THE POLICE AND CRIME COMMISSIONER FOR CLEVELAND AND THE CHIEF CONSTABLE OF CLEVELAND

Purchases and Credit Cards

Final Internal audit report 9.20/21

30 November 2020

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1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit / assignment and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test the control framework.

Why we completed this audit

A review of purchases was undertaken as part of the agreed annual internal audit plan for the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland in order to determine whether expenditure is committed, approved and accounted for in line with the organisations' Financial Regulations and Standing Orders.

The organisations administer payments to suppliers totalling approximately £120m each year. Most payments are made by the automated BACS payment process driven by the Oracle application, but the organisations also currently have four corporate purchase cards and around 30 corporate credit cards in use.

The organisations' Joint Corporate Governance Framework for the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland provides the overall governance structure for the management of their affairs. A key part of this Framework is the Financial Regulations and Standing Orders. In particular, Section F of the Financial Regulations and Standing Orders covers the organisations' Contract Standing Orders and Section G, their Delegated Limits. Responsibility for the management of departmental budgets is delegated to Department Heads and within this is a structure of limits for expenditure requisition and authorisation.

The Oracle application is used to administer roughly two-thirds of the organisations' expenditure from the point of requisition to point of payment, but the balance is made up of 'fast-track' expenditure, whereby a department administers the requisition and approval process before it is submitted to the Finance team for input into the Oracle application for processing and payment. Such expenditure is typically for items such as vehicle repairs, doctors' costs and compensation claims.

Conclusion

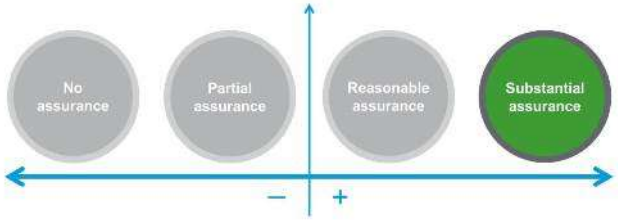
We found that comprehensive and robust processes are in place to administer the organisations' expenditure. No issues were identified during our testing of those processes, although we did feel that the organisations would benefit from being able to document their structure of delegated authority more clearly, and ensure a process is set up to review their supplier listing on a regular basis.

We also undertook data analytics testing in eight different areas as part of our audit and the results of this analysis are detailed at Appendix B. Adequate explanations were provided by management to our initial queries resulting from this analysis and we have therefore concluded in all eight areas that no further work is required.

As a result of our review, we have agreed **three low priority** management actions. Details of these actions can be found under section two of this report.

Internal audit opinion:

Taking account of the issues identified, the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland can take **substantial assurance** that the controls upon which the organisations rely on to manage this area are suitably designed, consistently applied and operating effectively.



Key findings

Our audit review also identified that the following controls are suitably designed, consistently applied and are operating effectively:

- The organisations have a Corporate Governance Framework which details its requirements in respect of key matters such as: financial management, planning and control; systems and procedures; and delegated authority.
- The organisations have a suite of procedure notes to assist staff in key activities. These were clearly documented and up to date.
- The organisations have separate policy documents in respect of credit cards and purchase cards and all staff in receipt of a card must sign for the card when received to state, formally, that they have read and agree to adhere to the organisations' policy in respect of that card.
- A robust order requisition and approval process is in place, governed by a framework of delegated authority limits and administered using the Oracle application. We tested a total of 20 invoices (10 processed from requisition to payment via Oracle and 10 'fast-track' invoices which are entered onto Oracle once checked and authorised outside of the Finance team) and found that all had been appropriately authorised and supported by an adequate audit trail.
- All credit notes are checked against the original invoice and annotated / signed prior to entry onto the Oracle system. We tested a sample of 10 credit notes and found that all had evidence of appropriate checking and approval.
- Invoices outside the 10% tolerance or without a goods receipt note are flagged on a weekly exception report for further investigation. Only one such item appeared in our samples and we found that it had been dealt with appropriately.

