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|  | **The Crime Commissioner for Cleveland Police and the Chief Constable Cleveland Police** |
|  | **Assurance Review of Budgetary Control** |
|  | **November 2018** |
|  | **FINAL** |
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| **Executive Summary** |

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| **OVERALL ASSURANCE ASSESSMENT** |  | **OVERALL CONCLUSION** |
|  |  | **Budgetary control processes, procedures, staff and working relationships are well established and embedded.**   |  | | --- | | * **Budget preparation, monitoring and reporting arrangements were found to be robust and working as intended.** * **A comprehensive audit trail was evident for all aspects of the budget setting and monitoring arrangements reviewed.** | |
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| **SCOPE** |  | **ACTION POINTS** |
| The review considered the budget preparation process, the monitoring arrangements, and reporting to the Management Board.  The scope of the review does not include consideration of the assumptions used in preparing the budgets; depreciation policies; apportionment of central costs; or financial information included in tenders prepared by the organisation. |  | |  |  |  |  | | --- | --- | --- | --- | | **Urgent** | **Important** | **Routine** | **Operational** | | **0** | **0** | **0** | **0** | |

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| **Management Action Plan - Priority 1, 2 and 3 Recommendations** |

| **Rec.** | **Risk Area** | **Finding** | **Recommendation** | **Priority** | **Management**  **Comments** | **Implementation**  **Timetable**  **(dd/mm/yy)** | **Responsible**  **Officer**  **(Job Title)** |
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| No recommendations were made. | | | | | | | |

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| **Operational Effectiveness Matters** |

| **Ref** | **Risk Area** | **Item** | **Management**  **Comments** |
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| No Operational Effectiveness Matters were identified. | | | |

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| **Detailed Findings** |

**Introduction**

1. This review was carried out in November 2018 as part of the planned internal audit work for 2018/19. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

**Background**

1. Sound financial management is underpinned by a robust process for setting the annual budget in line with the financial plan and supported by effective monitoring and reporting.

**Materiality**

1. The 2018/19 annual budget is £119.770m (Revenue) and £6.334m (Capital). The forecast outturn revenue position as at 30th September 2018 is an £150k (0.1%) overspend and the forecast outturn capital position is underspend by £6k (0.1%).

**Key Findings & Action Points**

1. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

**Scope and Limitations of the Review**

1. The review considered the budget preparation process, the monitoring arrangements, and reporting to the Management Board. The scope of the review does not include consideration of the assumptions used in preparing the budgets; depreciation policies; apportionment of central costs; or financial information included in tenders prepared by the organisation.
2. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

**Disclaimer**

1. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**Risk Area Assurance Assessments**

1. The definitions of the assurance assessments are:

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| **Substantial Assurance** | There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved. |
| **Reasonable Assurance** | The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved. |
| **Limited Assurance** | The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved. |
| **No Assurance** | There is a fundamental breakdown or absence of core internal controls requiring immediate action. |

**Acknowledgement**

1. We would like to thank staff for their co-operation and assistance during the course of our work.

**Release of Report**

1. The table below sets out the history of this report.

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| **Date draft report issued:** | 14th November 2018 |  |
| **Date management responses received:** | 20th November 2018 |  |
| **Date final report issued:** | 22nd November 2018 |  |

1. The following matters were identified in reviewing the Key Risk Control Objective:

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| **Directed Risk: Failure to direct the process through approved policy & procedures.** |

