decide to do one of four things:

- Take/Tolerate - We decide to accept the risk and take no further measures
- Transfer - We transfer all or part of the risk, for example through insurance or to other agencies/contractors
- Reduce - We introduce additional control measures to reduce the risk
- Avoid – We aim to eliminate the risk, for example by ceasing to provide a service or by doing something a different way

If we choose to transfer, treat or terminate the risk we then update our mitigated risk score once these actions have been taken. The overall inherent and mitigated risks scores are reviewed cyclically with the score determining how often we do the review. Risks with scores of 12 and over are reviewed every 6 months. All other risks are reviewed annually. The exception is project risks that are reviewed at each project board meeting due to the limited life of project activity and the impact of risk on project delivery.

The inherent and mitigated risk score, control measures and any additional planned control measures are documented within our risk register. The register identifies the review frequency and the officer responsible for managing the risk. Strategic risks under the direction of Police and Crime commissioner are presented annually to Audit Committee with this risk strategy.

# Risk Management Responsibilities

Our strategy allocates specific responsibilities to key individuals, committees and boards to ensure clear lines of accountability for managing risk. This section of our strategy sets out those responsibilities.

## RISK MANAGEMENT RESPONSIBILITIES

### The Police and Crime Commissioner

The Police and Crime Commissioner has strategic responsibility for the overall arrangements for risk management. An annual governance statement is approved annually by the PCC which includes a commentary on the effectiveness of risk management arrangements by the Commissioner's Chief Finance Officer.

The Commissioner is responsible for strategic risks as identified within the strategic risk register and for understanding and challenging risks as part of their processes for developing policy and decision making.

The Commissioner has responsibility for holding the Constabulary and wider partners to account for their arrangements in respect of risk management and providing public assurance of such. The PCC annually approves the risk management strategy and takes overall responsibility for the strategic risk register.

## RISK MANAGEMENT RESPONSIBILITIES

### Chief Officers

The OPCC Chief Executive has responsibility for maintaining sound systems of internal control including risk management processes. The Chief Executive also has responsibility for ensuring an operational risk register is maintained to support the management of those risks that may impact on the delivery of the OPCC business plan.

The OPCC Chief Finance Officer reports on the effectiveness of arrangements for risk management within the Annual Governance Statement to the PCC and to the Audit Committee. The Chief Finance Officer also has responsibility for ensuring appropriate internal audit arrangements and for insurance in respect of those risks that are transferred.

## RISK MANAGEMENT RESPONSIBILITIES

### Managers and Staff Officers

Managers and staff officers have responsibility for the operational risks arising in their service areas. They must ensure teams carry out risk assessments to inform control measures and mitigating action. They are responsible for ensuring risks that may impact on the delivery of their business objectives are recorded on the operational risk register and actively managed.

## RISK MANAGEMENT RESPONSIBILITIES

### Project Managers

Project managers are responsible for ensuring any project risks are actively recorded on a project risk and issues log. All risks should be scored in line with the agreed risk methodology within this risk register and reported to the project board to ensure appropriate action is taken.

## RISK MANAGEMENT RESPONSIBILITIES

### Independent Audit and Standards Committee

The Authority and Constabulary have in place an Audit and Standards Committee with independent membership.

The committee will examine evidence provided by internal and external audit and other governance areas to ensure that we demonstrate we are actively managing our risks. This provides independent assurance to the PCC, Chief Executive and Chief Finance Officer.

The relevant terms of reference of the audit committee are:

- To monitor the effective development and operation of risk management within the OPCC and Constabulary.
- Approving the OPCC and Constabulary Corporate risk management strategy and framework; ensuring that an appropriate framework is in place for assessing and managing key risks to the OPCC and Constabulary.
- To assess, monitor and manage risks to the Committees effectiveness.

## RISK MANAGEMENT RESPONSIBILITIES

### Internal and External Audit

Internal audit are responsible for periodically reviewing the effectiveness of risk management processes including the verification that controls are operating as intended. This source of independent assurance is a fundamental part of the evidence used to discharge our accountability for reviewing the effectiveness of our governance arrangements. External auditors will seek to place reliance on internal audit work and the Chief Finance Officer's governance statement forming an opinion on the overall arrangements for governance.

## RISK MANAGEMENT RESPONSIBILITIES

### Lead Officer for Risk

The OPCC Governance Manager is the lead officer for risk. This responsibility includes:

- Pro-actively driving forward the management of risk
- Liaison with the Constabulary, other partners and major contractors to monitor compliance with and the effectiveness of their risk management arrangements and reporting thereon to the Police and Crime Commissioner

- Monitoring the implementation of the risk management action plans of both the OPCC and Constabulary
- Bring to the attention of the Police and Crime Commissioner and/or Audit Committee any concerns about the arrangement for risk management
- The provision of a risk register system to aid the recording, review, analysis and reporting of strategic and operational risks
- Maintaining an up to date awareness of risk management practice and leading on communications and guidance to support the embedding of a risk aware culture

# Risk Register Template

[illegible]