

Committee(s)	Dated:
Performance and Resources Sub (Police) Committee	30 th November 2017
Subject: Internal Audit Update Report	Public
Report of: The Chamberlain	For Information
Report author: Pat Stothard, Head of Audit and Risk Management 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 September 2017.

Work is completed on the 2016-17 planned internal audit. There were seven full assurance audits included in the original plan. Five audits were fully completed by September 2017: CoLP Community Consultation; CoLP Policies and Procedures; the Economic Crime Academy; SKYNet Grants Audit Verification; Governance Framework and Performance Measures. The remaining two planned audits: Police Budget Monitoring, and Income Streams and Income Generation, have now been completed to final report stage. In addition, an unplanned audit requested by the Commissioner to determine how two former civilian staff members were paid after they had resigned has also been completed to final report stage.

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 are ten planned corporate audits for 2017-18, and five of these have been completed to date with no recommendations that impact on the City Police made.

Work is progressing on the Internal Audit Plan for 2017-18. There were eight full assurance audits planned for the financial year 2017-18. Two 2017-18 audits have been completed to Final report stage: Police Project Management and Police Seized Goods. Fieldwork is progressing on two further audits: Police Bank Accounts (Defendants Funds) and Demand and Events Policing. The terms of reference for the Business Continuity audit is currently being prepared.

A corporate audit recommendation follow-up review has recently been undertaken. Three recommendations for the City Police were included in the review and are due for implementation by 31st December 2017.

It has been necessary to defer two of the 2017-18 audits: IT Technology Refresh Project and Action Fraud. A further 2017-18 audit of IT Network Security has been deleted. Two replacement audits have been proposed: CoLP Freedom of Information Requests; and Police Station Front Desk Procedures. A further 10 days will be held in contingency and allocated before the end of 2017-18.

Recommendation

Members are asked to:

- Note the report.

Main Report

Internal Audit Plan 2016-17

1. There were seven full assurance audits included in the original plan. Five audits were fully completed by September 2017: CoLP Community Consultation; CoLP Policies and Procedures; the Economic Crime Academy; SKYNet Grants Audit Verification; Governance Framework and Performance Measures. The remaining two planned audits: Police Budget Monitoring, and Income Streams and Income Generation, have now been completed to final report stage. In addition, an unplanned audit requested by the Commissioner to determine how two former civilian staff members were paid after they had resigned has also been completed to final report stage. Details of these audits and progress against the 2016-17 Internal Audit Plan are contained in Appendix 1.

Police Budget Monitoring (20 Days) Amber Assurance

2. Whilst budget holders are required to profile budgets within Oracle, to facilitate budget monitoring, there is clear scope to improve the effectiveness of arrangements in place. The areas for improvement relate to the timeliness of uploading budget profiles to Oracle (recommendation 1) and extensive use of 'straight line' profiles (recommendation 2).
3. The audit confirmed that the CoLP have established arrangements in place for monitoring financial performance against revenue budgets. However, as above, there are clear areas where the control framework could be enhanced. These relate to:
 - The frequency with which budget monitoring reports are issued to budget holders (recommendation 3);
 - Improving the allocation of budgets across revenue subjective codes in Oracle to provide meaningful information to budget holders (recommendations 4 and 5);
 - Establishing a programme of training for budget holders (recommendation 6).

4. There are established arrangements in place for reporting to Senior Management through Directorate Senior Management Teams, the Strategic Finance Board and Strategic Management Board.
5. There are also established arrangements in place for reporting on budgetary performance to the Police Committee; however significant issues were identified in producing financial forecasts as part of the budget monitoring process.
6. For 2016/17, a revised budget was approved by the Police Committee in January 2017, which was effectively a re-forecast of the year end position at the end of Quarter 3. There were no further budget monitoring updates in 2016/17, due to the City elections. An outturn report was presented to the Police Committee in July 2017. The outturn report showed that a £0.6m draw down on general reserves was required for 2016/17. This represents £2.0m net cost reduction from the forecast outturn presented to the Police Committee in January 2017 and mainly arose as a result of an underspend of staffing costs due to unfulfilled vacancies. The Assistant Commissioner has stated that he introduced a spending moratorium on non-employee expenditure in December 2016, which together with an underspend on employee direct costs, enabled reduction of the deficit originally forecast.

