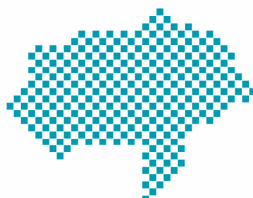


Police and Crime
Commissioner
North Yorkshire



Financial Systems Testing 2013/14

Final Report

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Contact Details	01924 294061
Date of Review	October/November 2014
Draft Report Issued	December 2014
Final Report Issued	March 2015

1 Executive Summary

The objective of the review was to undertake compliance testing of the Force and Office of the Police and Crime Commissioner's (OPCC) financial systems. Financial systems testing enables Internal Audit to provide assurance that key financial controls are operating satisfactorily and is able to support the opinion provided in the annual statement of Internal Control. Due to the upgrade to the software in relation to payroll, systems work has been undertaken and the payroll work is therefore reported separately.

A summary of the testing is set out below:

Mileage & Subsistence Claims

20 expense payments were reviewed including mileage, travel expenses and subsistence. In one instance, the relevant claim form could not be located. In all other instances the claims were supported by receipts, where appropriate, and claims had been duly authorised.

In 1/10 mileage claims reviewed, whilst they were appropriately authorised, insufficient details had been included on the claim for to support the number of miles claims.

Of the 10 subsistence claims reviewed, in one instance items which should have been purchased via procurement were reimbursed as food and refreshments. These related to purchases relating to ear defenders and ammunition, totalling £137. The claim also showed a reimbursement of £38 in relation to taxis which was incorrectly coded as food and refreshments. In another instance, part of the claim valued at £10.29, a visa receipt only was available to support the expenditure and £8.81 had been reimbursed for lunch, in excess of the £5.00 limit as stated in the subsistence policy.

Pensions

- Employer and Employee Contributions Rates

A sample of 10 variances to the Employer and Employee Contributions Rates were tested. In all instances the variance could be satisfactorily explained as being due to statutory sick pay or maternity pay and the difference was between actual and notional pay.

- LGPS Payments

Three payments made from NYS to the LGPS were reviewed. In all cases the payments had been made on a timely basis, authorised appropriately and were correct.

- Police Pension – Increase in Contributions

Police pension contributions were increased with effect from 1 April 2012 and tiered dependent upon an officers basic annual salary. A pensions re-banding exercise was undertaken and testing confirmed that all officers were now allocated into a revised tier according to the new banding.

- Employee Pension Contribution Rates Banding

The pension contributions are reviewed by County Hall. Their reconciliation of pension contributions were correct with the exception of 14 employees. Twelve employees were found to have underpaid, eleven paying contributions of 6.5% instead of 6.8% and one paying 5.9% instead of 6.5%. Two had overpaid contributions of 6.5% instead of 5.9%.

Creditors (P2P)

A sample of 30 payments made through the creditors system were selected. All payments reviewed appeared reasonable and appropriate. In all instances the payments had been appropriate authorised and made correctly. There was satisfactory evidence of Goods Received in each instance and there was adequate segregation of duties throughout the process.

Where the invoice can be reconciled to an approved and goods receipted order on iProc, the invoice can be automatically approved and paid. Where no existing order can be identified, the invoice has to be approved and goods receipted by the relevant department by completion of a supporting voucher. Thirteen payments could be reconciled to a relevant order on iProc. Of the remaining 17, 4 were regular direct debits and were supported by relevant documentation held centrally (eg monthly NNDR payments) and the remaining 13 were supported by a voucher approved by the relevant department, 3 of which related to purchases made via the Tranman system. The auditor was advised that 7 of these invoices relate to medical and interpretation services which are exempt from the requirement to raise a Purchase Order. The Chief Constable's Chief Finance Officer will arrange for this decision to be formalised in the next review of the DRM. The failure to pre-raise orders on the iProc system reduces the efficiency of the payment process as they require manual authorisation following receipt of the invoice.

