**POLICE FEDERATION OF ENGLAND AND WALES**

**INTERNAL AUDIT REPORT**

**SOUTH WALES BRANCH COUNCIL**

**FINAL**

**2019**



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# 1. EXECUTIVE SUMMARY

### Introduction

1.1 This review was carried out on 19th December 2019.

### Scope

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

### Limitations

1.3 The objectives of the Audit 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 Audit was solely concerned with the systems in place at 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. Budgeted membership numbers for 2018 were 2,668.

### 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 | 4 | 5 | 0 |

### Direction of Travel

1.8 The change since the last report is as follows:

|  |  |
| --- | --- |
| **Previous report**  | **Current report** |
| **Priority** | **0** | **8** | **4** | **0** | **Priority** | **0** | **4** | **5** | **0** |

### Key findings

1.9 The key findings made are as follows:

* Deputy Treasurer must be appointed **(REPEAT FINDING)**;
* Finance Policy must be updated **(REPEAT FINDING)**;
* Branch Fund Trust deed must be prepared;
* The branch must consider separating the role of Chair and Treasurer or having another full-time officer approving invoices **(REPEAT FINDING).**

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 2019 |
| Start of Fieldwork | 19th December 2019 |
| End of Fieldwork | 19th December 2019 |
| Closing meeting | 19th December 2019 |
| Draft report issued | 23rd December 2019 |
| Final report issued | 15th January 2020 |

### Audit Team

1.13 The Audit 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.

### Follow up from previous year

2.3 Some twelve recommendations were raised in the previous report. Of these seven were implemented, one is in the process of being implemented, one was withdrawn and three were not implemented.

2.4 A recommendation that a Deputy Treasurer must be appointed was raised, this has not been action pending the outcome of the review of the structure of the Branch which reports to the next Branch Council meeting.

2.5 A recommendation that the Finance Policy must be updated was raised. The amended Finance Policy was presented to the last Branch Council and will be reviewed at the next Branch Council.

2.6 A recommendation that the Branch must consider separating the role of Chair and Treasurer or having another full time officer approving invoices was raised. This will be reviewed at the next meeting of the Branch Council.

2.7 A recommendation that support staff must be moved to similar terms and conditions was not completed by the date of the review.

2.8 Those recommendations which were not implemented have been raised again in the body of the report.

### Governance

2.9 SWBC has two Full Time Principal Officers. The Chair/Treasurer and Secretary are full time.

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

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

2.12 The Branch has compliment of 21 WPRs including the FT officials with two vacancies currently. The branch has 19 WPR’s with two vacancies.

2.13 The office has two support staff.

2.14 There is no Deputy Treasurer but there is a Deputy Secretary - the Northern full-time constituency representative.

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| **Recommendation 1** | **Priority: Medium** |
| Deputy Treasurer must be appointed (**REPEAT FINDING**). |

2.15 SWBC meets three times a year, plus the AGM. The Board and Council meet together.

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

2.17 The meetings are minuted and action points are prepared.

2.18 A Finance Policy is available but needs to be updated.

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| **Recommendation 2** | **Priority: Medium** |
| Finance Policy must be updated (**REPEAT FINDING**) |

2.19 The Treasurer prepares a written report to supplement an extract from the Branch’s accounting system. Due to issues with Navision, only balances have been reported.

2.20 A budget had not been produced until the new model of working. The Branch Council agreed the budget.

### Trustees

2.21 The Branch has a Branch Fund Trust which the Chair/Treasurer could not locate the Trust Deed for. A model Trust Deed is being prepared which can be adopted for the Branch’s use.

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| **Recommendation 3** | **Priority: Medium** |
| Branch Fund Trust deed must be prepared. |

2.22 SWBC has three Trustees who last visited the Branch in December 2019. Two of the Trustees are Board members, but will stay on for the interim.

2.23 Two of the Trustees have been trained. A Trustee will retire and two Trustees will need training in 2020.

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| **Recommendation 4** | **Priority: Low** |
| Trustees should receive training. |

2.24 There are separate Trustees for the Group Life Insurance Trusts.

2.25 The Group Life Insurance Trustees meet at the same time as the Branch Fund Trustees.

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| **Recommendation 5** | **Priority: Low** |
| Separate minutes must be prepared for the Branch Fund and Group Insurance Trust Trustee meetings. |

### Conflicts of Interest register

2.26 A conflicts of interest register is in place.

### Gifts and hospitality register

2.27 A gifts and hospitality register is in place.

### Risk Register

2.28 A risk register is in place.

### GDPR

2.29 As a result of the Recovery Plan following recent IT incidents, the terms of reference in this area have been amended. Part of the recovery plan will be to put in place data sharing agreements.

