



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

## Key Financial Controls: General Ledger and Budgetary Control

Internal audit report 11.20/21

Final

22 February 2021

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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 key financial controls has been completed of the Police and Crime Commissioner for Cleveland and Chief Constable of Cleveland's general ledger and budgetary controls with the intention of ensuring that financial systems are suitably managed to ensure all financial transactions are correctly recorded, reviewed and approved. Our review considered the control in place to ensure financial targets are being met and that adequate reporting is in place.

The below table sets out the forecast outturn position as reported within the Corporate Finance Monitoring report as at 30<sup>th</sup> November 2020. It was reported within the Corporate Finance Monitoring report that the projected overspend for the financial year is £500k.

### Revenue Budget Projected Outturn Statement as at 30<sup>th</sup> November 2020

Revenue	Annual Budget	YTD Budget	YTD Variance	Forecast Outturn		Previous forecast	Change
	£000s	£000s	£000s	£000s	%	£000s	£000s
<b>Pay Budgets</b>							
Police	75,402	50,147	(236)	530	0.7%	419	111
Police Overtime	1,871	1,159	967	767	41.0%	718	49
Staff	24,508	14,934	(536)	(780)	(3.2%)	(750)	(30)
PCSO	3,519	2,346	(224)	(238)	(6.8%)	(192)	(46)
<b>Total Pay &amp; Allowances</b>	<b>105,300</b>	<b>68,586</b>	<b>(29)</b>	<b>279</b>	<b>0.3%</b>	<b>196</b>	<b>83</b>
<b>Total Non-Pay Budgets</b>	<b>32,371</b>	<b>24,113</b>	<b>127</b>	<b>221</b>	<b>0.7%</b>	<b>226</b>	<b>(5)</b>
<b>Total Expenditure</b>	<b>137,672</b>	<b>92,699</b>	<b>98</b>	<b>500</b>	<b>0.0</b>	<b>422</b>	<b>78</b>

The Office of Police and Crime Commissioner (OPCC) for Cleveland has responsibility for the police budget, which comprises a combination of central government grants and money from the local police precept (the police precept being the amount raised from local people via their Council Tax). The OPCC delegates its responsibility for Force funding to the Chief Constable of Cleveland via the Joint Corporate Governance Framework. The Chief Finance Officer for the Constable delegates responsibility for the management of individual budgets to budget holders for their respective areas. Responsibilities for the management of budgets are outlined within the Force's Appendix A document, which budget holders are required to sign on an annual basis.

Each budget holder is assigned a Finance Business Partner to support them in the management of budgets. Finance Business Partners meet with the Head of Finance and Payroll on a monthly basis to monitor budgets as part of month-end processes.

The Force manages its finances, including general ledger and budgetary controls, through the Oracle finance system. The month-end procedures document outlines the process undertaken at month-end and provides a step-by-step guide to required processes. Bank reconciliations are completed by the Treasury Team and are reviewed by the Strategic Finance Manager. The Chief Finance Officer presents a monthly Corporate Finance Monitoring report to the Chief Officer Team and the Executive Management Board to monitor budgetary income and expenditure.

As part of the review we have conducted a questionnaire which has been circulated to budget holders and is intended to get their views on the support received as part of the budget setting and monitoring process. Results of the questionnaire can be found under Appendix B of the report.

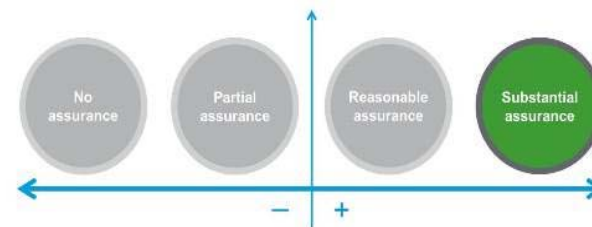
## Conclusion

As a result of our review, we have concluded that the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland have thorough controls in place to manage the general ledger and monitor budgetary processes. We have not identified any issues of non-compliance in our controls testing and have therefore not agreed any management actions from this review.

Testing has verified that the general ledger and budgetary monitoring processes are well managed, consistently applied and appropriately reviewed.

### 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 to manage the identified 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 Joint Corporate Governance Framework outlines the Police and Crime Commissioner's delegation of its financial governance to the Chief Constable of Cleveland. The Force's Financial Regulations and Standing Orders are included within the document. The Joint Corporate Governance Framework was last reviewed and approved in October 2020 by the Joint Audit Committee.



Budget holders sign and acknowledge their responsibilities as budget holders within the Appendix A document. Due to the Covid-19 pandemic, signing of the Appendix A document by budget holders had been delayed and therefore, the Chief Finance Officer did not delegate responsibility for managing of budgets to individual budget holders. The Chief Finance Officer approved all budgets for the financial year 2020 / 21 and has taken responsibility for their management.



Testing of a sample of 10 user accounts from the Oracle finance system verified that access was appropriately restricted. We further selected a sample of five authorised signatories and verified access levels were appropriate as per the Authorised Signatories List.



