

ORIGINATOR: SENIOR AUDITOR

PAPER NO: AC14/4

SUBMITTED TO: AUDIT COMMITTEE

SUBJECT: INTERNAL AUDIT PLAN 2014-15

SUMMARY:

1. The report includes details of the proposed Internal Audit Plan for 2014-15 and draft Strategic Plan for 2015-16 to 2017-18.
2. The proposed 2014-15 Internal Audit Plan takes into account current corporate governance and risk management issues.

RECOMMENDATION:

The Committee is requested to consider and approve the proposed Internal Audit Strategic Plan and annual Internal Audit Plan for 2014-15.

DETAIL OF THE SUBMISSION

1. KEY ISSUES FOR CONSIDERATION:

- 1.1 This paper is presented for members to consider and approve the Internal Audit Strategic Plan and annual Internal Audit Plan of work for 2014/15 and consider the draft Internal Audit Plan for 2015/16 to 2017/18 (Appendix A).

Statutory requirements and relevant guidance

- 1.2 The Financial Management Code of Practice for the Police Service of England & Wales (October 2013), issued by the Home Office, 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 (PSIAS) issued by CIPFA as the relevant internal audit standards setter for local government and police. 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”*.
- 1.3 *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.*
- 1.4 *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”*.
- 1.5 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.*

1.6 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

1.7 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), CC and CC Chief Finance Officer (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.

1.8 Suffolk County Council (SCC) Audit Services (Internal Audit) 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
2013-14	180 days

1.9 As Suffolk continues the collaboration with Norfolk and systems and controls are being developed, it is considered that the 2014-15 Plan should remain at 180 audit days. This also takes into account the outcomes of internal audit work throughout 2013-14. The level of audit days within the Plan enables flexibility and maximises benefit from the internal audit process.

1.10 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 Internal Audit, PCC CE, PCC CFO, the CC Chief Finance Officer (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.

1.11 As service collaboration between Suffolk and Norfolk strengthens, there is a need to ensure that efficiencies are maximised when setting the audit plan. The provision of internal audit to Norfolk is carried out by Price Waterhouse Cooper (PWC). Due to the number of auditable areas which are now operated jointly, it has been agreed that any selected for audit coverage in 2014-15 will be covered by one internal audit team or the other.

1.12 In turn, the "Suffolk" Audit Plan will include specific audits which include Norfolk as part of the coverage. This approach has the benefit of eradicating duplication; less constraint on auditee resources; and improved consistency. This is deemed the most sensible approach where systems / services have joined up and has been agreed with the PCC CFO. A previous contract change enables this approach to be achieved (i.e. Internal Audit for Suffolk PCC can access Norfolk data and vice versa).

- 1.13 This will result in Internal Audit reporting to Audit Committee on reports that have been undertaken by PWC where there is an impact on Suffolk. Audit Committee will be asked to take assurance from their work on those occasions. There will still be an element of Suffolk only specific audits and these are reflected in the Plan for 2014-15.
- 1.14 This approach will not affect the number of days audit provision to Suffolk (180) which will be managed by the Head of Internal Audit, nor the agreed mechanisms for billing for audit work carried out (i.e. Suffolk will pay for all work carried out by Suffolk County Council; Norfolk will pay for all work carried out by PWC).

Proposed areas of internal audit work 2014-15

- 1.15 Internal Audit supports the PCC's Police and 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.
- 1.16 The proposed Strategic Plan and 2014-15 Audit Plan for the PCC and CC is highlighted within Appendix A and has been discussed and agreed with the PCC CE, PCC CFO, CC CFO, 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.
- 1.17 Audit work on the main financial systems covers the key controls of each significant system. These are the systems where the Constabulary 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. For 2014-15, Internal Audit will complete all audits of the main financial systems via the self-assessment method (see 1.18). This decision has been taken due to the implementation of the Enterprise Resource Management system from 2015-16 (it is intended that in 2015-16, full audits of all main financial systems will be undertaken to ensure that all key controls remain and to provide assurance that weaknesses have not occurred). 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.
- 1.18 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 fully 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. 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.
- 1.19 Internal Audit have obtained agreement from External Audit to take this approach for 2014-15 only.
- 1.20 Other financial systems and other systems reviews 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,

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corporate governance and risk management issues are now reviewed in addition to financial risks.

1.21 The audits referred to in paragraph 1.12 which include Norfolk as part of the coverage are:-

- Risk Management
- Contract Management
- Business Continuity
- HR Training
- Programme Management
- Records Management.

1.22 The following audits which include Suffolk as part of the coverage will be performed by PWC during 2014-15:-

- Fraud Risk Management
- Budgetary Control
- ICT Project Expenditure
- Enterprise Resource Management (ERP)
- New Policing Model.

