**POLICE FEDERATION OF ENGLAND AND WALES**

**INTERNAL AUDIT REPORT**

**SOUTH WALES BRANCH COUNCIL**

**FINAL**



Contents

[1. EXECUTIVE SUMMARY 3](#_Toc518889168)

[Introduction 3](#_Toc518889169)

[Scope 3](#_Toc518889170)

[Limitations 3](#_Toc518889171)

[Materiality 3](#_Toc518889172)

[Overall assessment 3](#_Toc518889173)

[Recommendations 3](#_Toc518889174)

[Key findings 4](#_Toc518889175)

[Audit Approach 4](#_Toc518889176)

[Key Dates 4](#_Toc518889177)

[Audit Team 4](#_Toc518889178)

[2. DETAILED FINDINGS 5](#_Toc518889179)

[Introduction 5](#_Toc518889180)

[Governance 5](#_Toc518889181)

[Trustees 5](#_Toc518889182)

[Payroll 6](#_Toc518889183)

[Human Resources 6](#_Toc518889184)

[Accounting for branch income and expenditure 6](#_Toc518889185)

[Bank accounts 6](#_Toc518889186)

[Supplier payments 7](#_Toc518889187)

[Expenses 7](#_Toc518889188)

[Credit Cards 7](#_Toc518889189)

[Income 8](#_Toc518889190)

[Petty Cash 8](#_Toc518889191)

[Fixed Assets 8](#_Toc518889192)

[Investments 8](#_Toc518889193)

[Appendix A: Detailed Scope and Objectives 9](#_Toc518889194)

[Appendix B: Audit Opinion and Findings Categories 11](#_Toc518889195)

[Appendix C: Management Action Plan 13](#_Toc518889196)

# 1. EXECUTIVE SUMMARY

### Introduction

1.1 This review was carried out on 13th November 2018.

### Scope

1.2 The objective of this audit was to determine the level of controls in place within the South Wales Branch Council and compliance with existing policies and procedures.

### Limitations

1.3 The objectives of the internal audit review are as set out in the detailed scope and objectives in Appendix A. An explanation of the assessments is shown in Appendix B.

1.4 The review was solely concerned with the systems in place at South Wales Branch Council (SWBC). The report has been agreed with the branch.

### Materiality

1.6 The Branch’s F45 for year ending 31st December 2016 showed 2,854 members reported in the 2016 F45 and subscription income of £691,652.

### Overall assessment

1.7 The overall assessment of the systems in place at SWBC is as follows:

|  |  |
| --- | --- |
|   |  Full Assurance |
|  Substantial Assurance |
|  Limited Assurance |
|   No Assurance  |

### Recommendations

1.7 The review identified the following recommendations

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **High** | **Medium** | **Low** | **Good practice** |
| Priority | 0 | 11 | 1 | 0 |

### Key findings

1.9 The key findings made are as follows:

* Deputy Treasurer should be appointed;
* Finance Policy should be updated;
* Budget should be agreed by the members of the Board;
* Member Services Trust and Group Life Insurance Trusts should meet and the minutes should be seen by the Branch Council;
* The branch should consider separating the role of Chair and Treasurer or having another full time officer approving invoices.
* Support staff should be moved to similar terms and conditions;
* The Bank Mandate should be made available to Internal Audit;
* The Branch’s Constitution should be amended to reflect the positions held by the Full Time WPR;
* The Branch should recharge part of the cost of administering the Group Insurance Scheme to the Branch;
* The Branch should put in place a mobile phone policy;
* The Branch should recognize the potential gain that may arise if the claim be successfully included.

The recommendations arising and agreed actions are shown in Appendix C.

### Audit Approach

1.10 The audit used a risk based approach and was conducted with due professional care in accordance with established audit practice and Public Sector Internal Audit Standards. These require Internal Audit to plan and perform audits to obtain reasonable assurance that controls are working as intended and may be relied upon. Internal Audit will review files, records and other evidence, both manual and electronic, and where necessary interview relevant personnel. This will form the basis of the opinion on the effectiveness of control.

