



## DETAIL OF THE SUBMISSION

### 1. KEY ISSUES FOR CONSIDERATION:

#### **Statutory requirements and relevant guidance**

- 1.1 The Financial Management Code of Practice for the Police Service of England & Wales, issued by the Home Office in January 2012, states that the *“Police & Crime Commissioner (PCC) and the Chief Constable (CC) are required to maintain effective internal audit of their affairs by the Accounts and Audit (England) Regulations 2011 and the Accounts and Audit (Wales) Regulations 2005. In fulfilling this requirement, the PCC and Chief Constable should have regard to the Public Sector Internal Audit Standards issued by the relevant internal audit standard setters. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.*
- 1.2 *In addition to enabling the PCC and the CC to fulfil their requirements in relation to the relevant Accounts and Audit Regulations, internal audit is needed:*
- *to satisfy the PCC and the CC that effective internal control systems are in place; and*
  - *to satisfy the external auditor that financial systems and internal controls are effective and that the Police Fund is managed so as to secure value for money.*
- 1.3 *PCCs and CCs should look to minimise duplication and bureaucracy and to maximise VfM when designing their internal audit arrangements. PCCs and CCs are therefore recommended to have a shared internal audit service which would cover both bodies. The details of audit arrangements should be agreed locally. The Head of Internal Audit should draw up the audit plan in consultation with the PCC and the Force for consideration by the Audit Committee. How internal audit reports are to be received, distributed and followed up should be set out in this plan. External auditors should be granted full access to all internal audit reports”.*
- 1.4 The PCC, in liaison with the CC, is required, under part 2 of the Accounts and Audit (England) Regulations 2011, to make provision for internal audit, as follows:-
- (1) *A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.*
  - (2) *Any officer or member of a relevant body must, if the body requires*
    - (a) *make available such documents and records as appear to that body to be necessary for the purposes of the audit; and*
    - (b) *supply the body with such information and explanation as that body considers necessary for that purpose.*
  - (3) *A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*
  - (4) *The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph.*

- 1.5 Consequently, the PCC and CC, through the Audit Committee, is responsible for maintaining an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

### **Role of internal audit and current audit arrangements**

- 1.6 The purpose of internal audit is to objectively examine, evaluate and report on the adequacy of, and compliance with, internal controls. Internal Audit carry out a programme of work approved by the Committee that is at a level necessary to satisfy the legal and professional obligations of the PCC, PCC Chief Executive (PCC CE), PCC Chief Finance Officer (PCC CFO) and CC CFO. There is an extensive programme of audits of central systems and procedures, which is complemented by visits to establishments. Audit work focuses on assessing the extent of compliance with controls.
- 1.7 Suffolk County Council Audit Services hold the contract for the provision of an internal audit service to the PCC and CC for Suffolk for five years to 30 June 2015. Since the commencement of this contract in July 2010 (previously with Suffolk Police Authority), the number of annual audit days provided has reduced as follows:

2010-11	215 days
2011-12	190 days
2012-13	180 days

- 1.8 As this is the first full year of transition from the Police Authority to the Police & Crime Commissioner and continuing collaboration with Norfolk means systems and controls are being developed, it is considered that the 2013-14 plan should remain at 180 audit days. This also takes into account the outcomes of internal audit work throughout 2012-13. In addition, this level of audit days remains low in comparison to other PCCs. The level of audit days within the plan enables flexibility and maximises benefit from the internal audit process. A reduction in the number of annual audit days will be explored for 2014-15.
- 1.9 The provider of internal audit services plays a key role in evaluating the integrity and accuracy of systems. Through an annual process of risk assessment and discussions, involving Audit Services, Chair of Audit Committee, PCC CE, PCC CFO, CC CFO, other key Constabulary personnel, and External Auditor, all operations, resources, staff, services and responsibilities of the PCC and CC have been identified and considered for inclusion within a strategic audit plan. The planning process also takes into account discussions with the Head of Internal Audit for Norfolk PCC and the internal audit work proposed for Norfolk PCC.
- 1.10 In a time of considerable change, it is especially important that consultation on audits within the plan continues throughout the financial year to ensure that each piece of work remains relevant, has clear objectives that are of benefit, meets legal obligations and takes into account known or prospective changes which alter risks.
- 1.11 Audit Services supports the PCC's draft Police & Crime Plan for Suffolk (2013-17) and also the three-year Plan of Suffolk Constabulary (2012-15). The Strategic Aspirations which describe the strategic framework which will shape the Constabulary moving forwards are taken in to account in the audit planning process and subsequently in the undertaking of the agreed audits.