A Finance Presentation and Training session was delivered to Silver Command in September and October 2020. The course was delivered to improve financial awareness and provide guidance on whom to contact within the Finance Department for additional support. Review of the PowerPoint presentation confirmed that training covered the Force's financial position for 2020 / 21, budget delegation and overtime costings.



The annual budget for 2020 / 21 was signed and approved by the Police and Crime Commissioner for Cleveland in February 2020. The decision record is available on the Police and Crime Commissioner's website.



We selected a sample of six additions to the chart of accounts for 2020 / 21 and verified in all cases that the additions had been reviewed and approved by the Head of Finance and Payroll.



There have been three budget virements during the financial year 2020/21 to date. Details of each virement has been included within the monthly Corporate Finance Monitoring (CFM) Reports presented to the Chief Officer Team and the Executive Management Board by the Chief Finance Officer. Email trails confirmed that the budget virements were reviewed and approved.



The Force have a Month-end Procedures document in place, which provides a step-by-step guide to completion of the month-end process, including screenshots from the Oracle finance system. The document covers key areas such as the general ledger, cost management, reconciliations and budgetary control.



The Force have seven bank accounts in operation. For a sample of three months, we verified that each account had been reconciled by the Treasury Department and reviewed and approved by the Strategic Finance Manager. Any variances identified were documented and explanation provided within the reconciliations.



The Finance Department produce monthly Report Packs, which include expenditure and income reports against the annual budget. We selected a sample of 15 budget records from a total of three months' reports and verified in each case, the Report Pack entries were accurate against the general ledger records.



We requested three months of CFM reports and obtained evidence from decision logs and agendas that the CFM reports were presented to the Chief Officer Team meeting and the Executive Management Board. The CFM reports include the budget monitoring statement (compared within the previous period), the capital monitoring statement and assessment of the risks included within the long-term financial plan.

We compared budget monitoring statements against the corresponding monthly Report Pack and verified in all instances that budget year-to-date actuals were accurately reported. Review of sample figures in the Oracle finance system verified data was accurately reported.



Budget holders are supported by a dedicated Finance Business Partner and attend monthly budget holder meetings with their respective partner. As part of the month-end procedures, budget holders complete a Budget Holder Return, which includes commentary on variances included. We selected five budget holders and verified for three months, that in all cases, a monthly Budget Holder Return was produced and provided to the Head of Finance and Payroll. A sample of three entries from three separate budget returns confirmed that entries within the returns were accurate as per the corresponding monthly Report Packs.

We have conducted a questionnaire as part of this review, the findings of which can be found under Appendix B of this report. The questionnaire asked budget holders to consider the supported received from the Finance Department.



Any potential future budget stresses or savings are identified throughout the year and discussed during meetings with budget holders. These potential stresses and savings are documented within the Force's Long-Term Financial Plan (LTFP) and included within monthly CFM Reports.



The Force only have one control account in place for payroll. The Senior Management Accountant maintains a payroll reconciliation report and reconciles the pay control account on a monthly basis. The control account is cleared down each month and reviewed as part of month-end processing.



Opening balances are carried over within the Oracle finance system and do not require manual input.



The Force do not use suspense accounts.



The Force do not produce trial balance reports as part of the month-end processes. Report packs are produced on a monthly basis in lieu of trial balances. The report packs include income and expenditure reports. Income reports are summarised in pivot tables to collate costs within each service unit. We obtained the report packs for October, November and December 2020 and verified files were approved as part of month-end processes.



A sample of 15 entries in the monthly report packs were selected from the income and expenditure tabs and reconciled against the general ledger to confirm data was accurately reported.

## 2. DETAILED FINDINGS AND ACTIONS

No management actions were raised as a result of our testing.

## 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
General Ledger and Budgetary Control	0	(19)	0*	(19)	0	0	0
<b>Total</b>					<b>0</b>	<b>0</b>	<b>0</b>

\* 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.

## APPENDIX B: 4QUESTIONNAIRE

A questionnaire was issued to the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland's budget holders to evaluate the support received as part of the budget setting and monitoring processes. We received eight responses to the questionnaire from a total of 12 budget holders, which we have summarised below:

### Analysis of Findings

#### Do you feel that you have the adequate training and skills to perform your role as a budget holder?

All **eight** respondents answered **yes** to this question.

Two responses were provided with further detail to support the response provided: one respondent was a qualified accountant and the second had previous experience in handling large budgets and felt supported by monthly meetings with the Head of Finance and Payroll.

Do you feel you receive the correct of support to ensure:	Yes	No	Don't Know	Total
A) You understand your budget and your responsibilities as budget holder?	8	0	0	8
B) You understand the impact of demand within your service area and the associated financial impact of this demand?	7	0	1	8
C) You understand what actions can be taken to address financial pressures?	8	0	0	8
D) You are involved in developing and forecasting your budget in conjunction with the finance team, including the identification and agreement of any savings scheme?	6	0	2	8
E) You can access your Finance support easily and they respond in a timely manner?	7	0	1	8

**Two** respondents provided further detail to support the answers to the above five questions stating in both cases that monthly meetings with the Finance Department addressed the above.