1.11 The nature of testing and the inherent limitations of an audit (and those of any system of internal control) mean that there is an unavoidable risk that some weaknesses may not be identified. Although internal audits can point to weaknesses where there is a risk of fraud occurring, they cannot be relied upon to identify instances of fraud or irregularity. It is management’s responsibility to ensure that internal control systems are adequate to manage risk and to prevent and detect fraud.

### Key Dates

1.12 The following are the key dates:

|  |  |
| --- | --- |
| **Event** | **Date** |
| Audit Terms of Reference Agreed | 6th February 2018 |
| Start of Fieldwork | 13th November 2018 |
| End of Fieldwork | 13th November 2018 |
| Closing meeting | 13th November 2018 |
| Draft report issued | 18th December 2018 |
| Final report issued |  |

### Audit Team

1.13 The review was undertaken by Simon Darby, Internal Audit Manager PFEW.

# 2. DETAILED FINDINGS

### Introduction

2.1 SWBC represents members serving in South Wales Police.

2.2 The SWBC office is located in a former Police House provided by the force.

### Governance

2.3 SWBC has two Full Time Principal Officers.

2.4 The Chair/Treasurer and Secretary are full time.

2.5 The branch has four full time work Place Representatives (WRPs).

2.6 The Chair/Treasurer is also the CAPLO. The Secretary is the EQ lead. A Full Time WRP is H&S Lead.

2.7 The Branch has complement of 21 WPRs including the FT officials.

2.8 The office has two support staff.

2.9 There is no deputy treasurer or deputy secretary.

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| **Recommendation 1** | **Priority: Medium** |
| Deputy Treasurer should be appointed. |

2.10 The Council meets three times a year plus the AGM. The Board and Council meet together.

2.11 There is a Constitution and Standing Orders. The Standing Orders and Constitution were recently updated in 2017.

2.11 The meetings are minuted and action points are prepared.

2.12 A Finance policy is available but needs to be updated.

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| **Recommendation 2** | **Priority: Medium** |
| Finance Policy should be updated |

2.13 The Treasurer prepares a written report to supplement an extract from the Branch’s accounting system.

2.14 A budget had not been produced until the new model of working.

2.15 There is no current process in place to agree the branch budget.

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| **Recommendation 3** | **Priority: Medium** |
| Budget should be agreed by the members of the Council |

### Trustees

2.16 SWBC has three Trustees who last visited the Branch in September 2018. Two of the Trustees are Board members, but will stay on for the interim.

2.17 The Trustees have been trained.

2.18 There are separate Trustees for the Member Services Trust and Group Life Insurance Trusts.

2.19 It is not clear whether the Member Services Trust and Group Life Insurance Trusts ever meet.

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| **Recommendation 4** | **Priority: Medium** |
| Member Services Trust and Group Life Insurance Trusts should meet and the minutes should be seen by the Branch Council |

### Payroll

2.20 SWBC uses BBSC for payroll.

2.21 It was noted from the minutes that Trustees were receiving honoraria during 2017 as was a rank of rank board officials and support staff. The branch is now operating ARP from 2018.

### Human Resources

2.22 SWBC has two support staff. An Office Manager and a Specialist Case Manager. The Office Manager has a SWBC contract of employment. The Specialist Case Manager is on a PFEW contract. There is a disciplinary policy but no staff handbook.

2.23 The Chair/Treasurer and Secretary have not yet been able to move the support staff to uniform contracts and HR policies and procedures.