2.30 The Branch receives member data from the Force Payroll system.

2.31 The Branch has a standard membership application for cadets and joiners, which does not currently include a privacy agreement and statement on use of data.

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| **Recommendation 6** | **Priority: Low** |
| Enrolment Form must be updated to include a privacy agreement and statement on use of data. |

2.32 The Branch has a clear desk policy, case files are held securely in lockable cabinets.

2.33 The Branch uses the PFEW’s system for its IT. The Data Protection Advisor is currently reviewing the GDPR compliance of the arrangements.

### IT

2.34 As a result of the recovery plan put in place following recent well publicised IT incidents, the terms of reference in this area have been amended.

2.35 The Branch has a list of work place representatives with polfed email accounts, according to the Chair/Treasurer all WPRs have polfed e mail addresses.

2.36 The Chair/Treasurer keeps an inventory of who has electronic equipment.

2.37 There is a mobile phone policy in place.

### Payroll

2.38 SWBC uses BBSC for payroll.

### Human Resources

2.39 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.

2.40 The Chair/Treasurer and Secretary have almost completed moving the support staff to uniform contracts and HR policies and procedures.

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| **Recommendation 7** | **Priority: Low** |
| Support staff must be moved to similar terms and conditions (**REPEAT FINDING**) |

### Accounting for branch income and expenditure

2.41 The Branch used SAGE as the accounting system until 1st October 2018 when they moved to BBSC.

2.42 The Branch uses Continia for expenses.

2.43 The Branches invoices are processed by BBSC.

2.44 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 must consider separating the role of Chair and Treasurer or having another full time official approve invoices.

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

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| **Recommendation 8** | **Priority: Medium**  |
| The branch must consider separating the role of Chair and Treasurer or having another full time officer approving invoices (**REPEAT FINDING**). |

### Bank accounts

2.46 The Branch has a Group account with Nat West.

2.47 The Branch has moved the balance in the former Unity Bank Subscription Account into an instant access savings account which offers interest apart from £50,000 which it moved to the new Nat West Account.

2.48 The balance on the former Group account as of 30/06/19 is £247,095 and £77,177 in the Natwest Subs Account.

2.49 The Group Insurance Trust has three accounts in use:

* Member services account/income generation account (Group Insurance Trust);
* Chalet account (now merged with the Income Generation Account);
* Life Insurance Benefit account;

2.50 The Branch has moved the balance in the former Unity Bank Income Generation Account into an instant access savings account which offers interest.

2.51 At the time of the review, the balance in the Income Generation Account was £518,292.

2.52 A balance of £120,000 was held in the Life Insurance Benefit Account pending transfer to a Trust in the process of being created for a minor who was the beneficiary of a life claim.

2.53 The Chair/Treasurer, Secretary, Deputy Secretary and Office Manager are authorised signatories. Confirmation of the signatories for all accounts was seen by Internal Audit.

### Supplier payments

2.54 A sample of 10 invoices for goods and services received locally and scanned to the Finance Department was examined as part of the internal audit visit. All were appropriate.

### Expenses

2.55 Internal Audit reviewed expenses centrally as part of the internal audit review of expenses at PFEW Leatherhead.

2.56 The Full Time Officials receive essential user allowance.

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

### Credit Cards

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

2.59 BBSC credit cards were tested as part of the Internal Audit review of credit cards at PFEW Leatherhead.

### Income

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

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

2.62 The Branch collects a small administration fee from its Group Insurance Scheme. Subscriptions.

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

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

2.65 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

2.66 There is a petty cash float.

2.67 The float is not used as all sundry items are purchased using branch credit cards.

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| --- | --- |
| **Recommendation 9** | **Priority: Low** |
| The Petty Cash Float must be closed. |

### Welfare Support Fund

2.68 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 signatory.

### Member Services

2.69 The Branch has a Group Insurance Scheme in place. An administration fee is recharged from the GIS Trust for the cost of staff time.

### Welfare Chalets

2.70 The Branch has two Welfare Chalets, open from March to October only due to Council Tax and second home legislation. The Branch has a policy governing the arrangements to let the Chalets.

2.71 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.

