

<b>Committee(s)</b> Performance and Resources Sub (Police) Committee	<b>Dated:</b> 23 November 2018
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> Head of Audit and Risk Management	<b>For Information</b>
<b>Report author:</b> Jeremy Mullins, Audit Manager	

### Summary

The purpose of this report is to provide the Committee with an update on the work of Internal Audit that has been undertaken for the City of London Police (CoLP) since the last report in June 2018.

Ten full assurance audits were planned for the financial year 2017-18. Seven audits have been completed to Final report stage and have been previously report to this Sub-Committee. Two of the 2017-18 audits, IT Technology Refresh Project and Action Fraud, have been deferred as these projects were still in progress; and, a further 2017-18 audit of IT Network Security has been deleted as this had been incorporated into a corporate audit. Audit resources totalling 20 days have been carried forward to the 2018-19 internal audit plan. One audit has been finalised since the last Sub-Committee meeting, Police Bank Accounts (Defendants Funds), a summary of which is included in this report.

The 2018-19 planned internal audit programme was approved by your Committee in February 2019. There are 95 planned audit days within the plan allocation, which includes 20 days carried forward from the 2017-18 audit planned days. The Chamberlain and Assistant Commissioner of the City of London Police agreed that the audit programme be reviewed following an audit of the CoLP Key Financial Systems, following concerns raised about the year-end/close down processes, so this work can inform the audit planning process. This work has been completed to final report stage. The proposed 2018/19 Audit Plan will now be discussed with the City Police and Police Authority and will be commenced at the earliest opportunity.

As previously agreed with your Committee, where findings and recommendations from corporate-wide audit reviews impact on the City Police details will be reported at the next committee meeting. There were 11 planned corporate audits for 2017-18, and ten of these have been fully completed to date. Fieldwork for the Contract Management (City Police Accommodation Programme) has been substantially completed ; however, further evidence is being assessed following an initial exit meeting. At the request of the Chairman, an update report will be provided to the Sub-Committee.

There are 12 planned corporate-wide audits included within the 2018-19 plan. Two of these audits have been completed to draft report stage and your Sub Committee will be kept informed of any recommendations which relate to the City Police in due course.

At the last meeting Members requested a schedule of recommendations be included within the regular update reports. There are currently 42 “live” recommendations which have been agreed by management and are subject to internal audit follow-up procedures after the implementation date. There are 16 recommendations which should now have been implemented and evidence of implementation is required.

## **Recommendation**

Members are asked to:

- Note the report.

## **Main Report**

### **Internal Audit Planned Work 2017-18 and 2018-19 Planned Audit Days**

1. Ten full assurance audits were planned for the financial year 2017-18. Seven audits have been completed and reported to this Sub-Committee. One audit has been finalised since the last Sub-Committee meeting, Police Bank Accounts (Defendants Funds), a summary of which is included in this report.
2. Two of the 2017-18 audits, IT Technology Refresh Project and Action Fraud, have been deferred as these projects were still in progress; and, a further 2017-18 audit of IT Network Security has been deleted as this was incorporated into a corporate audit. Details of the 2017/18 audit work are contained in Appendix 1.
3. The 2018-19 planned internal audit programme was approved by your Committee in February 2019. There are 95 planned audit days within the plan allocation, which includes 20 days carried forward from the 2017-18 audit planned days. The Chamberlain and Assistant Commissioner of the City of London Police agreed that the audit programme be reviewed following an audit of the CoLP Key Financial Systems, following concerns raised about the year-end/close down processes, so this work can inform the audit planning process. This work has been completed to final report stage. The proposed 2018/19 Audit Plan will now be discussed with the City Police and Police Authority and will be commenced at the earliest opportunity.

## **Police Bank Accounts (Red Assurance Rating) 2017-18**

4. The audit established that the CoLP have a standard operating procedure (SOP) – ‘Cash Management Force Policy and SOP’ which provides guidance for the treatment of general Force cash collection and banking processes. By discussion with the CoLP Finance Team staff it was determined that there are no specific written procedures for the management of defendants’ funds. In addition, there are no documented procedures for the handling of lost property in the form of cash handed in at a CoLP police station; an amber priority recommendation has been raised
5. On the basis of audit testing, it was identified that bank accounts are not opened for each defendant’s seized funds. Funds are deposited into one of three bank accounts: sterling, euros or USD. Audit sample testing identified that deposits were made in accordance with procedure, adequate records had been maintained and appropriate approval had been obtained in each instance. Assurance could not be provided in respect of the procedures in operation for ‘found funds’, however, as Internal Audit was advised that there had been no such funds within the period April 2017 until February 2018.
6. Audit testing confirmed that interest accrued for monies held within the bank accounts is calculated when the funds are released, with email confirmation from the Chamberlain’s Treasury Management Section regarding the amount of interest to be added. The Chamberlain’s Department has overall management of the income No 3. Account (sterling).
7. Internal Audit noted that reconciliations are not undertaken between defendants’ funds for deposit and amounts credited to the bank accounts. A red priority recommendation has been raised to ensure that defendants’ funds are accounted for in full.
8. Internal Audit was informed by Finance Team staff that reconciliation of balance sheet fund amounts to bank accounts is in progress, relating to deposits for seized funds from 2009 onwards. A red priority recommendation has been raised for the prompt release of funds to relevant parties, where appropriate.
9. On the basis of audit sample testing related to the period November 2017 to February 2018, release of defendants’ seized funds and ‘found funds’ was supported by the necessary documentation and authorisation of the return or redistribution of funds was confirmed.
10. The Commissioner agreed to implement all recommendations by 31<sup>st</sup> December 2018.