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| **Recommendation 5** | **Priority: Medium** |
| Support staff should be moved to similar terms and conditions  |

### Accounting for branch income and expenditure

2.24 The Secretary/Treasurer used SAGE as the accounting system until 1st October 2018 when they moved to BBSC.

2.25 The Branch uses BBSC for expenses.

2.26 The Branches invoices are processed by BBSC.

2.27 The Chair/Treasurer approves all expenses apart from his own, his being approved by the Secretary and vice versa.

2.28 Invoices are approved by the Chair/Treasurer on receipt of e mail from the Finance Department. The Finance Department are not be able to ascertain from the invoice who originally raised the purchase request in order to send it to an appropriate authoriser. This will be an internal control issue as a purchase order could be initiated by the Chair/Treasurer in his role as Chair and then approved by the Chair/Treasurer in his role as Treasurer. The branch should consider separating the role of Chair and Treasurer or having another full time official approve invoices..

2.29 There is only one other branch who has a Chair/Treasurer

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| **Recommendation 6** | **Priority: Medium**  |
| The branch should consider separating the role of Chair and Treasurer or having another full time officer approving invoices. |

### Bank accounts

2.30 The Branch has four bank accounts in use:

* Subscription account;
* Member services account/income generation account;
* Chalet account;
* Life Insurance Benefit account;

2.31 The Chair/Treasurer, Secretary, Deputy Secretary, ex Treasurer and Office Manager are authorised signatories. Bank mandates for the accounts were not seen by Internal Audit.

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| **Recommendation 7** | **Priority: Medium**  |
| Bank Mandate should be made available to Internal Audit. |

### Supplier payments

2.32 A sample of 10 invoices for goods and services received was examined as part of the internal audit visit. All were appropriate, authorised and approved for payment.

### Expenses

2.33 Internal Audit reviewed a sample of 10 expense claims processed prior to the Branch moving to the new expenses system.

2.34 Expenses were always supported by detailed receipts. Expenses are supported by detailed description to support the amount claimed.

2.35 There are very few mileage claims made by WPRs. Excess mileage is not paid. The Full Time Officials receive essential user allowance.

2.36 The Full Time Officers and PIPs trained WPRs receive an on call allowance of £25 per day and also Overtime if called out.

### Credit Cards

2.37 SWBC has three credit cards, one for the Chair/Treasurer, one for the Secretary and one for the Office Manager.

2.38 A Credit card form is prepared by users and signed by the claimant and checked by the Full Time Officers

2.39 A sample of 10 items was selected for testing, all items were appropriate.

### Income

2.40 The branch receives subscription related income from members and for Group Insurance. This is collected by the Force and paid over to the Branch.

2.41 The Office Manager reconciles the information from payroll to the Branch’s database every month for Group Insurance and less frequently for Membership.

2.42 The branch collects a small administration fee from its Group Insurance Scheme. Subscriptions.

2.43 The Branch receives non subscription income from advertising and commissions. Invoices are raised by the Office Manager on behalf of the Branch.

2.44 The Force has a budget for the Branch covering the cost of the seconded officers, conference and events and the branch’s premises.

2.45 The branch claims part of the costs of conference from the force. The force also pays travel and accommodation for bravery nominees and their partners plus one federation representative.

### Petty Cash

2.46 There is a petty cash float.

2.47 The balance of the float stood at £34.70.

2.48 Ten items were examined and all were appropriate, supported by receipts and accounted for.

### Welfare Support Fund

2.49 The force has a Welfare Support Fund which is entirely administered by the Force. One of the Full Time WPRs is a member of the Management Committee but is not a cheque signatories.

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| **Recommendation 8** | **Priority: Medium** |
| The Branch’s Constitution should be amended to reflect the positions held by the Full Time WPR.  |

### Member Services

2.50 The Branch has Life and Non-Life Group Insurance Schemes in place, administration fees are received. No administration fees are recharged to the Branch for the cost of staff time.

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| **Recommendation 9** | **Priority: Medium** |
| The Branch should recharge part of the cost of administering the Group Insurance Scheme to the Branch.  |

### Welfare Chalets

2.51 The Branch has two Welfare Chalets, open from March to October only due to Council Tax and second home legislation.

2.52 The Branch Council sets the rates used. The Chalets are rented on a commercial basis during half term and school holidays and used in all other times for welfare stays.