#### The Chief Finance Officer (CFO) delegates budgets to Commanders and Service Unit Heads of Department each year via the distribution of the Appendix A and a letter of delegation. Are you clear of your role and responsibilities in respect of this delegation?

**Seven** budget holders answered **yes**, and the final **one** respondent responded with **don't know**.



**Are you comfortable in raising any issues and concerns that you may have your budget with your designated finance lead?**

All **eight** respondents answered **yes** to this question. **Two** respondents provided further comments stating that:

*'All of finance are approachable and honest conversations take place'*

*'I have healthy discussions and receive support from the CFO.'*

**Do the monthly budget reports provide a clear picture of your budgets, the current spend, variances and projected forecasts? And are they in a format that is easily understood?**

All **eight** budget holders answered **yes** to this question. There were **two** supporting comments provided, which stated, 'overspends and underspends are clearly identified in all aspects of business' and 'clear and unambiguous'.

**It is my responsibility to review my budget statement in conjunction with Finance lead and identify any issues and raise concerns with the finance team.**

**Six** respondents selected **strongly agree** and the remaining **two** respondents answered **agree**. **One** respondent who answered **agree** further stated that 'I require the Finance lead to highlight key areas of concern'.

We received further comments from **three** budget holders who responded with **strongly agree**, stating that:

*'Excellent support from the finance team when / if required.'*

*'This is done during the monthly meeting'.*

*'In line with the roles and responsibilities of a strategic commander'.*

**I am accountable for ensuring that I do not overspend my agreed budget during the year.**

**Two** respondents answered **strongly agree** and the remaining **eight** respondents answered **agree**. **Four** respondents who answered **agree** provided supporting information, stating that:

*'Subject to unexpected significant spends outside of my control, e.g. Covid-19 or critical incidents that require significant resourcing'.*

*'However, this responsibility is sometimes taken out of my hands when the budgets are utilised by departments not within my command and with no adequate reporting mechanism / governance in place to understand or control these spends'.*

*'I agree that I am accountable subject to unavoidable events e.g. Covid-19 or a major incident that requires additional resources / overtime'.*

*'I manage the budget on behalf of the Chief Officer Team and therefore have to extend some limited control over their spending and costs and the account is sometimes used to cover extraordinary costs / wider than normally covered within the forecasted budget needs'.*

**I can refer to my finance team for assistance if needed with the development and management of action plans for any variances that required them.**

**Six** budget holders responded with **strongly agree**. The remaining **two** budget holders answered **agree**. **One** respondent highlighted that 'the finance team are very supportive and knowledgeable'.

## 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 Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland manages the following area:

#### Objectives of the areas under review

The organisations' financial system is appropriately managed to ensure that all financial transactions are accurately recorded.

To ensure funding and monies are used effectively and financial targets are met.

### Scope of the review

When planning the audit, the following areas for consideration and limitations were agreed:

#### Areas for consideration:

Our review will consider the financial areas of general ledger and budgetary control. In particular our review will consider the following:

#### General Ledger

##### Procedural documentation and training

- Financial regulations
- Policies, procedures and user guides (Appendix A)
- Access to the finance system
- Staff training

##### Data input

- Chart of accounts
- Opening balances
- Budget code

- Journals / budget virements

#### Data verification

- Month-end timetable
- Control account reconciliations
- Bank reconciliations
- Suspense account reviews (if applicable)
- Trial balances

#### **Budgetary Control**

Review of the controls in place to manage budgets within the Force and OPCC, this will include verification of the accuracy of the budget reporting and discussions with budget holders on their use of information available. We will also provide assurance that the management accounts reconcile back to the approved budget. This will include:

- The budget sign off process, reporting and monitoring mechanisms as well as the accountability for delivery of associated actions plans were variances are identified and the policies and procedures in place to guide staff / officers in the budgetary control process.
- The relationship and communication between the finance and budget holders during budget development.
- Assignment of budget responsibilities within the Force and OPCC.
- Month end process and budget report production.
- Relationships and communications between the Finance and budget holders.
- Reconciliation between the ledger and monthly reports.
- The monitoring and reporting against budgets, along with investigation and explanation of variances.

We will also issue a questionnaire to budget holders.

#### **The following limitations apply to the scope of our work:**

- This review covers the maintenance of the general (nominal) ledger and does not provide assurance on the management of and transactions within other financial modules and feeder systems.
- We will not substantively re-perform reconciliations.
- Testing will be completed on a sample basis only, based on transactions from the current financial year.
- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in this review.

- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- Our work and report does not provide any assurance on the eventual accuracy at the year end of the current projected outturn or any assurance on the validity and accuracy of any assumptions made in producing the projected outturn.
- Our work does not provide absolute assurance that material error, loss or fraud does not exist.

**Debrief held** 15 January 2021  
**Draft report issued** 28 January 2021  
**Responses received** 22 February 2021

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**Final report issued** 22 February 2021

**Client sponsor** Chief Constable's Chief Finance Officer  
 Head of Finance and Payroll

**Distribution** Chief Constable's Chief Finance Officer  
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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.

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