### **Proposed areas of internal audit work 2013-14**

- 1.12 The proposed strategic plan and 2013-14 audit plan for the PCC and CC is highlighted within Appendix A and has been discussed and agreed with the PCC CFO, CC CFO, PCC CE, and External Auditor. The Plan shows the audit schedule for the current year as well

as draft plans for the following three-year period ahead. The proposed timings of each audit are also shown.

- 1.13 Audit work on the main financial systems covers the key controls of each significant system. These are the systems where the Authority would be most at risk should internal financial controls fail. Coverage is provided to ensure that the Internal Audit opinion on internal control is sufficient for both supporting the Annual Governance Statements of the PCC and CC and to enable the external auditors to rely fully on Internal Audit work. To enable the audit of higher risk areas, and to support the PCC and Constabulary's drive to obtain value for money, Audit Services have moved away from auditing all financial systems annually, to instead fully auditing each system once every three years, with a follow up of findings in the year following the audit. The audits concerned are Payroll; Income; Expenditure; Treasury Management; General Ledger; and Capital Expenditure. This approach is supported in the knowledge that the Constabulary shows evidence of a consistent and effective control framework.
- 1.14 To ensure sufficient assurance is collated on all systems, in order to fully support the Annual Governance Statements, a self-assessment approach is adopted. This approach involves actual testing by officers at the Constabulary (i.e. not just completing a checklist). The key control checklists aim to support the responsible officer in providing assurance to the PCC and Constabulary that controls are adequate and effective in the systems that have not been reviewed by internal audit in the year. 10% of the sample taken by officers via self-assessment will be retested by internal audit towards the year-end (i.e. an auditor will dip sample the testing). The self-assessment checklists will be designed to give assurance on areas which may lead to material misstatement within the financial statements. In summary, this would result in:-
- *Two full audits of key financial systems in a year;*
  - *The follow-up of any actions from the two key financial systems audited in the previous year;*
  - *The completion, via self-assessment, of four key financial systems in a year followed by a dip sample of the testing done (and this would also take in to account an assessment of whether the full sample taken is adequate, rather than 'self-selected').*
- 1.15 The annual audit opinion and Annual Governance Statements will need to reflect this approach and the outcome of any audit findings covering the six financial systems. This approach will be revisited annually, based on any emerging risks from audit work on the financial systems, and will need to be agreed with future external audit providers.
- 1.16 Audit Services will continue to liaise closely with external auditors to ensure that they can place maximum assurance on the internal audit work undertaken, and to avoid any duplication.
- 1.17 Other financial systems, other systems and establishments are shown in separate blocks on the proposed Internal Audit Plan. These audits are generally undertaken either once or twice during the plan period, depending on the assessment of risk. The topics reflect the wider internal audit scope developed over recent years; for example, corporate governance and risk management issues are now reviewed in addition to financial risks.
- 1.18 The Plan includes an early piece of work on sustainability (carbon reduction) which will examine the Constabulary's Environmental Strategy and energy efficiencies. Another early piece of work will look at the systems in place for declarations of interest and registering gifts and hospitality (police officers and police staff). Declarations of interest are an area of

concern which has arisen from previous internal audit work and from the HMIC through their 'Without Fear or Favour' exercise.