Police Income Streams and Income Generation Initiatives (20 Days) Green Assurance

7. This audit has concluded that the City of London Police (Force) have adequate procedures in place to identify income streams which are outlined in the Force's annual budget estimates.
8. Audit testing of a sample budget area 'Charges to Services' in the 2016/17 financial year identified that there were satisfactory controls over collecting, recording and banking income and recording income within the City's General Ledger (CBIS).
9. Audit examination of income budgets for the two financial years 2016/17 and 2017/18 (to date) revealed that in 2016/17 outturn was £65.7million compared to an estimate of £66.3million. The main reason for this variance was due to estimated income for Economic Crime Academy not being achieved, due to a lack of trainers to provide income generating courses. It should be noted that no corresponding expenditure was incurred which minimised the impact on the overall net budget expenditure. In the current year 2017/18 income to date is £38.3million compared to a budget estimate of £54.7million.
10. The Force has considered opportunities for increasing income across all of its operations. This was outlined in a three-year Strategic Finance Forward Plan 2017/18 to 2019/20 developed by the Director of Finance which included seven initiatives to commercialise and improve income across the Force. The initial Plan was submitted to the Strategic Finance Board in January 2016 and the Force has now developed the Enterprise Strategy 2017-2022 which sets out five strategic themes for maximising value for money, securing greater external funding,

increasing capital to revenue returns, developing ways of delivering sustainable funding, and improving efficiency of service delivery.

11. Examination of the Enterprise Strategy established that this document provides the framework by which the Force will identify, consider and introduce new funding and income sources. It was noted that there were no examples of potential areas of funding and income that the CoLP may obtain. However, the Force will have identified “A pipeline of opportunities with a potential value in excess of £2.5million by 31st December 2017”. As well as “Business cases approved and underway with a combined projected value in excess of £1million by 31st December 2017”.
12. No recommendations made as a result of this audit.

Overpayments of Salary (10 Days)

13. The CoLP HR Division did not supply the Chamberlain’s Payroll Office with the correct form of instructions in order to cease the pay of the former Economic Crime Division employee who resigned on 19th August 2016. An overpayment in the region of £10,000 was made between September and December 2016. The former employee has agreed to repay £4,000 in a lump sum and £25 per week until the amount is repaid in full.
14. This audit has established that the CoLP HR officer notified the Payroll Office of the leaver’s request via a generic email address for general uniformed police officers’ pay enquiries. The Head of Payroll was not, therefore, aware of the request and has advised that, given the high priority of the request, in future a phone call explaining the urgency of the payroll deletion should be made. There is no follow-up process to ensure that phone call requests are actioned; this needs to be addressed in order to ensure that there is a satisfactory work flow system operated by the Payroll Office.
15. The City People payroll system provides inherent controls based on direct input of leaver details by departmental line managers. The CoLP line managers do not have access to the City People system. The City of London Corporation’s Corporate Human Resources Department (Corporate HR), are currently testing a revised City People system for input of new starters and staff leavers by HR Business Partners, instead of line managers. This will also benefit the CoLP since the current issue of paper leavers request forms will be solved.
16. There are a number of monthly reports output from the City People payroll system which are distributed to departments in order to ensure the accuracy of the payroll and provide budget monitoring information. A weakness was identified in the distribution of the payroll data management reports within the CoLP, since the recipient of a key report (the Payslip Distribution report) works in the ICT Division and has no payroll checking responsibility. Furthermore, the monthly report of leavers, which would have alerted the CoLP that the ECD employee had not been removed from the payroll, was not being checked. It is understood that another report showing the CoLP payroll establishment each month is not being

sent to the CoLP on request, although the reasons for this request have not been identified.