* 1. The previous audit review of budgetary control was undertaken in November 2017 and was assessed as substantial assurance and resulted in no recommendations.
  2. The Police and Crime Commissioner (PCC) and Chief Constable (CC) for Cleveland Joint Corporate Governance Framework document (“The Framework”) gives clarity to the way the two organisations are governed jointly and separately and how they do business. The principle statutory framework within which the organisations operate is: Police Reform and Social Responsibility Act 2011 (PRSRA11, the Act); Policing Protocol Order 2011 (the Protocol); Financial Management Code of Practice; and Strategic Policing Requirement.
  3. The Framework includes a Financial Regulations and Standing Orders section and key appendices (Financial Management Framework and Financial Planning and Control). The Framework is available to all staff on the PCC website and provides clear guidance on revenue and capital budgets and expenditure.
  4. The two organisations operate within an approved annual budget with budgetary control an on-going process, enabling both to review and adjust their budget targets in year. In addition, it is the mechanism that holds to account managers responsible for elements of the budget
  5. The Chief Constable’s Chief Finance Officer (CCCFO) is responsible to the CC for all financial activities within the Cleveland Police. The Income budgets are not delegated and remain with the PCC.
  6. Cleveland Police utilise a third party provider, Sopra Steria, for the back office financial arrangements including control of the revenue budget. The Cleveland Police Corporate Finance Manager (CFM) undertakes capital budgetary control processes.
  7. The CCCFO is supported on a day-to-day basis by the Sopra Steria Head of Financial and Payroll Services (HoFPS and his Finance team and the Cleveland Police’s CFM.
  8. A Finance Month End Procedures (“Revenue Procedures”) document dated 15th June 2018 covers revenue budgetary control. The Revenue Procedures is available to Sopra Steria Finance staff on a shared drive. In addition, there is a paper based Management Accounts Capital Month End Procedures (“Capital Procedures”) that covers capital budgetary control.
  9. During the course of the audit, the Revenue and Capital Procedures were reviewed and found to be comprehensive, user friendly and to promote consistent budget processes. In addition, the procedures were seen to be used by both the Sopra Steria Senior Management Accountant and the Cleveland Police’s CFM.

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| **Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.** |