(note – these are referred to in Appendix A)

1.23 In addition, three audits: Governance – Stage 2 Transfer Arrangements; Pension Administration; and Crime & Disorder Reduction Grants will also be undertaken individually by Suffolk and Norfolk auditors. These will have the same terms of reference and timing. This is due to different systems in operation at the two Constabularies. Outcomes can be compared for best practice and knowledge sharing.

1.24 In response to the outcomes from the 2013-14 audits on Security Arrangements and Fire Safety, further audits will be carried out to ensure action has been taken by the Constabulary on the recommendations made.

1.25 There will also be a planned audit on the Special Constabulary, due to recent additional investment and increased staff numbers.

1.26 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; or to ensure financial and contract regulations are being complied with.

1.27 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 and 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).

- 1.28 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.
- 1.29 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.
- 1.30 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 lead Audit Manager 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 2014-15 Internal Audit Plan have been assessed as 180 days, being the same level as in 2013-14. The actual number of days utilised to deliver the audit programme will be kept under review by the Interim Head of SCC 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 2014-15.

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.

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	PLEASE STATE 'YES' OR 'NO'
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?	NO
Have human resource implications been considered?	NO
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

PROPOSED INTERNAL AUDIT STRATEGIC PLAN 2013/14– 2017/18 APPENDIX A

	2013/14	2014/15	2015/16	2016/17	2017/18
MAIN FINANCIAL SYSTEMS	40	18	40**	40	40
- Payroll Systems/Procedures	*	f, s	*	f, s	*
- Expenditure Systems/Procedures	*	f, s	*	f, 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
TRANSITION ARRANGEMENTS	0	0	0	0	0
- PCC Governance	*	*	*	*	*
- Collaboration	*	*	*	*	*
STRATEGIC & GOVERNANCE	36	63	51	38	35
- Risk Management	*	*	*	*	*
- Partnership Arrangements			*		
- Contract Management		*			
- Fire Safety	*	*			
- Data Quality	*				*
- Budgetary Control ***				*	
- Business Planning					*
- Data Protection Act (DPA)			*		
- Freedom of Information (Fol)			*		
- Programme Management		*			
- Equality & Diversity				*	
- Transparency Agenda					
- Fraud Risk Management ***					
- NFI Outcomes					
- Governance –Stage 2 Transfer		*			
CORPORATE SYSTEMS	36	40	32	35	23
- 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		*			
- Enterprise Resource Management ***					
- Pension Administration		*			

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	2013/14	2014/15	2015/16	2016/17	2017/18
INFORMATION TECHNOLOGY	14	13	0	0	0
- IT Governance	*				
- Business Continuity		*			
- ICT Project Expenditure ***					
POLICE SPECIFIC PROCESSES	25	33	30	40	55
- 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					
- New Policing Model ***					
- Crime and Disorder Reduction Grants		*			
ESTABLISHMENTS	16	0	14	14	14
CONTINGENCY FOR EXTENDED AUDIT WORK	0	0	0	0	0
AUDIT COMMITTEE preparation & attendance; LIAISON MEETINGS with PCC, Constabulary and External Auditor / ANTI-FRAUD & CORRUPTION AUDITS	13	13	13	13	13
TOTALS	180	180	180 #	180 #	180 #

Key

- * Year of coverage
- ** The implementation of the ERP in 2015/16 will result in the main financial systems covering both Norfolk and Suffolk Constabularies. The days recorded reflect the Suffolk element.
- *** To be completed by Internal Audit for Norfolk in 2014/15
- f Follow-up previous year's recommendations
- s Self-assessment checklist to be completed
- # The number of audit days for 2015/16 =onwards to be reviewed

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PROPOSED INTERNAL AUDIT PLAN 2014/15

Audit Type	Audit Coverage	Proposed Month of Starting Audit
Main Financial Systems (To support the work of the Audit Commission)	Identify changes to system, update systems documentation and test system controls	
Self-assessment	Payroll	February 2014
Self-assessment	Expenditure	February 2014
Self-assessment	Income	February 2014
Self-assessment	General Ledger	February 2014
Self-assessment	Treasury Management	February 2014
Self-assessment	Capital Expenditure	February 2014
Other Systems (financial & non-financial)	From Internal Audit's risk assessment, risk registers and discussions with the PCC CE, PCC CFO, CC CFO, other key Constabulary personnel, and External Auditor.	
	Collaboration	Ongoing – as requested
	PCC Governance	Ongoing – as requested
	Risk Management	November 2014
	Contract Management	May 2014
	Business Continuity	April 2014
	HR Training	May 2014
	Programme Management	November 2014
	Records Management	June 2014
	Governance – Stage 2 Transfer Arrangements	July 2014 +

Audit Type	Audit Coverage	Proposed Month of Starting Audit
	Pension Administration	October 2014 +
	Crime and Disorder Reduction Grant	August 2014 +
	Special Constabulary	May 2014
	Security Review Follow-up	September 2014
	Fire Safety Follow-up	September 2014

+ Internal Audit for Norfolk will also be undertaking the same audit, with the same terms of reference and timing for Norfolk Constabulary.