## CoLP Key Financial Controls (Red Assurance Rating) 2018-19

11. It is acknowledged that prior to audit fieldwork, arrangements for management of the Finance department at CoLP had recently undergone substantial change with turnover of key staff, reassignment of duties and revised reporting lines. Documented procedures and associated workflow information are required to clarify responsibilities and promote consistent and compliant financial practice.
12. On the basis of audit testing performed, there is a need to further strengthen the control environment in respect of budget-setting, monitoring, forecasting and reporting arrangements, as well as ensuring that all income due has been billed, as appropriate, via Accounts Receivable, regular aged debt monitoring takes place, procurement compliance is adhered to, and demonstration of timely review of available management information related to procurement activity.
13. Audit testing in respect of budget setting arrangements has been hampered by the absence of the Director and Assistant Director of Finance who were heavily involved in the process for 2018-19. It is understood, however, that an incremental approach to budgeting has been adopted due to the CoLP budget comprising mainly staff salaries (84%). Whilst some supporting documentation has been supplied to Internal Audit in respect of 2018-19, demonstrating a split between core and funded operations, full evidence was not supplied to Internal Audit to reflect some aspects of the process such as the key points of budget-setting discussions, elements of local record-keeping to support the detailed calculations, and local scrutiny of the proposed budget. CoLP has acknowledged that there is scope to strengthen the audit trail for future years to maintain transparency of approach. A re-alignment exercise has recently been carried out by CoLP to help ensure that 2018-19 budgets are based on reasonable assumptions.
14. Audit sample testing in respect of Accounts Receivable (AR) transactions confirmed that individual payments received are reconciled to amounts due, and for the sample of invoices examined these had been raised on a timely basis. Internal Audit was advised, however, that there is no overall log of expected income for reconciliation against invoices raised and there is a resulting risk of potential income leakage. In this respect, audit testing confirmed an instance where the costs due to CoLP in connection with a staff member secondment to another body had not been identified for billing via AR.
15. Audit sample testing in respect of AR credit note processes and arrangements for updating debtor accounts to reflect amounts received did not identify any anomalies.
16. Audit examination of AR aged debt information identified £3,431,744 of outstanding CoLP invoices over 30 days old and no evidence was obtained of regular review of this report or associated discussion. Internal Audit noted that some of these debts dated back to previous financial years; thirty were identified which originated in 2016 or prior with a total value of £364,692. Audit testing in respect of a sample of CoLP debtors indicated that records are not maintained

consistently in respect of local recovery action taken. Internal Audit was advised that a number of historic debts had been submitted to the City Corporation (CoL) for write-off but evidence of these requests was not available.

17. Examination of corporate procurement statistics has highlighted poor performance in respect of procurement compliance. Audit examination of monthly corporate Management Information reports for August 2018 confirmed that performance remains below corporate targets, as shown below. It is noted that PO and AP payment performance has been regularly below target for a number of years. Improvement is required to ensure that financial commitments are known at the earliest opportunity, suppliers are paid on a timely basis and invoices are received in a format appropriate for the new corporate invoicing system that is expected to be in place by the end of 2018-19. It was noted that City Procurement has been liaising with CoLP in order to drive improvement in these areas and work is understood to be on-going in this respect.

	TARGET:	ACTUAL:
Purchase order compliance	97%	95%
AP invoice turnaround (30 day)	97%	66%
AP invoice turnaround (10 day)	85%	63%
Invoices in True PDF format	80%	60%