Bank Reconciliations

Internal Audit verified the banking reconciliations undertaken on the main bank account. Reconciliations had been completed on a monthly basis for the complete financial year. These had been completed by the Finance Support Officer and independently verified and signed off by the Chief Constable's Chief Finance Officer or her designated officer. Reconciling items were being addressed.

In conclusion, Internal Audit are able to provide reasonable assurances that the key controls in relation to the financial systems testing undertaken are operating satisfactorily.

	Commentary
Effectiveness of Risk Management Approach	Whilst some minor control failures have been identified, the overwhelming majority of transactions have been properly undertaken. Therefore, the risk management approach appears reasonable.
Efficiency of Risk Management Approach	Though the focus of the review was in relation to transactional testing, the organisation should seek to continue to maximise the efficiency of P2P by continued review of goods and services not procured via IProc orders.
Assurance Level	2 – Reasonable Assurance
Overall Risk	5:4

2 Scope and Approach of the Audit

The audit covered the testing of key controls in respect of expense claims, pensions, creditors (P2P) and bank reconciliations. Transactions were selected from the 2013/14 financial year and covered both the Force and the Office of the Police and Crime Commissioner.

Each recommendation is accompanied by an assessment of the likelihood and impact of the risk identified, to North Yorkshire Police/ the Commissioner as a whole.

3 Report Distribution

Name/Role	Draft	Final	Final with Response
Moira Hopwood, Acting Head of Payroll and Pensions	✓	✓	✓
Nicola Johnson, P2P Manager	✓	✓	✓
Helen Raisbeck, Head of Financial Systems	✓	✓	✓
Jane Palmer, Chief Constable's Chief Finance Officer	✓	✓	✓
Michael Porter, Commissioner's Chief Finance Officer	✗	✓	✓
Risk and Assurance Unit	✗	✓	✓

4 Observations

4.1 Expense Claims

Risk Exposure			Root causes		
Potential overpayment of mileage claim as a result of being unable to verify details of journey.			Insufficient detail to support total mileage claimed.		
Incorrect financial information as a result of miscoding of expenditure.			Incorrect coding of expense claims.		
Failure to adhere to controls within the P2P system.			Payment in excess of policy limits.		
Potential inappropriate reimbursement of subsistence claim as a result of non submission of itemised receipt.			Submission of visa receipt only.		
Probability	Financial	Reputation	Operational	Legal	Rating
Unlikely	Negligible	Negligible	Nil	Nil	6:2

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In 1/10 mileage claims reviewed, whilst they were appropriately authorised, insufficient details had been included on the claim to support the number of miles claims.

Of the 10 subsistence claims reviewed, in one instance items which should have been purchased via procurement were reimbursed as food and refreshments. These related to purchases relating to ear defenders and ammunition, totalling £137. The claim also showed a reimbursement of £38 in relation to taxis which was incorrectly coded as food and refreshments. In another instance, part of the claim valued at £10.29, a visa receipt only was available to support the expenditure and £8.81 had been reimbursed for lunch, in excess of the £5.00 limit as stated in the subsistence policy.

Recommendation 1

Consideration should be given to issuing periodic reminders that claimants should provide sufficient detail on mileage claim to provide an opportunity to verify the mileage undertaken. Street name or postcode of journeys should be provided.

Recommendation 2

Where claims are made which do not meet the criteria for repayment via the travel or subsistence system, the individual should be notified of the correct process to follow. In instances such as those identified in the sample that related to purchases which should have been undertaken via P2P, consideration should be

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given to notifying the P2P team so they can provide appropriate, if necessary, advice in relation to procurement procedures.

4.2 Local Government Pension – Employee Contribution Rates

Risk Exposure			Root causes		
Employee contribution rates and deductions from salary are incorrect.			Errors in employee contribution rates identified during checking exercise by County Hall.		
Probability	Financial	Reputation	Operational	Legal	Rating
Probable	Negligible	Negligible	Nil	Negligible	5:4

NYP and OPCC staff who are members of the pension scheme are enrolled in the Local Government Pension Scheme (LGPS). The employee contributions are calculated and applied based upon full time equivalent pensionable payments as at 31 March.