2.53 The Branch uses a local cleaner for cleaning on handover and a local handyman for any repairs needed.

2.54 WPRs make recommendations for members who have welfare reasons to use the chalets, the Office Manager currently approves lettings.

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| **Recommendation 10** | **Priority: Low** |
| Governance around the use of the Welfare Chalets should be improved. |

### Health Fund.

2.55 The Branch does not have a health fund.

### Fixed Assets

2.56 SWBC does not have a fixed asset register/inventory.

2.57 Branch keeps track of who has a mobile, albeit there is no mobile phone policy.

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| **Recommendation 11** | **Priority: Medium** |
| The Branch should put in place a mobile phone policy |

2.58 The Branch Council purchased a former Police House at Britton Ferry to use as offices. The building was subject to a structural survey prior to purchase, however, during the works to make the building fit for use for the branch serious subsidence was noticed. Whilst the building was subsequently resold, there remains a claim against the surveyors for £160,000 which has not been recognised in the annual accounts for the Branch.

2.59 The Branch’s legal advisors are currently in negotiation with a view to settle.

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| **Recommendation 12** | **Priority: Medium** |
| The Branch should recognize the potential gain that might arise should be case be successfully concluded. |

### Investments

2.60 The Branch has no investments but has cash balances.

# Appendix A: Detailed Scope and Objectives

The following key control objectives will be examined as part of the internal audit review:

Governance

* Process in place for budget setting;
* Regular reporting from Treasurer on Branch’s financial position;
* Consideration of conflicts of interest;

Trustees

* Ensure Trustees are active, have visited and reviewed transactions;
* Ensure Trustees are suitable trained and their remit clear;
* Ensure Trustees work is reported to Branch Council or Board;

Payroll

* Arrangements are in place for the payment of support staff, pensions and ARP/Honoraria payments to staff and principal officers;
* Payments are checked and authorised;
* Payroll and ARP payments are approved for payment;

Human Resources

* Staff employed by the branch have contracts of employment;
* Suitable Human Resources policies and procedures are in place;

Accounting for branch income and expenditure

* Suitable accounting package in place for accounting for branch funds;
* Accounting records are kept up to date;
* Treasurer is providing financial reports to the Branch Council and Board;
* Treasurer and other staff involved have been trained and received updates;

Bank accounts

* Ascertain the purpose of each bank account held by the Branch;
* Ensure Bank Mandates are up to date;
* Ensure branch accounts reflect transactions in all bank accounts;

Membership and other services

* Income streams for the branch from services provided are clearly identified;
* Income from member services is treated appropriately;
* Income and related expenditure are accounted for and costs appropriately reported;

Supplier payments

* Purchases are made for goods and services provided in compliance with Police Federation Regulations;
* Invoices are checked for accuracy and approved for payment;
* A separate individual authorises invoices for payment;
* Invoices are accounted for appropriately.

Quotations and Tendering

* Good practice is shown when purchasing high value items.

Expenses

* Expenses are only incurred by recognised representatives in accordance with Police Federation business;
* Expenses are supported by receipts wherever possible;
* Expenses are checked and authorised;
* Payment of expenses is approved by a separate individual.

Credit Cards

* Allocation of credit cards is approved by the Branch;
* Expenses are supported by receipts wherever possible;
* Monthly credit card expenditure is checked and authorised;
* Credit card expenditure is accounted for appropriately.

Income

* Adequate arrangements are in place for invoicing, collecting and recording income due to Branch funds;
* Outstanding amounts are chased appropriately;

Petty Cash

* Adequate arrangements are in place to hold, issue and account for petty cash;
* Expenditure from petty cash is appropriate;

Fixed Assets

* Fixed asset register in place;
* Assets are identified;
* Assets are held securely;

|  |
| --- |
|  |

Best practice examples from other organisations may be referred to where relevant.