All suppliers have payment terms set up on the Oracle system. Authorised invoices awaiting payment are matched to these payment terms and automatically selected by the system for the next available payment run. The Treasury team checks the availability of funds before authorising release of the payment run, and a separate check of payments over £5,000 is also made before the run is released.

Monthly reconciliations are performed of all key control accounts, including accounts payable. We obtained a copy of the purchase ledger account reconciliation for September 2020 and noted no issues.

New supplier set up and changes to supplier details are administered by clear processes requiring formal documentation in order for them to be processed. We tested a sample of 10 new supplier accounts and seven changes to supplier details and found all were supported by the required documentation and checks / authorisation.

Formal limits are set for all corporate purchase and credit cards and statements are received, checked and approved on a monthly basis and must be supported by receipts / invoices. We reviewed a sample of four credit cards (out of approximately 30) and two purchase cards (from four) and were provided with evidence in support of credit limits and checking / approval of monthly statements and receipts / invoices.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Purchases and Credit Cards		
Control 1	The organisations have a Corporate Governance Framework which details their requirements in respect of key matters such as: • Financial management, planning and control. • Systems and procedures. • Delegated authority. The Corporate Governance Framework is reviewed on an annual basis by all Heads of Service then put on the organisation's intranet portal for all staff to access. Within the overall delegated authority matrix documented in the Corporate Governance Framework, each member of staff involved in the purchase cycle has an authority limit set up in the Oracle application. Authority limits are set in accordance with the person's role / position.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	The Joint Corporate Governance Framework for the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland (the 'Framework') is the organisations' primary statement as to how their affairs should be managed and authority delegated to its officers. The Financial Regulations and Standing Orders make up a significant proportion of the Framework. Section F covers the organisation's Contract Standing Orders and Section G its Delegated Limits. The Contract Standing Orders include the process and authorisation limits in respect of the procurement process and details thresholds for Low (<£10k) or Medium Value (<£50K) orders and above, and the process to be followed (above £50k the process may vary depending upon the nature of the procurement). Each Department Head is delegated authority for their departmental budget and is issued with an Appendix A letter of authorisation each year which they must sign in acceptance. Within this, authorisation for expenditure is delegated in accordance with the £50k / £10k limits specified in Section F. In support of this, the organisations maintain: • A list of authorised signatories (the Authorised Signatory List 2020/21) which is used primarily as the list of signatories for processes requiring authorisation outside of the Oracle system (i.e. 'fast-track' invoices). • A set of limits within the Oracle system which are used to manage purchase requisitions administered via the Oracle system and are set according to a person's role. Discussion with the Head of Finance and Payroll, and the Finance Business Partner and Accounts Manager indicates that it is the limits with Section F that are used to drive the authority limits in use across the organisations.	

Area: Purchases and Credit Cards				
	However, we were unable to see a clear link between Section F, Section G and which roles are then delegated this authority. Furthermore, whilst Section G deals with delegated authority limits, is at a very high level and does not refer to purchase orders or payments at all. In addition, whilst we recognise that the Authorised Signatory List and the Oracle user authorisation parameters govern separate, although related, processes, a review of these lists revealed: • Three people set up on the Oracle system who did not have limits specified on the Authorised Signatory List (all of whom had limits of £50k). The Head of Finance and Payroll stated that these were all heads of departments who fell within the category within the Framework who were granted a limit of £50k. • Three people set up on the Oracle system from whom specimen signatures were awaited (two with £50k limits and one with a £10k limit). • One person with two sets of limits (£50k and £2m), although this was because of the two different roles they perform. • One person (limit £200k) on Oracle but not on the Authorised Signatory List. The Head of Finance advised that this person has now left (as designated by an "X" in front of his collar number). Nevertheless, they were still listed on the Oracle report. We obtained confirmation that this person's access was disabled in November 2019 when he left so that this account can no longer be used. This analysis excludes those personnel listed as being Assistant Chief Officers. Whilst we recognise the operational reasons for the use of two lists, the organisations may benefit from a review being conducted to ensure that only those who require authorisation profiles on either (or both) the Oracle system or the Authorised Signatory List are up to date, are in line with the Governance Framework and have provided specimen signatures, where required. Failing to specify clearly the parameters of authority in respect of commitments or payments to suppliers in a clear framework of delegated authority limits aligned to roles across the organisations could give rise to confusion over the limit specified for a given individual.			
Management Action 1	Section G of the organisations' Financial Regulations and Standing Orders (Delegated Limits) will be revised to ensure that the section on delegated authorities makes specific reference to authority limits by role across the organisations over commitments and payments to suppliers.	**Responsible Owner:** Chief Finance Officer – Chief Constable Chief Finance Officer- PCC	**Date:** 31 March 2021	**Priority:** Low