**Budget Preparation Process**

* 1. The budget setting process is an integral part of the annual business planning exercise and underpins the Cleveland Police financial plans. It is best practice for managers, in consultation with Finance, to review budgets on an on-going basis. The budget setting process is the formal opportunity to review and revise the allocation of resources and ensure that they are used in an optimal manner.
  2. There is a budget timetable 2018/19 task list that was reviewed during the audit and is structured as follows:
* Area – Delegated budgets, meetings, reports, review, settlement data and working papers;
* Task – e.g. prepare final LTFP and annual budget;
* Deadline; and
* Responsibility.
  1. The timetable task list helps to ensure that all staff involved in the process are clear in their responsibilities and associated deadlines. The timetable was found to be simple, comprehensive (including the budget setting process) and fit for purpose.
  2. In building the 2018/19 budget, consideration was found to have been given to the previous year's actual outturn against the budget and notable variances
  3. The revenue budget holders and a dedicated Finance Business Partner (FBP) meet on a monthly basis throughout the year as a key element of the revenue budget monitoring process. This approach ensures that the budget holders have input to the budget preparation process.
  4. At the time of the audit Corporate Services and the CFM were in the process of compiling the Capital Programme for 2019/20 onwards. The Business Transformation Manager has requested business cases for each of the proposed capital schemes from budget holders to be returned by 16th November. Once the programme is compiled it will be discussed and agreed by the Executive Group before a recommendation is made to the Police and Crime Commissioner in early 2019.
  5. Financial modelling, including building the draft budget and budget monitoring, is spreadsheet based. The HoFPS, the CFM and the CCCFO undertake regular checks on the accuracy of the information on the spreadsheets and uploads onto the financial ledger.
  6. The range of Excel spreadsheets reviewed during the audit were found to be user friendly, an appropriate balance of numbers and narrative, well ordered, crossed referenced and would facilitate any continuity arrangements.
  7. The budget has been set and agreed in the context with the Cleveland Police’s strategic aspirations as documented in the Long Term Financial Plan (LTFP) for 2018/19 – 2021/22.
  8. The Purpose of the LTFP is *to demonstrate the Cleveland Police’s operational plan is affordable, financial stability can be maintained, and funding is targeted to those activities that best make our communities safer and stronger*. Revenue and capital spending plans that underpin delivery of the Cleveland Police’s Towards 2020 strategy are set out in the LTFP.
  9. The savings programme that features in the LTFP has been provided for in the 2018/19 budget.
  10. The pay budget in the 2018/19 revenue budget is £80.265m and is 67.02% of the overall budget. Staffing costs within the budget give consideration to vacancies, pay award and proposed recruitment for the year. During the course of the review, the Police Staff assumptions detailed in the LTFP were checked against the 2018/19 budget and associated working papers and were found to be consistently reflected.
  11. The Robustness of Estimates and Adequacy of Financial Reserves (REAFR) report of the Chief Finance Officer of the PCC (PCCCFO) dated 28th February 2018 details the robustness of  the budget  for  consideration immediately prior to setting the 2018/19 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans. The revenue and capital budget proposal for 2018/19 and the LTFP pays due consideration to the REAFR report.
  12. The CC presented the revenue and capital budget proposal for 2018/19 and the Long Term Financial Plan (LTFP) for 2018/19 – 2021/22 to the Cleveland Police Management Board (CPMB) on 31st January 2018, which was endorsed for recommendation to the PCC. The LTFP states that it should be read in conjunction with the PCCCFO Long Term Financial Plan 2018/19 to 2021/22 and Capital Plans 2018/19 to 2021/22 and REAFR reports.
  13. On the 28th February 2018, the PCC allocated the Cleveland Police a revenue and capital budgets for 2018/19 at the PCC Scrutiny, Delivery and Performance meeting. The approval date accords with the detailed budget timetable 2018/19
  14. In March 2018 the CCCFO sent all revenue budget holders a *Revenue Budget 2017/18 – Delegated Authority from the Chief Constable letter*, along with an Appendix A (Annual budget for the functions under the budget holder control). The letter clearly states the delegated authority and accountability of the budget holder. The CCCFO requested that the budget holder accepts the budgets and the associated responsibilities and accountabilities by signing and returning a copy of Appendix A to the Lead FBP. During the course of the audit, three of the fourteen budget holders were selected and each was found to have signed, dated and returned the Appendix A documents, showing their acceptance of budget responsibilities and accountabilities.
  15. The year-end revenue and capital position is included in the Corporate Financial Monitoring Report (CFMR) to 31st March 2018 presented by the CCCFO to the CPMB on the 14th of May 2018. The CFMR highlights notable variances for the current year's budget monitoring.
  16. The CFM advised that the CCCFO talked the CC and the Deputy Chief Constable (DCO) through the assumptions in the LTFP to ensure that they were fully understood.

**Budget Monitoring**

* 1. During the course of the audit, the October 2018 management accounts month-end processes for revenue and capital were reviewed and were found to comprehensively and consistently cover each element of the processes below with no issues noted.

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| **Revenue** | **Capital** |
| * Month End Preparation (WD1) * Period End Procedures (WD1) * Close Oracle Sub Modules (WD1) * Close Oracle General Ledger (WD1) * Budgetary Control (WD2) * Additional Post Closure Processes (WD2-5) * Budgetary Control (WD5-8) | * Day 1/2 – After GL Closed   + Reconcile report draft file   + Produce data for workbooks   + Produce workbooks with pro forma, commitment and transaction details * Day 5 When Returns Received * Upload revised phasing into Oracle * Produce Appendices |