17. The December 2016 overpayment resulted because the CoLP HR Division failed to submit a leavers' form to Payroll. It is understood that this was a normal case of a civilian officer resigning in December 2016, the Payroll Office were not notified, and an overpayment was made in January 2017. It was the former employee who notified the Payroll Office of the mistake and refunded the amount in question immediately. This incident does, however, reinforce the risk which is posed by the use of paper based leavers' forms.
18. Recommendations have been made to address these issues and CoLP Head of HR has reviewed the distribution of payroll management reports and decided the appropriate staff who should receive them. The Chamberlain's Payroll Manager is considering options for workflow solutions. The CoLP like other City People users will obtain direct input to make changes to the payroll via HR Business Partners.

Internal Audit Planned Work 2017-18

Corporate Wide Internal Audit Reviews 2017-18

19. Work is progressing on the Internal Audit Plan for 2017-18. There were eight full assurance audits planned for the financial year 2017-18. Two 2017-18 audits have been completed to Final report stage: Police Project Management and Police Seized Goods. Fieldwork is progressing on two further audits: Police Bank Accounts (Defendants Funds) and Demand and Events Policing. The terms of reference for the Business Continuity audit is currently being prepared.

Police Project Management (15 Days) Amber Assurance

20. The complexity of the CoLP Accommodation Programme was not adequately described when initial funding approval was sought. The application for funding appears to have been considered as a bid for a single project, rather than a number of projects within a programme. The nature of projects or emerging issues necessary to achieve the overall accommodation programme have changed over time, as well as the need to undertake additional projects. The Assistant Commissioner has furthermore stated that there was an assumption that the Accommodation Programme was purely a "building programme" and failed to recognise the operational impact upon CoLP requiring substantial projects that needed to be implemented and funded.
21. Communication between the CoLP and the City Surveyor's department has been cited by management as an area of concern, leading to possible inefficiencies. This has been particularly evident in relation to establishing the protocols for disclosing sensitive or restricted information. The CoLP have stated that there were concerns about the security of building information held on a shared web-based system BIM (Building Information Management). To date, these issues

have not been fully resolved in respect of the treatment of sensitive information, for example, police division locations.

22. The City's Project Gateway process has proved to be an obstacle to timely approval of funds. This is particularly pertinent to approval for the draw down from funds, which has already been approved, or granted by third parties, for example, the Home Office.
23. Two red and eight amber rated recommendations were made. All were considered by the Commissioner and have either been implemented or are being considered for implementation at the earliest possible date.

Police Seized Goods (15 Days) Red Assurance

24. There is scope for control improvement in relation to the policies, procedures and training provided to staff regarding seized property management. Three amber priority recommendations have been raised to address the issues identified regarding an update to the property procedure manual, the need for departmental policies and procedures where property is managed outside of the property department and the provision of training.
25. Audit sample testing identified that there is clear scope for control improvement for the initial seizure and recording of seized goods on the property management system. Two red priority recommendations have been raised to ensure that there are accurate storage locations on the property management system and that there is a complete record of property held. Four amber priority recommendations have been raised in relation to the recording of accurate property information, the packaging of seized cash, providing updates on the property management system and reviewing property assigned the status of 'awaiting entry' on the system.
26. Clear and adequate security arrangements are in place over the safe and storage locations retaining seized goods. However, there is scope for control improvement in relation to the storage and safe locations on the system and the awareness of safe insurance values. An amber priority recommendation has been raised relating to the communication of safe insurance values.
27. On the basis of audit testing performed, it was identified that there is a weakness in control of the transportation of seized goods. A red priority recommendation has been raised regarding the tracking of item locations on the property management system.
28. Audit sample testing confirmed that there is clear scope for control improvement in relation to the disposal of seized property. Three amber priority recommendations have been raised concerning a cash counting policy, a witness for all disposals and a spot check of processed disposals.

