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**PAPER NO:** AC13/13

**SUBMITTED TO:** INTERIM AUDIT COMMITTEE - 24 SEPTEMBER 2013

**SUBJECT:** 2013/14 PROGRESS REPORT

**SUMMARY:**

1. The report advises the Committee of progress against the planned programme of internal audit work for 2013/14, and the conclusions reached.
2. The Police & Crime Commissioner for Suffolk (PCC), through this Committee, is responsible for maintaining 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.
3. All reports completed and issued by Audit Services during this period are explained in more depth within this report.
4. An indicative opinion of the Head of Audit Services on the overall adequacy and effectiveness of the internal control environment is provided from the work carried out to date.
5. There are no significant financial issues arising as a result of this report.
6. There are no significant risks to record in the risk register as a result of this report. Members should be aware that audit coverage is based on an annual risk assessment.

**RECOMMENDATION:**

The Committee is recommended to acknowledge, from the internal audit work undertaken to date for 2013/14, that it can take assurance in the operation of internal controls.

## DETAIL OF THE SUBMISSION

### 1. KEY ISSUES FOR CONSIDERATION:

#### INTRODUCTION

- 1.1 The report summarises progress against the planned programme of internal audit work for 2013/14, and the conclusions reached. It also gives the audit opinions for each completed individual audit.
- 1.2 Suffolk PCC and Constabulary, through this Committee, are responsible for establishing and maintaining appropriate risk management processes, control systems and operational procedures. Internal Audit plays a vital part in advising the PCC and Constabulary that these governance arrangements are in place and operating properly. Day to day responsibilities lie with the PCC and Constabulary Chief Finance Officers (PCC CFO & CC CFO).
- 1.3 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 risk-assessed programme of work approved by the Committee, which is at a level necessary to satisfy the legal and professional obligations of the PCC and Constabulary. 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.
- 1.4 The Audit Committee agreed the Internal Audit Plan for 2013/14 on 25 March 2013 (Paper AC13/3).
- 1.5 Each audit results in an opinion of 'high standard', 'effective', 'ineffective', or 'poor'. Explanations of the meaning of these opinions are as follows:-

<b>High Standard (full assurance)</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives.
<b>Effective (substantial assurance)</b>	Whilst there is basically a sound system of control, there are some weaknesses, which put some of the system objectives at risk.
<b>Ineffective (moderate assurance)</b>	There are weaknesses in key areas in the systems of control, which put the system objectives at risk.
<b>Poor (limited / no assurance)</b>	Control is generally weak leaving the system open to significant error or abuse.

- 1.6 Where an audit identifies that there is scope to improve internal control, the following can assist in the implementation of improvements:
- a) the advice given in audit reports;
  - b) the advice and information given within financial and contract regulations; and
  - c) the advice and information given within Constabulary procedural documents.
- 1.7 Audit staff are also available to offer advice and guidance to supplement the Constabulary's own internal arrangements.
- 1.8 Audit Services would like to acknowledge the open and co-operative manner of the PCC and Constabulary that has enabled audit work to progress efficiently. In several instances, audit work incorporated subjects already identified by the PCC and Constabulary as being likely to benefit significantly from internal audit's independent and evidence-seeking approach. Once again, collaboration has resulted in the most effective recommendations being made.

## **AUDIT WORK**

### **Irregularities**

- 1.9 At the time of writing this report, no irregularities have been reported to Audit Services since 1 April 2013.

### **Completed Audits**

- 1.10 Auditees are given a written summary of findings prior to a discussion at the end of the audit, which gives more opportunity for consideration of the matters arising, and their comments on the recommendations made are included in the final report. This acts as an agreed action plan for management to implement, and the timescales involved, and may form the basis of a follow-up review or visit aimed at reviewing the implementation of agreed recommendations.
- 1.11 In accordance with the contract for the provision of internal audit, all audit reports are agreed with the Head of Joint Finance before being sent to the Chief Executive and CFO of the PCC, the Chief Constable (f.a.o. the Assistant Chief Officer), and the main auditee. In addition, the Deputy Chief Constable or Assistant Chief Constable receives an e-mailed copy of the report if it falls under their remit.

