

# Cumbria Shared Internal Audit Service

## Internal Audit Report for Cumbria Constabulary & OPCC



## Audit of Financial Sustainability

Draft Report Issued: **17<sup>th</sup> April 2020**

Final Report Issued: **6<sup>th</sup> May 2020**

## Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	07810532759
Lead Auditor(s)	Sarah Fitzpatrick	Sarah.fitzpatrick@cumbria.gov.uk	07464522833

## Audit Report Distribution

For Action:	Roger Marshall (Joint Chief Finance Officer)
For Information:	Mark Webster (Deputy Chief Constable) Gill Shearer (Chief Executive, Cumbria OPCC)
Audit Committee	The Joint Audit Committee which is due to be held on 24 <sup>th</sup> June 2020, will receive the report.

*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

### Cumbria Shared Internal Audit Service



Images courtesy of Carlisle City Council except: Parks (Chinese Gardens), [www.sjstudios.co.uk](http://www.sjstudios.co.uk), Monument (Market Cross). Jason Friend. The Courts (Citadel). Jonathan Becker

# Executive Summary

## 1. Background

- 1.1. This report summarises the findings from the audit of Financial Sustainability. This was a planned audit assignment which was undertaken in accordance with the 2019/20 Audit Plan.
- 1.1 Financial Sustainability is important to the OPCC and Constabulary because it contributes to the efficient and effective use of resources to support operational policing needs and the delivery of the objectives in the Police and Crime Plan for Cumbria 2016-20. Financial sustainability planning is required to understand demand pressures, long term financial resources and how sustainable priorities may be. This is particularly important at a time when Cumbria Constabulary and the wider public sector is facing increasing financial pressures, including the need to identify and deliver ongoing savings.

## 2 Audit Approach

### 2.1 Audit Objectives and Methodology

- 2.1.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2 Audit Scope and Limitations

- 2.2.1 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Joint Chief Finance Officer. The agreed scope of the audit was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls around the identification and consideration of issues that impact on financial sustainability. The review includes arrangements for scenario planning and financial modelling and covers both Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner.

2.2.2 Due to the COVID-19 outbreak a request was made from the Constabulary and OPCC management to temporarily suspend work on the 2019/20 audit plan so that senior officers and their teams could focus on responding to the outbreak. As a result the audit work was brought to a stop before we had all of the information we required to fully complete our work. Discussions on the audit had already taken place with the Joint Chief Finance Officer prior to the outbreak and evidence requested from him had been provided but there were plans to interview other senior officers across both organisations and gather further evidence in the following areas:-

- Evidence of steps taken to stay abreast of local and national issues that impact on financial sustainability and planning and evidence that all relevant factors are taken account of in scenario planning
- Quality Assurance arrangements within finance regarding financial planning and reporting
- Details and supporting information around any demand analysis that had been undertaken
- How learning from financial planning in previous years has been applied to the current approach.

Despite this, the level of work already undertaken, and assurance gained from testing and other sources of assurance on the Constabulary's and OPCC's financial sustainability arrangements, we consider that we have sufficient evidence to enable us to provide an audit opinion. However, we have restricted the highest level of opinion we can give under these circumstances to no higher than 'Reasonable' because we would have undertaken more testing and carried out wider discussions in order to be able to give a higher level of assurance in this area. It should be noted that our opinion in this area is relevant to the 2019/20 Head of Internal Audit opinion but it does not take into account any financial impact of responding to the COVID-19 outbreak.

### 3 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating around Financial Sustainability provide **reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area under normal circumstances. Our work was undertaken on the arrangements in place before the COVID-19 outbreak and so does not consider the impact of the outbreak on financial sustainability.*

## 4 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2 There are no audit recommendations arising from this audit review. However, as outlined in paragraph 2.2.2 the highest level of assurance we believe it is appropriate to give on this occasion is Reasonable. This is because the audit work was stopped following a request from the Constabulary and OPCC to temporarily suspend the 2019/20 Internal Audit plan due to the COVID-19 response. At the time of the request to temporarily suspend the 2019/20 Internal Audit work we had already completed sufficient work to provide an opinion on the area but, although there are no recommendations in this report, we would have needed to speak with other Senior Officers across both organisations, and to have been provided with further evidence, in order to give a higher assurance opinion than Reasonable, if that was appropriate.
- 4.3 **Strengths:** The following areas of good practice were identified during the course of the audit:
- Governance arrangements around financial planning and financial sustainability are suitable, with clear and defined responsibilities at an appropriate level
  - Risks around financial sustainability are captured in the strategic risk registers of both organisations for ongoing review and management. Risk at this level recognises funding uncertainty around potential changes to the police funding formula (removal of dampening), inflationary pressures, changes to police pension contributions and the impact of national projects
  - Financial reports are prepared on a regular basis for chief officers of both organisations and the Police & Crime Panel
  - Finance presentations and reports show an awareness and understanding of current and future demand and the pressures on the service that impact on financial sustainability
  - Financial forecasts are refreshed at least quarterly, reflecting new demands and pressures
  - Verbal updates are provided periodically at Joint Audit Committee (JAC) meetings as to latest financial position and longer term financial outlook
  - There is sufficient oversight of financial planning and clear evidence of the review, discussion and approval of financial plans (Budgets and Medium Term Financial Forecasts). This oversight is provided by chief officers of the Constabulary and OPCC and scrutiny provided by the

Police and Crime Panel. Specific examples of challenge and scrutiny included figures being questioned, queries and concerns being raised and requests for additional information

- Close working between the finance team and budget managers that includes consultation on emerging future pressures and demands through the annual Star Chamber process
- There is clarity around the approach to medium term financial forecasting and how it covers details of underlying assumptions, risks involved, costings and potential outcomes
- Financial plans include scenario planning to evaluate areas of uncertainty around funding and expenditure and provide clear consideration of options.

#### **Comment from the Deputy Chief Constable / Chief Executive of the OPCC:**

*Comment from Gill Shearer – Chief Executive of the OPCC*

We are fortunate in Cumbria to have a really strong finance team providing robust budget information. This strong position is reinforced by this report from Internal Audit and the other assurance that we receive from External Audit. The overall funding position is always challenging and this is particularly pertinent in the challenges we face today around COVID-19. The important aspect is that managers will have good financial information to make informed decisions.

*G Shearer*

The structures and mechanisms in place within Cumbria Constabulary strongly support financial accountability. The financial aspects of both strategic and operational decisions are reported on before decisions are made, and their impacts reviewed at all the structured governance meetings where Finance is a set part of structured agendas. Deeper financial exploration of strategic choices are conducted where the impact of those decisions may sustain or be particularly impactful, and these are recorded in relevant minutes and decision logs. Finance is covered at the Chief Officer's Group each Monday morning, and formally on a monthly basis. It is clear to me that financial accountability runs through the governance process, and it is disappointing that COVID restrictions have prevented this being

evidenced more fully, and a stronger audit opinion being offered.

M Webster  
Deputy Chief Constable  
4<sup>th</sup> May 2020

## Appendix A

### Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified.  Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
<b>Reasonable</b>	There is a reasonable system of internal control in	Generally good systems of internal control are found to

	<p>place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.</p>	<p>be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	<p>The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.</p>	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	<p>Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.</p>	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p> <p>Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

## Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

### Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.