29. An amber priority recommendation has been raised to ensure that an appropriate safe audit regime is in operation for all safes to identify any breaches of agreed procedure and to confirm seized goods retained

Corporate Wide Audits 2017-18

30. 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 are ten planned corporate audits for 2017-18, and five 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:

- Corporate Wide Use of Waivers
- IR 35 - Use of Consultants and Specialists Regulations
- Evaluation of sub £100K tenders
- Corporate Wide Expenditure – Expenses – Procurement Cards – Petty Cash
- Corporate Wide Business Travel.

Revisions to the 2017-18 audit plan

31. It has been necessary to defer two of these audits: IT Technology Refresh Project (10 days) and Action Fraud (10 days). A further audit of IT Network Security (10 days) has been deleted. One replacement audit has been agreed to date: CoLP Freedom of Information Requests (10 days). A further 10 day audit of Police Front Desks has been proposed. The remaining 10 days will be held in contingency and allocated before the end of 2017-18.

32.

Proposed Audit	Audit Days
CoLP Freedom of Information Requests – This audit will examine the effectiveness of the process for requests and responding within regulated timescales.	10
CoLP Front Desks – This will entail a probity audit of the activities performed by the Police Station front desks. It will include: income collection, safekeeping and banking; receipt of lost property, including cash; and record keeping.	10

Recommendation Follow-up Exercise

33.A recent corporate audit recommendation follow-up exercise has been performed. The following table shows the current outstanding audit recommendations for the City Police. These all relate to the 2015-16 audit of Fleet Fuel Cards.

Rating	Recommendation	Management Response	Implementation Date
Amber	<p>Cost Centre Managers should check transaction listings sent to them from AllStars Business Solutions each month to ensure the controls set out in the SOP have been adhered to. Anomalies should be investigated and a report should be made to the Fleet Manager and where necessary, the Professional Standards Department, as stated in Sec 3.2 of the SOP.</p> <p>Fleet Management should be aware of their duties at section 3.2 of the SOP (review of any suspect transaction reports and maintaining records on misuse) with a view to investigating and putting in place corrective action.</p>	The Force accepts the recommendation.	Revised Target Implementation Date: 31 st December 2017
Amber	The Force should consider how they can put in place a system to compliment the controls within the contractor's system to combat possible fraud. For example, a central electronic record of the VRNs of vehicles used (including demo/hire vehicles) would facilitate a check to ensure all vehicles used are checked.	The Force accepts the recommendation.	Revised Target Implementation Date: 31st December 2017

Amber	The Fleet Manager should review the list and by contacting all cost centres ensure the list held is brought up to date as necessary.	The Force accepts the recommendation.	Revised Target Implementation Date: 31 st December 2017
-------	--	---------------------------------------	--

Conclusions

34. The 2016-17 Internal Audit plan is now fully completed.
35. Work is progressing on the 2017-18 Internal Audit plan and two audits have been completed to final report stage. Fieldwork is progressing on two further audits.
36. A corporate audit recommendation follow-up exercise has recently been undertaken. There are three City Police recommendations due for implementation by 31st December 2017.
37. It has been necessary to delete one audit and defer two further audits from the 2017-18 Audit Plan. Three audits have been proposed: CoLP Freedom of Information Requests; CoLP IT Remote Working; and Police Station Front Desk Procedures.

Appendices

- Appendix 1 - Schedule of Internal Audit Planned Work 2016-17
- Appendix 2 - Schedule of Internal Audit Planned Work 2017-18

Pat Stothard, Head of Audit and Risk Management
T: 07796 315078 E: pat.stothard@cityoflondon.gov.uk

Jeremy Mullins, Audit Manager
T: 020 7332 1279 E: jeremy.mullins@cityoflondon.gov.uk