- 1.19 An audit on Facilities Management will look at the contract management of the externally provided service for this area.
- 1.20 An audit on Data Quality will link in with key performance measures as set out in the PCC's draft Police & Crime Plan for Suffolk (2013-17).
- 1.21 In response to the outcomes from the 2012-13 audit on security arrangements, a further audit will be carried out to ensure action has been taken by the Constabulary on the issues highlighted.
- 1.22 There will also be planned audits on IT Governance, Compromise & Redundancy Payments, and Interpreters' Fees.
- 1.23 The Business Support Review has impacted on the administrative structure and support to Suffolk Police establishments. With these being split in to five areas, Audit Services carries out an audit of each area on a five-year rolling basis, with the Bury St. Edmunds Area establishments selected for 2013-14.
- 1.24 Included in the plan is 'Collaboration' and 'PCC Governance'. No days are allocated as this is additional work if requested by the PCC CE which, depending on what is required, will either be accommodated within the 180 planned days (through reduction of days against a planned audit), result in an audit being taken out of the plan (following an assessment of risk), or be carried out in addition to the planned days (at an agreed additional cost). Examples of such work could be to provide assurance that proposed agreements are compliant with best practice guidance for governance with partnerships; to look at, and comment on, new and developing controls; to ensure financial and contract regulations are being complied with; examination of PCC transition; review planning and progress for Transfer Order stage 2.
- 1.25 An element of time is allowed for residual management and planning. This incorporates the time spent dealing with ad-hoc enquiries / issues, compiling committee papers for / attending Audit Committee and / or other meetings, and managing & reviewing the work of audit staff. Any days required for anti-fraud and corruption audit work (including monitoring of output from the National Fraud Initiative) will also come from this allowance. The plan does not incorporate any contingency for extended audit work. Follow-up time to recommendations made is incorporated across the allocation of audits. Additional work at the request of the PCC, PCC CE, PCC CFO, CC, CC CFO or the Audit Committee will be discussed at the time (and can be treated as additional audit days to those planned or will replace existing 'lower priority' audits).
- 1.26 Each audit results in a report to the PCC CE, PCC CFO and CC that includes overall opinions on the controls within the system examined, and makes recommendations, where appropriate, to improve those controls. The response of the auditee is recorded in the final report.
- 1.27 The implementation of agreed audit recommendations is monitored and follow-up work is undertaken in relation to significant issues or where the identified risks are high.
- 1.28 Of the planned days, and based on the complexity of some of the audits included within this year's plan, about 40% of the input will be from senior staff and the remainder from operational staff. The audit manager responsible for the contract will be deployed on reporting to the Audit Committee; planning; team leadership; quality assurance monitoring; systems review; and liaison, consulting and reporting to relevant contacts.

## 2. FINANCIAL IMPLICATIONS:

- 2.1 The resources required to deliver the 2013-14 internal audit plan have been assessed as 180 days, being the same level as in 2012-13. The actual number of days utilised to deliver the audit programme will be kept under review by the Interim Head of Internal Audit Services, PCC CFO and CC CFO.
- 2.2 Within the terms of the contract with Suffolk County Council, the PCC will be invoiced on a monthly basis for the cost of work done, with funding being included in the PCC corporate budget for 2013-14.

## 3. OTHER IMPLICATIONS AND RISKS:

- 3.1 Audit resources are allocated over a five-year strategic period with assumptions and calculations updated each year. This ensures that strategic audit aims are informed about operational changes so that audit cover can be amended as and where risks and priorities change.
- 3.2 All potential audit work identified has been subject to a formula based assessment on the following factors:
  - **materiality** – *the relative significance or importance of a particular system or process to the Authority;*
  - **corporate importance** – *the extent to which the Authority depends on the correct running of the system, whether for legal or regulatory requirements or to meet its objectives;*
  - **vulnerability** – *the extent to which the system is liable to breakdown, corruption, loss, error etc., taking into account if anything has happened recently which warrants audit work;*
  - **management concerns** – *the management assessment of the risk to the organisation.*
- 3.3 Over the five-year strategic plan period, resources are allocated to cover the higher risks. Other risks are partially covered by sampling techniques. New risks will appear, and old risks will be deleted. Both will result in amendments to planned coverage. There are also changes in the nature of some continuing risks, i.e. some risks will remain but they may change from (say) medium risk to high risk. Strong reliance is placed on operational management and risk management processes to identify these.
- 3.4 Whilst there are no significant risks to record in the risk register as a result of this report, in approving the Internal Audit Plan members should be aware that the limited actual audit cover does mean that the organisation accepts the risks of not fully covering all its potential audit coverage.
- 3.5 Findings from audit work undertaken may result in the need to record such items in the risk register.

<b>ORIGINATOR CHECKLIST (MUST BE COMPLETED)</b>	<b>PLEASE STATE 'YES' OR 'NO'</b>
Has legal advice been sought on this submission?	No
Has the PCC's Chief Finance Officer been consulted?	Yes
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Yes
Have human resource implications been considered?	Yes
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Yes
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Yes
Has communications advice been sought on areas of likely media interest and how they might be managed?	Not considered necessary
In relation to the above, have all relevant issues been highlighted in the 'other implications and risks' section of the submission?	Yes