18. Evidence was not available to demonstrate regular review of related management information reports in respect of un-invoiced receipts (goods or services received, and invoices awaited), expected receipts (goods or services ordered) and invoices on hold. The interrelationship between these management information reports and procurement compliance is acknowledged, emphasising the need for more frequent review and clearance of outstanding items.
19. Audit sample testing indicated that established arrangements are in operation for the creation, approval and posting of journals, as well as the identification and processing of year-end accruals to ensure that items are correctly treated in the accounts. It is understood from the Deputy Director, Financial Services (CoL) that considerable Chamberlain's Department support was provided to CoLP at year-end to ensure that amounts were correctly accounted for.
20. Internal Audit was advised that budget monitoring takes place on a monthly basis but evidence, such as action points arising from discussion between budget holders and Finance Business Partners, was not supplied. Internal Audit noted that weekly Finance Ops meetings are held to assist prioritisation of activity, including actions related to CoLP budget management. Forecasting has not been undertaken in 2018-19 due to the focus on budget realignment. Delays have been noted in budget reporting to Committee in respect of both the 2017-18 outturn and Quarter 1 budget monitoring in respect of 2018-19; reported net expenditure for Quarter 1 shows a favourable variance of £0.72m against budget. The Medium-Term Financial Planning audit undertaken during 2017-18 highlighted that the CoLP budget monitoring reports were not completed and/or submitted on a timely basis.

21. Following the receipt of the management response, an Action Plan has been requested, setting out the detailed actions, required resources to deliver the recommendations and specific delivery targets. It is noted that the Commissioner has agreed to implement all recommendations by 31<sup>st</sup> March 2019.

### **Corporate Wide Audits 2017-18**

22. As previously agreed with your Committee, where findings and recommendations from corporate-wide audit reviews impact on the City Police details will be reported at the next committee meeting. There were 10 planned corporate audits for 2017-18, eight of these have been completed to date and no recommendations that directly impact on the City Police, that is, requiring CoLP action, were made. The audits completed to date are:

- Emergency Planning
- Use of Waivers
- IR 35 - Use of Consultants and Specialists Regulations
- Evaluation of sub £100K tenders
- Expenses – Procurement Cards – Petty Cash
- Business Travel
- GDPR
- Contract Management

One audit has yet to be finalised:

- Income Collection and Banking

Fieldwork for the Contract Management (City Police Accommodation Programme) has been substantially completed; however, further evidence is being assessed following an initial exit meeting. At the request of the Chairman, an update report will be provided to the Sub-Committee.

### **Corporate Wide Audits 2018-19**

The following corporate wide audits have been included within the Internal Audit Plan 2018-19. As agreed with your sub committee in November 2017, where findings and agreed recommendations impact on the City Police, the sub committee will be advised of the details.

- IR35 – Use of Consultants and Specialists (Off Payroll Engagement)
- GDPR Readiness
- Suppliers Financial Health/Resilience
- Commercial Manager Scorecard Procedures
- Change Control
- Highways Repairs and Maintenance
- Programmed Repairs and Maintenance
- Property Rents and Service Charges

- Projects Change Control Process

### Schedule of Internal Audit Recommendation Implementation

23. At the November 2017 meeting Members requested that the sub-committee are given a schedule of all internal audit recommendations raised and agreed with the City Police. This schedule is included within Appendix 2. There are currently 42 “live” recommendations which have been agreed by management and subject to internal audit follow-up procedures after the implementation date. There are 35 recommendations with an Amber rating; and seven recommendations with a Red rating. There are ten recommendations which have been implemented and evidenced by Internal Audit, a further 16 recommendations where evidence of implementation has been requested from the CoLP, and the remaining 16 recommendations not yet due to be implemented. The following table provides an analysis of recommendations by audit project, the number that the CoLP have been evidenced by Internal Audit as implemented, the number to be implemented.

Audit	Assurance Rating	Implementation Evidenced	Awaiting* Implementation	Total
CoLP Budget Monitoring 2017-18	RED	-	-	-
	AMBER	-	4	4
CoLP Programme Management 2017-18	RED	1	-	1
	AMBER	3	-	3
CoLP Seized Goods 2017-18	RED	1	-	1
	AMBER	2	4	6
CoLP Demand and Event Policing 2017-18	RED	-	-	-
	AMBER	-	1	1
CoLP Business Continuity 2017-18	RED	-	-	-
	AMBER	2	4	6
CoLP Freedom of Information Requests 2017-18	RED	-	1	1
	AMBER	1	2	3
CoLP Bank Accounts 2017-18	RED	-	1	1
	AMBER	-	2	2
CoLP Key Financial Controls 2018-19	RED	-	3	3
	AMBER	-	10	10
<b>Total</b>		<b>10</b>	<b>32</b>	<b>42</b>

\*Includes not yet due for implementation – details contained in Appendix 3

### Conclusions

24. The 2017-18 Internal Audit plan audits have completed to a minimum of final report stage.

25. Following the Key Financial Controls audit, work on the 2018-19 Internal Audit plan can now commence.

26. There are currently 42 “live” audit recommendations: There are 35 Amber rated recommendations and seven Red rated recommendations. There are ten recommendations which have been implemented and evidenced by Internal Audit, 16 recommendations not yet due to be implemented, and a further 16 recommendations where evidence of implementation is required from the CoLP.

## **Appendices**

- Appendix 1 - Schedule of Internal Audit Planned Work 2017-18
- Appendix 2 – Schedule of “live” audit recommendations as at June 2018

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