Management Action 2	The Authorised Signatory List and the limits set up within the Oracle system will be reviewed to ensure both are accurate, up to date and in line with the Governance Framework, and that all staff required to do so have provided a specimen signature. A process will be established to ensure that this review is performed on at least an annual basis, and the results of the review documented to maintain an audit trail.	**Responsible Owner:** Chief Finance Officer – Chief Constable	**Date:** 31 March 2021	**Priority:** Low

Area: Purchases and Credit Cards			
Control 2	The suppliers list is reviewed on a bi-annual basis.	**Assessment:**	
		Design	✓
		Compliance	×
Findings / Implications	We were advised by the Head of Finance and Payroll that the supplier listing is reviewed roughly every two years when the National Fraud Initiative (NFI) returns are compiled. We requested a report exported from the purchase ledger of suppliers which have been 'end-dated' over recent years. This indicated that a review and closure of supplier accounts is conducted on an ongoing basis. The last end date recorded on this extract appeared to be from October 2019, indicating another review is due. Whilst we acknowledge the difficulties posed by the nature of the supplier demographic, having an excessive number of active supplier accounts could increase the risk of erroneous payments being made.		

Management Action 3	A process should be introduced to ensure that a formal review of the supplier listing is conducted and documented on at least an annual basis.	**Responsible Owner:** Head of Finance and Payroll	**Date:** 31 March 2021	**Priority:** Low

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed management actions		
					Low	Medium	High
Purchases and Credit Cards	0	(17)	2 **	(17)	3	0	0
Total					**3**	**0**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

** More than one management action has been raised against the control.

APPENDIX B: DATA ANALYTICS

Analytics Findings:

The following is a summary of findings from our data analytics work which we have discussed with management. This has involved us sharing the data analytics spread sheets which detail the findings for further consideration and checking.

Area: Supplier Details	
Criteria:	Identifying duplication of bank account details.
Source Data/Reports:	System generated supplier listing for Cleveland Police.
Period Covered:	As at 3 November 2020
Testing Undertaken:	We obtained a list of all suppliers recorded on the finance system to identify duplication of bank account details.
Issues identified:	We identified 102 supplier accounts with the same bank account details recorded more than once
Overall Conclusion:	**No further action is required.**
Comments from management:	The Finance Business Partner and Accounts Manager reviewed these items and advised us that they were all valid entries, as follows: Supplier accounts with the same bank account details recorded more than once: • Multiple Doctors all part of one surgery • Multiple Barristers/Solicitors all part of one Chambers • Home Office – Multiple branches same bank details • Councils – Different departments, same details • Other companies – Different departments same details. We reviewed a sample of supplier accounts when checking changes to bank details and confirmed that, for suppliers such as doctor's practices, solicitors, etc., where there may be several contacts working for the same supplier, the same (i.e. the practice's) bank details would be listed more than once. Review of the list from the IDEA data analysis indicates that all of these entries fit into this pattern.