### **Declarations of Gifts, Hospitality and Business Interests**

#### **(Effective)**

- 1.12 The HMIC report 'Without Fear or Favour' highlighted that many police forces and authorities lacked proactive and effective systems to identify, monitor and manage police integrity issues. At the end of 2012, ACPO issued guidelines in order to provide police officers and staff with an ethical framework in which to determine the boundaries of acceptability around gifts and hospitality for forces. As a result, an internal audit was undertaken to determine if procedures relating to declaration of interests, gifts and hospitality were consistent with guidance and whether controls in place were operating effectively.

- 1.13 Collaborative policies on the acceptance of gifts and hospitality and second jobs and business interests exist but have not yet been formally approved. These policies have taken ACPO guidance into consideration and provide important guidance to staff on their responsibilities. In addition; integrity briefings have been completed to raise staff awareness. Gifts and hospitality registers are overviewed by the Professional Standards Department and regularly monitored by the Suffolk Office for the Police and Crime Commissioner.
- 1.14 Audit work has identified that there is a robust process in place over declarations of business interests, additional occupations or voluntary roles. Notification documentation is appropriately completed and includes the required details.
- 1.15 For declarations of gifts, donations and hospitality, two registers are currently maintained. ACPO guidance advises that Forces should operate a single register of gifts and hospitality under the direction and control of the Head of PSD. The register for Chief Officers is maintained by Executive Services and the Central Register is maintained by the joint ACIU within PSD. Both registers are overviewed by PSD. The audit work identified that controls are not the same in the day to day operation of both registers. Testing of the registers against ACPO and local guidelines has identified some weaknesses in the operation of controls and a consistent and compliant process for the management of both registers has been recommended and agreed for implementation.

## **Interpreters and Translation**

### **(Effective)**

- 1.16 Interpreting and translation services are provided via INTRAN. INTRAN is a multi-public agency partnership for the Eastern region, who commission service providers for face-to-face, written, telephone and sign language interpreting. INTRAN are also responsible for monitoring the service provider contracts.
- 1.17 In addition to a review of the policies and procedures, the audit review examined the processes in place over the identification of need / selection / availability of interpreters; recording and payment monitoring; and contract management.
- 1.18 A comprehensive procedure guide is in place and the processes for using various types of interpreters are clearly documented. However, performance and costs (invoice details) are not regularly monitored which could result in inaccurate or overcharging.
- 1.19 The Audit also identified that the Constabulary had been charged for a service which was not part of the original contract. The Diversity Manager is responsible for the Suffolk contract and has already tasked INTRAN with challenging the service provider over this and as a result it is expected that the service will be formalised, but at a lower cost than previously provided.
- 1.20 In future, all interpreters and translation invoices will be sent to the Diversity Team who will use these in addition to the reports they already receive to carry out regular financial and performance reviews.

## **Bury St. Edmunds Station**

### **(Effective)**

- 1.21 Cash held in the station is secured and appropriately recorded. However, supervisory controls can be improved through the introduction of independent spot checks.
- 1.22 Records completed by the Property Officer on the 'Electronic Property System' (EPS) are in good order and the property store itself is, in general, well organised. Weaknesses in control were identified where other officers had not completed records on the EPS correctly.
- 1.23 Control of imprest / float cash is adequate. However, due to the numbers of supply staff working on the Front Desk, keys cannot be registered to each officer leaving security and handovers difficult to administer. There are similar issues around key holding for staff who require access to the safe to return lost property to the public.
- 1.24 The Operations Manager is addressing the audit issues identified. This includes additional training, thus reducing the risk of loss or fraud.

### **Follow-ups**

- 1.25 Where the auditors have more serious concerns over the effectiveness of internal controls within the system being reviewed, follow-up of the high risk areas is undertaken.
- 1.26 Follow-up audit work on recommendations made within the 2012/13 audits on Procurement Arrangements, Property Controls and Inventory Management has confirmed that recommendations have been implemented and controls have improved to an acceptable level.