# Appendix B: Audit Opinion and Findings Categories

Internal Audit reports give assurance to the INB about systems in place in the PFEW.

The following assurance levels have been adopted for the PFEW internal audit service.

|  |  |
| --- | --- |
| **Full Assurance**  | Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed (Generally no High level recommendations and no more than 4 medium level recommendations). |
| **Substantial Assurance**  | Risk management and the system of internal control are generally sound and designed to meet the organisation’s objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk (Generally no more than one High level recommendation and no more than 6 medium level recommendations) |
| **Limited Assurance**  | Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation’s objectives at risk in a number of areas reviewed (generally no more than four high level recommendations). |
| **No Assurance**  | Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation’s objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected. |

Each internal audit recommendation is also ranked according to priority and impact:

|  |  |
| --- | --- |
| High | Significant risks exists of any of the following: • Failure to achieve objectives;• Fraud or irregularities;• System breakdown;• Material loss of assets;• Qualification of the PFEW’s accounts;• Significant reputational damage; and• Failure of Legal compliance  Immediate implementation of agreed recommendations is essential in order to provide satisfactory control of serious risk exposures.  |
| Medium | A serious, but not immediate, or significant risk of failure to achieve objectives, system breakdown, or loss etc. Implementation of agreed recommendations within 3 to 6 months is important to provide satisfactory control of risk exposures. |
| Low | Minor weakness which has no major or serious impact on the achievement of objectives, but where management will benefit from improved risk management, or which presents the opportunity for greater efficiency, or effectiveness.  Implementation of the agreed recommendation is desirable, as it will improve overall control, efficiency or value for money. |
| Good Practice | Not a control failure but good practice seen to be effective elsewhere and suggested to management for consideration. |

# Appendix C: Management Action Plan

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Ref** | **Recommendation** | **Priority** | **Response** | **Responsible**  | **Due by** |
| 1 | Deputy Treasurer should be appointed. |  | Agreed | Branch Treasurer | 30.06.2019 |
| 2 | Finance Policy should be updated |  | Agreed | Branch Treasurer | 31.03.2019 |
| 3 | Budget should be agreed by the members of the Council |  | Agreed to be discussed at the next Branch Council meeting. | Branch Treasurer | 31.03.2019 |
| 4 | Member Services Trust and Group Life Insurance Trusts should meet and the minutes should be seen by the Branch Council |  | Agreed | Branch Treasurer | 30.06.2019 |
| 5 | Support staff should be moved to similar terms and conditions  |  | Agreed | Branch Secretary | 30.06.2019 |
| 6 | The branch should consider separating the role of Chair and Treasurer or having another full time officer approving invoices. |  | Agreed the Branch Council will consider this  | Branch Chairman | 30.06.2019 |
| 7 | Bank Mandate should be made available to Internal Audit. |  | Agreed | Branch Treasurer | 31.03.2019 |
| 8 | The Branch’s Constitution should be amended to reflect the positions held by the Full Time WPR.  |  | Agreed as part of the Branch Governance Review  | Branch Secretary | 31.09.2019 |
| 9 | The Branch should recharge part of the cost of administering the Group Insurance Scheme to the Branch.  |  | Agreed to be reviewed as part of the response to the Additional Services paper. | Branch Treasurer | 30.06.2019 |
| 11 | The Branch should put in place a mobile phone policy |  | Agreed  | Branch Treasurer | 31.03.2019 |
| 12 | The Branch should recognize the potential gain that might arise should be case be successfully concluded. |  | Agreed. Branch will inform External Audit and provide necessary information  | Branch Treasurer | 31.03.2019 |
| 10 | Governance around the use of the Welfare Chalets should be improved. |  | Agreed | Branch Treasurer | 31.03.2019 |