	2012/13	2013/14	2014/15	2015/16	2016/17
<b>MAIN FINANCIAL SYSTEMS</b>	<b>40</b>	<b>40</b>	<b>38</b>	<b>40</b>	<b>40</b>
- Payroll Systems/Procedures	s	*	f, s	s	*
- Expenditure Systems/Procedures	s	*	f, s	s	*
- Income Systems/Procedures	*	f, s	s	*	f, s
- General Ledger Controls	f, s	s	*	f, s	s
- Treasury Management	*	f, s	s	*	f, s
- Capital Expenditure Controls	f, s	s	*	f, s	s
<b>TRANSITION ARRANGEMENTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- PCC Governance		*	*	*	*
- Collaboration	*	*	*	*	*
<b>STRATEGIC &amp; GOVERNANCE</b>	<b>15</b>	<b>36</b>	<b>41</b>	<b>32</b>	<b>27</b>
- Risk Management	*	*	*	*	*
- Partnership Arrangements					
- Contract Management			*		
- Sustainability		*			
- Data Quality		*			
- Budgetary Control				*	
- Business Planning					*
- Data Protection Act (DPA)					*
- Freedom of Information (Fol)					*
- Performance Management				*	
- Equality & Diversity			*		
- Transparency Agenda			*		
- Fraud Risk Management	*		*		
- NFI Outcomes		*			
<b>CORPORATE SYSTEMS</b>	<b>58</b>	<b>36</b>	<b>32</b>	<b>35</b>	<b>11</b>
- HR - Training			*		
- HR – Sickness Absence	*				*
- HR – Compromise & Redundancy Payments		*			
- Declarations of Interest / Gifts & Hospitality		*			
- Procurement Cards				*	
- Procurement Arrangements / Stores	*				
- Health & Safety / Insurance			*		
- Travel & Subsistence				*	
- Inventory Management	*				
- Vehicle Workshops / Fleet Management				*	
- Facilities Management		*			
- Estate Management	*				
- Records Management			*		

	2012/13	2013/14	2014/15	2015/16	2016/17
<b>INFORMATION TECHNOLOGY</b>	0	14	12	0	0
- IT Governance		*			
- Business Continuity			*		
<b>POLICE SPECIFIC PROCESSES</b>	38	25	30	36	65
- Vetting Procedures	*			*	
- Site Security	*	*			
- Police Overtime					
- Off Work on Full Pay / Light Duties					*
- Property (Found & Volume Crime)	*			*	
- Property Controls (Drugs & Weapons)			*		
- Property Controls (Seized Monies)					*
- Covert Accounts					
- Firearms				*	
- Air Support			*		
- Custody Processes, Policy & Practice					*
- Special Constabulary			*		
- Consultants / Temporary Contracts	f				*
- Management of Police Information					*
- Payments to Interpreters		*			
<b>ESTABLISHMENTS</b>	16	16	14	24	24
<b>CONTINGENCY FOR EXTENDED AUDIT WORK</b>	0	0	0	0	0
<b>AUDIT COMMITTEE</b> preparation & attendance; LIAISON <b>MEETINGS</b> with Authority, Constabulary and External Auditor / <b>ANTI-FRAUD &amp; CORRUPTION AUDITS</b>	13	13	13	13	13
<b>TOTALS</b>	180	180	180 #	180 #	180 #

**Key**

\* Year of coverage

f Follow-up previous year's recommendations

s Self-assessment checklist to be completed

# The number of audit days for 2014/15 onwards to be reviewed

**PROPOSED INTERNAL AUDIT PLAN 2013/14**

<b>Audit Type</b>	<b>Audit Coverage</b>	<b>Proposed Month of Starting Audit</b>
<b>Main Financial Systems</b> (To support the work of the Audit Commission)	Identify changes to system, update systems documentation and test system controls	
Full audit	Payroll	January 2014
Full audit	Expenditure	January 2014
Self-assessment	Income	February 2014
Self-assessment	General Ledger	February 2014
Self-assessment	Treasury Management	February 2014
Self-assessment	Capital Expenditure	February 2014
<b>Other Systems (financial &amp; non-financial)</b>	From Audit Services' risk assessment, risk registers and discussions with the Chair of Audit Committee, PCC CE, PCC CFO, CC CFO, other key Constabulary personnel, and External Auditor.	
	Collaboration	Ongoing – as requested
	PCC Governance	Ongoing – as requested
	Sustainability (Carbon Reduction)	April 2013
	Declarations of Interest / Gifts & Hospitality	May 2013
	Interpreters' Fees	May 2013
	ICT Governance	May 2013
	Facilities Management	June 2013
	Data Quality	October 2013
	Site Security	October 2013

<b>Audit Type</b>	<b>Audit Coverage</b>	<b>Proposed Month of Starting Audit</b>
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	Compromise & Redundancy Payments	November 2013
	Risk Management	November 2013
<b>Establishments (Business Support)</b>		
	Bury St. Edmunds Area	July 2013