Area: Supplier Details	
Criteria:	Identifying duplicate supplier name with different bank details.
Source Data/Reports:	System generated supplier listing for Cleveland Police.
Period Covered:	As at 3 November 2020
Testing Undertaken:	We obtained a list of all suppliers recorded on the finance system to identify duplicate supplier name with different or no bank details.
Issues identified:	We identified eight supplier accounts with same name, same address, but different bank sort codes and different bank accounts.
Overall Conclusion:	**No further action is required.**
Comments from management:	The Finance Business Partner and Accounts Manager reviewed these items and advised us that they were all valid entries, i.e. the bank details have been updated and the old bank details end dated.

Area: Supplier Invoice Payments	
Criteria:	Determine if any paid invoices have been duplicated.
Source Data/Reports:	System generated supplier invoice payments listings for Cleveland Police.
Period Covered:	1 April 2020 to 22 October 2020
Testing Undertaken:	We obtained a report of supplier invoice payments made by Cleveland Police for period 1 April 2020 to 22 October 2020 to identify potential duplicate supplier payments (invoice amounts recorded for supplier more than once).
Issues identified:	No instances were noted where the invoice amount was recorded more than once.
Overall Conclusion:	**No further action is required.**
Comments from management:	N/A

Area: Supplier Invoice Payments	
Criteria:	Determine the number of pre 2020 invoices that have been paid since April 2020.
Source Data/Reports:	System generated supplier invoice payments listings for Cleveland Police.
Period Covered:	1 April 2020 to 22 October 2020
Testing Undertaken:	We obtained a report of supplier invoice payments made by Cleveland Police to identify the number of dated pre 2020 and were paid since April 2020.
Issues identified:	The following were identified where the invoices dated pre 2020 but were paid since April 2020: a corresponding purchase order was not recorded: Year — No of Invoices dated pre 2020 and paid in 2020 2017 — 3 2018 — 5 2019 — 46 **Total — 54**
Overall Conclusion:	**No further action is required.**
Comments from management:	Management reviewed a small sample of these and reasonable explanations were received (e.g. issues with the purchase order, no purchase order, disputed invoices, credit notes requested, etc.). We selected a sample of five and viewed the Oracle system entries with the Head of Finance and Payroll and the Finance Business Partner and Accounts Manager and found all items to be satisfactory.

Area: Supplier Invoice Payments	
Criteria:	Determine if the invoices were paid in accordance to the payment terms.
Source Data/Reports:	System generated supplier invoice payments listings for Cleveland Police.
Period Covered:	1 April 2020 to 22 October 2020
Testing Undertaken:	We obtained a report of supplier invoice payments made by Cleveland Police to identify the number of dated pre 2020 and were paid since April 2020.
Issues identified:	Of the 5,776 invoices paid during the period 1 April 2020 to 22 October 2020 there were a total of 1,949 where the payment was not made within payment timescales (as per the terms of payments).

Area: Supplier Invoice Payments	
Overall Conclusion:	**No further action is required.**
Comments from management:	Management reviewed a small sample of these and reasonable explanations were received (e.g. goods not receipted, disputed invoices, credit notes requested, etc.). We selected a sample of five and viewed the Oracle system entries with the Head of Finance and Payroll and the Finance Business Partner and Accounts Manager and found all items to be satisfactory.

Area: Purchase Orders	
Criteria:	Purchase orders have been authorised in accordance to the delegated authority limits.
Source Data/Reports:	System generated purchase order listing for Cleveland Police.
Period Covered:	1 April 2020 to 6 November 2020
Testing Undertaken:	We obtained a report of purchase orders raised by Cleveland Police to identify purchase orders not authorised by delegated authorities.
Issues identified:	We identified 372 purchase orders where the purchase order approvers (21 in total) who were not found on the delegated authority listing.
Overall Conclusion:	**No further action is required.**
Comments from management:	Management reviewed all of these items and has identified these were all for valid reasons, including: • Authority delegated temporarily. • Order cancellation - Oracle system records the last person who accessed the record as if they had authorised it. • Officer acting up.