A recent exercise had been undertaken by County Hall to ensure that the correct contribution rates have been applied. In the vast majority of cases, it was confirmed that the correct rate had been applied.

However, in 14 cases, it was found that an incorrect rate had been applied. The Head of Payroll confirmed that adjustments will be processed in respect of these employees.

Recommendation 3

Consideration should be given to undertaking a periodic check within the payroll team to ensure that pensionable pay calculations are correct and that the contribution rate is correctly applied.

4.3 Creditors (P2P)

Risk Exposure			Root causes		
Reduced efficiency in the P2P process as a result of needing to seek manual authorisation.			Failure to pre-raise orders on the iProc system.		
Increased risk of fraud or error.					
Probability	Financial	Reputation	Operational	Legal	Rating
Probable	Negligible	Negligible	Nil	Nil	5:4

A sample of 30 payments made through the creditors system were selected. All payments reviewed appeared reasonable, appropriate and had been authorised.

In all instances the payments had been made correctly. There was satisfactory evidence of Goods Received in each instance and there was adequate segregation of duties throughout the process.

Where the invoice can be reconciled to an approved and goods receipted order on iProc, the invoice can be automatically processed for payment. However, where no existing order can be identified, the invoice has to be issued to the procuring department for manual completion and approval of a supporting voucher. Thirteen payments could be reconciled to a relevant order on iProc. Of the remaining 17, 4 were regular direct debits and were supported by relevant documentation held centrally (eg monthly NNDR payments) and the remaining 13 were supported by a voucher, 3 of them relating to purchases made via the Tranman system. The auditor was advised that 7 of these invoices relate to interpretation and medical services which are exempt from the requirement to raise an iProc Order. The Chief Constable's Chief Finance Officer will ensure that this decision is properly reflected in the next update of the DRM. The failure to pre-raise orders on the iProc system reduces the efficiency of the payment process as they have to be manually authorised following receipt of the invoice.

Recommendation 4

The exemption from the requirement to raise iProc orders should be regularly reviewed to ensure that the efficiency of the P2P process is maximised and there is reduced administrative burden in seeking subsequent approval of invoices in relation to iProc exempt goods and services.

5 Recommendations

#	Recommendation	Category of Rec.	Management Action	Action Manager & Completion Date	Satisfactory Response (IA View)
1	Consideration should be given to issuing periodic reminders that claimants should provide sufficient detail on mileage claim to provide an opportunity to verify the mileage undertaken. Street name or postcode of journeys should be provided.	Merits Attention	This has been considered by the corporate budget holder. NYP is undertaking a discrete piece of work to analyse and evaluate the current expenses claiming process. This recommendation will be factored into the work stream as part of the change management process.	Helen Raisbeck Completed 8/1/15	Yes
2	Where claims are made which do not meet the criteria for repayment via the travel or subsistence system, the individual should be notified of the correct process to follow. In instances such as those identified in the sample that related to purchases which should have been undertaken via P2P, consideration should be given to notifying the P2P team so they can provide appropriate, if necessary, advice in relation to procurement procedures.	Merits Attention	The test sample referred to has been dealt with and the individual advised of the correct process. Payroll and P2P teams will continue to work in conjunction with each other to ensure expenditure is incurred via the correct process and advice is fed back to individuals where appropriate and required. Any new system as per 1 above will prevent claims through payroll that should be P2P.	Helen Raisbeck Completed 9/1/15	Yes