### **Other Related Audit Work**

#### **National Fraud Initiative Outcomes**

- 1.27 Since 1996, the Audit Commission has run the National Fraud Initiative, a data matching exercise. The exercise normally takes place every two years. Since the initiative's start, the programme has helped identify over £1 billion in fraud or error and the initiative has attracted international recognition.
- 1.28 Data matching in the NFI involves comparing sets of data, such as the payroll records of a body, against other records held by the same or another body. This allows potentially fraudulent claims and payments to be identified.
- 1.29 In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over / under payments and other errors, to take remedial action and update their records accordingly.
- 1.30 From 2008, the Audit Commission has conducted the NFI under statutory powers given to it under the Serious Crime Act 2007. All mandatory participants, including Suffolk Constabulary, must provide data. Failure to provide data without reasonable reason is a criminal offence under section 32B of the Audit Commission Act 1998. The last data extraction took place in October 2012, and included payroll, pensions, and creditors. The results of this data extraction, received in February 2013, resulted

in no areas of concern. Accordingly, this provides a good indication that Constabulary systems are operating effectively.

- 1.31 The NFI data matching exercise will continue following closure of the Audit Commission. The Department for Communities and Local Government, Audit Commission and Cabinet Office will continue to discuss transitional issues over the coming months to ensure a smooth handover of this important initiative at the appropriate time.

#### **Current & Future Audit Work**

- 1.32 Other audits included in the 2013/14 Plan, reported to the Audit Committee in March, will be completed in the second half of the financial year.

- 1.33 The following audits are currently taking place (at the time of writing):-

- a) Facilities Contract Management
- b) IT Governance

- 1.34 Other audits planned during 2013/14 are:-

- a) HR - Compromise & redundancy payments
- b) Payroll Systems- Procedures
- c) Expenditure Systems-Procedures
- d) Security Review
- e) Risk Management
- f) Data Quality

- 1.35 In addition, self-assessments on Income Systems, General Ledger Controls, Treasury Management and Capital Expenditure Controls will be carried out to ensure sufficient assurance is collated on all systems, in order to fully support the Annual Governance Statement. This approach involves actual testing by officers at the Constabulary and aims 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. Audit Services will dip sample these self-assessments towards the year-end.

- 1.36 The audit plan for 2013-14 included a proposal for a piece of work on sustainability (carbon reduction) which this Committee did not approve. A potential replacement piece of audit work is still to be identified. A meeting has been arranged with the Assistant Chief Officer in early October to discuss audit work and planning and a substitute audit, if considered appropriate, can be established at this time.

#### **Indicative Opinion of the Head of Audit Services**

- 1.37 Overall, systems of control are acceptable and financial administration systems are effective. However, members should note that assurance cannot be absolute. The preparation and publication of an Annual Governance Statement, in accordance with the Framework for 'Delivering Good Governance in Local Government', is necessary to meet the statutory requirement set out in Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 for authorities to "prepare an annual governance statement in accordance with proper practices in relation to internal control".

- 1.38 In assessing the level of assurance given, the following have been taken into account:
- a) all audits undertaken;
  - b) all audit testing undertaken;
  - c) audit recommendations made and remedial action consequently agreed (where applicable);
  - d) audit resources available;
  - e) the audit risk assessment undertaken in preparing audit plans for the Committee; and
  - f) external audit findings.

## **2. FINANCIAL IMPLICATIONS:**

- 2.1 The contract for the provision of internal audit services with the County Council runs to 30 June 2015. This report will not alter the current level of costs to the PCC.
- 2.2 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. For example, any restructuring or collaboration would mean that the focus of internal audit work would need to be reviewed and, if necessary, revised due to changing risks.

## **3. OTHER IMPLICATIONS AND RISKS:**

- 3.1 All recommendations made within individual audit reports have been discussed with the relevant responsible officer and their management comments have been captured in response.
- 3.2 The audit plan is risk-assessed and 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.
- 3.3 In addition to the risk assessment process involved in the production of the annual plan, risk is addressed in every audit, both at the initial discussion with the auditee(s) and during the work. This ensures that audits concentrate on higher risk areas, including non-financial risks where appropriate.
- 3.4 There are no significant risks to record in the Risk Register as a result of this report. Members should be aware that audit coverage is based on an annual risk assessment.
- 3.5 The indicative opinion of the Head of Audit Services provides Members with assurance that systems of control are acceptable and financial administration systems are effective. The risk of not accepting this report is that uninformed decisions could be made.

<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?	NO
In relation to the above, have all relevant issues been highlighted in the 'other implications and risks' section of the submission?	YES