Area: Purchase Orders	
Criteria:	Purchase orders have been authorised in accordance to the delegated authority limits.
Source Data/Reports:	System generated purchase order listing for Cleveland Police.
Period Covered:	1 April 2020 to 6 November 2020

Area: Purchase Orders	
Testing Undertaken:	We obtained a report of purchase orders raised by Cleveland Police to identify purchase orders not authorised within the delegated limits.
Issues identified:	We identified five cases where the purchase orders authorised by the delegated authority exceeded their authority limits.
Overall Conclusion:	**No further action is required.**
Comments from management:	Management reviewed these items and explained that the initial point of entry on the Oracle system is the requisition. The system aggregates requisitions, so the total of the order may exceed a person's authorisation limits but the individual requisitions are within those limits. We discussed these with the Head of Finance and Payroll and the Finance Business Partner and Accounts Manager and found all items to be satisfactory.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal audit assignment has been scoped to provide assurance on how the organisations manage the following area:

Objective of the area under review
All expenditure is committed, approved and accounted for in line with the organisations' Financial Regulations and Standing Orders.

Scope of the review

The following areas will be considered as part of the review:

Procedural documentation

- Financial Regulations and Standing Orders are in place, up to date and are available to all staff.
- Operational procedures are in place which supplement the Financial Regulations and Standing Orders and they are up to date and available to staff.
- Delegated authority limits recorded within the Oracle system reflect the Financial Regulations and Standing Orders.
- Policies and procedures are in place, up to date and signed by staff who have been assigned credit and procurement cards.

Purchase orders

- Review of the process for raising and approving orders through the Oracle system.
- Review of fast-track purchases and if these have been undertaken in accordance with the Financial Regulations and Standing Orders.

Invoices and goods received notes

- Approval and posting of invoices and goods received notes.
- Credit note approval for cancellation or part cancellation of invoices.
- Purchase order and invoice discrepancy tolerances are investigated and approved.

Payments

- Generation and authorisation (BACS and cheque).
- Creditor control account reconciliations.

Suppliers

- Setup of new suppliers including checks performed prior to upload to Oracle.
- Changes made to supplier details are verified and approved.
- Periodic review and removal of suppliers from the Oracle system.

Credit and purchase cards

- Issue of cards are appropriately approved and documented. We will also consider the removal of cards from staff that leave the organisations or do not comply with established policies and procedures.
- Use of cards are undertaken in accordance with agreed policies and procedures.
- Card limits are approved and reviewed according to the spend profile of the user.
- Purchases are supported by receipts.
- Monthly reconciliations are performed between receipts and statements, any discrepancies are promptly investigated.

IDEA

We will use data analytics to determine whether:

- Any supplier payments have been duplicated;
- Any paid invoice values exceed the value of matched purchase orders;
- Invoice payments have been authorised within delegated authority limit;
- Supplier payments are made within acceptable timeframes, based on client target; and
- Purchase orders are raised for supplier payments whenever possible.

The following limitations apply to the scope of our work:

- We will not comment on whether the organisations achieve value for money for its purchases.
- This review will focus on the identification and payment of creditors.
- We will not substantively re-perform reconciliations.
- Testing will be completed on a sample basis from the current financial year.
- We will not verify any changes to supplier standing data.
- We will not review the tender or quotation process.
- The areas of consideration documented above are only able to be completed if the appropriate data is able to be provided.

- The results of our data analytics work are reliant on the quality of data provided to us.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	19 November 2020	**Internal audit Contacts**	Dan Harris, Head of Internal Audit
Draft report issued	24 November 2020		Angela Ward, Senior Manager
Responses received	30 November 2020		Philip Church, Client Manager
			Michael Gibson, Assistant Manager
			Oliver Gascoigne, Auditor
Final report issued	30 November 2020	**Client sponsor**	Chief Finance Officer – Police and Crime Commissioner
			Chief Finance Officer – Chief Constable
			Strategic Finance Manager
		Distribution	Chief Finance Officer – Police and Crime Commissioner
			Chief Finance Officer – Chief Constable
			Strategic Finance Manager

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **The Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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