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3	Consideration should be given to undertaking a periodic check within the payroll team to ensure that pensionable pay calculations are correct and that the contribution rate is correctly applied.	Merits Attention	The Payroll IT system is undergoing a discrete piece of work to adjust pension bandings from system source data (eg changes to contracts terms) to mitigate risk associated with this recommendation. The next stage of the work is scheduled with the supplier for early February 2015. User acceptance testing will follow prior to the changes becoming embedded.	Helen Raisbeck/Moira Hopwood Completion date 30 June 2015	Yes
4	The exemption from the requirement to raise iProc orders should be regularly reviewed to ensure that the efficiency of the P2P process is maximised and there is reduced administrative burden in seeking subsequent approval of invoices in relation to iProc exempt goods and services.	Merits Attention	A statistical review of supplier invoices and purchase orders has recently been conducted. P2P have reviewed this data and put in place a list of suppliers suitable for draw down and annual purchase orders where this has not been done in the prior financial year. This will be reviewed at least once a year as part of the normal review of the DRM.	Nicola Johnson Completion date 30 June 2015	Yes

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Classification of Recommendations	
Fundamental	Action is needed to address risks that could impact on the organisation's ability to achieve its objectives. Action will typically be organisation-wide and be necessary at the highest level. Other fundamental recommendations will be made in regard to potentially serious breaches of statutory obligations.
Significant	Action is needed to address risks that impact primarily on one major business area or to address lower risks on an organisation-wide basis.
Merits Attention	Action is advised to enhance control, remedy minor breaches of current controls or to improve efficiency.

NOT

Internal Audit assesses the effectiveness of internal control, within the scope of what is audited. This measure is therefore a relative one.

Category	Description
1	Reasonable assurance can be provided that the main risks considered are being effectively managed; action may still enhance the management of risk in a small number of areas. In addition Internal Audit has identified that the approach taken to address risk as representing good practice in this area.
2	Reasonable assurance can be provided that the main risks considered are being effectively managed. Limited management action may be required to address a small number of significant issues.
3	Limited assurance can be provided that the main risks considered are all being effectively managed. Significant management action is required to address some important weaknesses.
4	Inadequate assurance can be provided that the risks identified are being effectively managed. Significant weaknesses have been identified in the risk management action, these are likely to involve major and prolonged intervention by management. These weaknesses are such that the objectives in this area are unlikely to be met.

Risks in this report have been assessed using the following criteria. It is the same criteria as that used by North Yorkshire Police to assess risk for the Risk Register.

Probability	Highly Probable	Nil	5:7	4:12	2:14	1:16
	Probable	Nil	6:4	5:8	3:13	2:15
	Unlikely	Nil	6:2	6:5	5:10	4:11
	Highly Improbable	Nil	6:1	6:3	6:6	5:9
	Nil	Nil	Nil	Nil	Nil	Nil
		Nil	Negligible	Minor	Significant	Severe
Impact						

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Probability	Nil	< 20% Highly Improbably (HI)	20% - 40% Unlikely (UL)	40% - 60% Probable (P)	> 60% Highly Probable (HP)
Impact Categories	Nil	Negligible	Minor	Significant	Severe
Financial (£) - Default - Mandatory	Nil	0 => 100k Increased financial impact less than £100000	100k => 250k Increased financial impact between £100k and £250k	250k => 2.5m Increased financial impact between £250k and £2.5m	2.5m => 3.75m Increased financial impact greater than £2.5m
Reputation	Nil	Negligible adverse publicity. Minimal impact upon public perception	Localised adverse publicity. Minor/transient impact upon public perception of Force or PCC	Criticism at local level. Lasting impact upon public perception of Force or PCC	Intense national media. Criticism at national level
Operational	Nil	Negligible impact upon ability to deliver service and meet Force targets	Minor impact upon ability to deliver service and meet Force targets	Significant impact upon ability to deliver service and meet Force targets	Catastrophic impact upon ability to deliver service and meet Force targets
Legal/Compliance	Nil	Negligible prospect of legal challenge	Minor/Transient prospect of legal challenge	Serious non compliance. Litigation/challenge.	National legal issue.