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

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

### Health Fund.

2.74 The Branch does not have a health fund.

### Fixed Assets

2.75 SWBC has a fixed asset register/inventory.

2.76 Branch keeps track of who has a mobile, there is a mobile phone policy.

2.77 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 was a claim against the surveyors.

2.78 The Branch has received compensation of £116,910 which was received in the Income Generation Account as the Account had been used to fund the purchase.

### Investments

2.79 The Branch has no investments but has cash balances. The Chair/Treasurer is looking for an investment advisor with a view to investing some of the balances currently held in bank 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;
* Conflicts of interest managed appropriately;

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 NB 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 must be appointed **(REPEAT FINDING).** |  | To be agreed at next Council meeting once role of Treasurer is agreed | Branch Treasurer | Next meeting of Council |
| 2 | Finance Policy must be updated **(REPEAT FINDING).** |  | Finance Policy to be presented to next meeting of Council. | Branch Treasurer | Next meeting of Council |
| 3 | Branch Fund Trust deed must be prepared. |  | Model to be produced by HQ and made available. | Branch Secretary | 30.06.2020 |
| 8 | The branch must consider separating the role of Chair and Treasurer or having another full time officer approving invoices**(REPEAT FINDING).** |  | To be agreed at next Council meeting. | Branch Chairman | Next meeting of Council |
| 4 | Trustees should receive training. |  | Next available trustee training course  | Branch Treasurer | Ongoing |
| 5 | Separate minutes must be prepared for the Branch Fund and Group Insurance Trust Trustee meetings. |  | Separate minutes will be produced next time the Trustees meet. | Branch Treasurer  | 30.06.2020 |
| 6 | Enrolment Form must be updated to include a privacy agreement and statement on use of data. |  | Enrolment form will be updated. | Branch Secretary | 30.03.2020 |
| 7 | Support staff must be moved to similar terms and conditions **(REPEAT FINDING).** |  | Support staff will be moved to similar terms and conditions. | Branch Secretary | Ongoing  |
| 9 | The Petty Cash Float must be closed. |  | Agreed | Branch Treasurer | 31.03.2020 |

# Appendix D: Management Action Plan Follow up

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Ref** | **Recommendation** | **Priority** | **Response** | **Responsible**  | **Due by** | **Status** |
| 1 | Deputy Treasurer must be appointed. |  | Agreed  | Branch Treasurer | 30.06.2019 | Depending on outcome of review of Branch Structure. |
| 2 | Finance Policy must be updated |  | Agreed | Branch Treasurer | 31.03.2019 | To be agreed at next Council meeting |
| 3 | Budget must be agreed by the members of the Council |  | Agreed | Branch Treasurer | Next meeting of Council | Implemented |
| 4 | Member Services Trust and Group Life Insurance Trusts must meet and the minutes must be seen by the Branch Council |  | Agreed | Branch Treasurer | 30.06.2019 | Implemented |
| 6 | The branch must consider separating the role of Chair and Treasurer or having another full time officer approving invoices. |  | Agreed | Branch Chairman | 30.06.2019 | Depending on outcome of review of Branch Structure. |
| 7 | Bank Mandate must be made available to Internal Audit. |  | Agreed | Branch Treasurer | 31.01.2019 | Implemented |
| 8 | The Branch’s Constitution must be amended to reflect the positions held by the Full Time WPR.  |  | As part of Branch Governance Project, the constitution will be reviewed for any necessary changes.  | Branch Secretary | 30.06.2019 | Withdrawn, not necessary |
| 9 | The Branch must recharge part of the cost of administering the Group Insurance Scheme to the Branch.  |  | Treasurer will ensure all appropriate recharges are made. | Branch Treasurer | 30.06.2019 | Implemented |
| 5 | Support staff must be moved to similar terms and conditions  |  | Branch are in ongoing discussions with Head of HR  | Branch Secretary | Ongoing  | Ongoing  |
| **Ref** | **Recommendation** | **Priority** | **Response** | **Responsible**  | **Due by** | **Status** |
| 10 | Governance around the use of the Welfare Chalets must be improved. |  | Agreed  | Branch Treasurer | 31.03.2019 | Implemented |
| 11 | The Branch must put in place a mobile phone policy |  | Agreed, a suitable policy will be devised | Branch Treasurer | 31.03.2019 | Implemented |
| 12 | The Branch must recognize the potential gain that might arise must be case be successfully concluded. |  | Agreed, Treasurer will liaise with Finance Director to ensure that the gain is accounted for properly | Branch Treasurer | 31.03.2019 | Implemented |