* 1. An Oracle fully integrated financial systems solution is employed and access to Oracle for users is controlled through specific user permissions based on the allocated role. Accounts can only be set up on receipt of an auto generated email which follows an account being authorised by HR. A basic account that allows access to the Cleveland Police Employee Self Service system is initially set up, with any additional permissions for users only being applied on receipt of an authorisation from the relevant Business User Manager. Oracle access control testing is undertaken as part of the Key Financial Controls audit in November 2018.
  2. On work day one the Senior Accounts Assistants undertake reconciliations of the accounts payable and accounts receivable sub ledgers and the Senior Management Account undertakes a reconciliation of the Inventory sub ledger. The trial balance (system generated) is reconciled with the oracle general ledger to ensure that everything that should have fed into the general ledger has. An independent check of the reconciliation is performed by the HoFPS and during the course of the audit, the reconciliations for August, September and October 2018 were reviewed and found to be fully documented and appropriately reviewed.
  3. Closedown of the general ledger is work day one and is signed off by email by either the CCCFO or the Corporate Finance Manager (CFM) and testing of this control was confirmed for August, September and October 2018.
  4. The Framework document details the virement process and makes clear that virements must be authorised by either the PCCCFO, CCCFO, HoFPS or FBP before they can be processed by the Senior Management Accountant. During the course of the audit five revenue virements in 2018/19 were selected and were found to have been appropriately approved.
  5. Budgetary information is extracted from Oracle by the second working day of the month. Reports are uploaded onto a shared drive for budget holders to access and populate with their forecasts and to provide commentary for variances by the fifth working day of the month.
  6. Revenue budget monitoring for non-pay budgets is delegated to the budget holders with the support of a designated FBP and the pay budgets are monitored by the FBPs.
  7. There are five FBPs (3.2 FTE) that support the 14 revenue budget holders and they attend the monthly Management Team meeting to review the revenue budgets and variances.
  8. During the course of the review the FBP that support the Crime and Justice budget holder was interviewed and the review and management of significant variances was analysed. The collaboration variances were reviewed and found to have been appropriately communicated to and discussed with the respective Management Teams and fed into the CFMR.
  9. The HoFPS and the FBPs review and scrutinise forecasts and variances at the Revenue Budget Clinics and the revised forecasts are uploaded onto the system and included in the Reporting Pack.
  10. The Reporting Pack is available on the shared drive on work day 10. A key element of the pack is Appendix 2, which is also used to produce the CFMR, LTFP and underpins revenue budget monitoring. The Appendix includes the pay and non-pay expenditure as follows: sum of annual budget, sum of YTD budget, sum of YTD actual, sum of YTD variance, sum of current forecast and sum of forecast %.
  11. The CFM reviews the capital budgets with the budget holders on a monthly basis. During the course of the audit, the email communications between the CFM and Estates, Fleet and Scientific Support budget holders were reviewed and it was confirmed that the capital budgets and variances are subject to scrutiny.
  12. The key capital budget monitoring spreadsheet that the CFM produces on a monthly basis is the Appendix C Monitor and includes the capital scheme expenditure as follows: 18/19 budget, budget to date, actual to date, variance to date, forecast outturn, (under)/over budget, forecast – actual, outstanding commitments and forecast - (actual + commitments).
  13. The Monthly Reporting Pack (Revenue) and the Appendix C Monitor (Capital) is the basis for the production of the CFMR by the CFM who produces the draft that is sent and discussed with the CCCFO, who shares the final report with the PCCCFO.
  14. The CCCFO meets with the CC on a fortnightly basis and they discuss budgetary control. In addition, the PCC and CC have a weekly meeting that incorporates budget discussion and challenge.

**Budget Reporting**

##### The purpose of the CFMR is documented in the report as follows: *This report provides assurance that the revenue and capital plans for 2018/19 are being delivered, that financial risks to the plan are being monitored and managed, and that remedial action is being taken where necessary*.

* 1. The CFMR for August, September and October 2018 was reviewed during the course of the audit and include the following elements:

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| **Revenue Budget** | **Capital Budget** | **Other** |
| * Changes to Revenue Funding * Budget Monitoring Statement * Key Risks * Police Pay & Allowances * Police Community Support Officers Pay & Allowances * Police Staff * Non-Pay Budgets * Collaborations | * Changes to Capital Funding * Capital Monitoring Statement * Key Risks * Update on Key Schemes | * Long Term Financial Plan (LTFP) 2017/18 to 2020/21 – Assessment of Risks |

The document was found to be comprehensive, fully support the budget processes and in line with the purpose described in the paragraph above 11.43.

* 1. The CCCFO presents the CFMR to the CC on a monthly basis. In addition, the CCCFO reports to the PCC throughout the year providing an update on the LTFP and highlights significant changes in the plan and assumptions.

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