



PAPER AC16/7

AUDIT COMMITTEE

A meeting of the Audit Committee was held in the Strategic Co-ordination Centre, Police Headquarters, Martlesham on Wednesday 23 March 2016 at 2pm.

PRESENT:

Members

Ian Blofield, Robert Millea, Andrew Peck and David Rowe (Chair).

Office of the Police and Crime Commissioner

Liz Hollingworth (Business Administration and Policy Officer), Christopher Jackson (Chief Executive) and Tim Passmore (Police and Crime Commissioner).

Chris Bland (Chief Finance Officer for the PCC and Chief Constable).

Suffolk Constabulary

Peter Jasper (Head of Finance) and Steve Jupp (Temporary Deputy Chief Constable).

Present by invitation

Fiona Dodimead (Senior Audit Manager, TIAA), Chris Harris (Audit Director, TIAA) Kevin Suter (Executive Director, EY).

Apologies

Gareth Wilson (Chief Constable).

PUBLIC AGENDA

1. DECLARATION OF INTERESTS

1.1 No declarations were made.

2. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 SEPTEMBER 2015 AND MATTERS ARISING

2.1 The minutes of the open session of the Audit Committee held on 25 September 2015 were agreed as a true record and signed by the Chair.

2.2 Updates were provided on the following matters arising:

6.9 The Confidential Reporting and Whistleblowing policy had been published. The Anti-Fraud and Corruption policy had been published as an interim document. The policy had been approved by Legal Services and would be published once the DCCs for Norfolk and Suffolk Constabularies had signed the policy.

7.4 The Head of Finance said that the introduction of the National Living Wage (new higher minimum wage) of £7.20 for employees aged 25 and over would not affect any Constabulary employees. As the National Living Wage would increase to £9 in 2020 it might impact employees in the lowest Constabulary pay band, subject to any pay agreements in the intervening period.

However, it was likely that the National Living Wage would have an impact on employees of the facilities management contractor.

Action: The Head of Finance said he would ask Procurement to look at the Facilities Management contract to confirm how a change to the National Minimum wage was dealt with.

2.3 A member asked whether the Constabulary was liable for the Apprenticeship levy and what opportunities had been identified for apprentices. The Chief Finance Officer (CFO) confirmed that £400k had been included in the Medium Term Financial Plan (MTFP) for the levy. The PCC said that discussions had commenced regarding potential apprenticeships.

3. INTERNAL AUDIT PROGRESS REPORT

3.1 The Internal Audit Director (TIAA) presented the progress report to the Audit Committee and asked for feedback on the style and format of the report. Members felt that the summary style of the report was appropriate. Suggestions on the report format included consistent page numbering and avoiding acronyms.

3.2 A member asked whether the report could include benchmarking as, whilst it would be difficult to compare directly, the auditors might be able to comment from their experience of auditing other organisations.

3.3 It was felt that the report covered too large a number of audits. The Internal Auditors said that the report covered six months audit work and that many of the audits in 2015/16 had been scheduled towards the end of the year. It was likely that future reports would not include so many audits as they would be spread across four progress reports. It was confirmed that a meeting of the Audit Committee was scheduled for 9 December and would include an internal audit progress report.

3.4 The Senior Audit Manager confirmed a quarterly follow up report would provide a summary of progress against recommendations.

3.5 The Senior Audit Manager said that good progress had been made with the internal audit programme. All fieldwork had been completed (highlighted green in Appendix A) although some draft reports were still to be issued (highlighted orange). There had been no issues obtaining timely management responses. A summary of each final audit report had been included in the progress report. The full audit reports were available on the TIAA portal if required.

Estates Management

3.6 It was noted that Estates management was a joint Norfolk/Suffolk collaborated unit although the audit of maintenance and repair work, undertaken in quarter 2, was for Norfolk only. The PCC asked why there had been a delay in issuing the report. The

Senior Audit Manager said that the key contact had been on sick leave. The request had been escalated to the Head of Estates and the information had subsequently been provided.

- 3.7 Members suggested that delays due to sickness or other absence were a business continuity/risk management issue and it would be useful to resolve how internal audit could access information should a key audit contact not be available.
- 3.8 The Chief Executive asked whether the delays in the audit had been critical. The Senior Audit Manager said that where information requested was critical to the outcome of the audit but was not received it would be raised with the CFO and Chief Officers before alerting the Audit Committee. For this audit the Norfolk Audit Committee would have been notified if it had been a major issue.

Records Management

- 3.9 The Records Management follow up audit was undertaken to assess the actions taken in response to the recommendations from the internal audit conducted in 2014/15.
- 3.10 The Constabulary response to recommendation 4 of Her Majesty's Inspectorate of Constabulary's (HMIC) 'Building the Picture' inspection stated that plans had been put on hold by the ICT department due to difficulties in obtaining the services of the preferred contractor. A member said that this was not acceptable. The T/DCC explained that the single source provider had initially been unable to undertake the work in the required timescales. However action had been taken to obtain the services more quickly and the work was now complete. The business risk of a single provider was recognised and the T/DCC said there would now be consideration of a generic product/solution.
- 3.11 In relation to recommendation 2 it was asked whether the remaining Management of Police Information (MoPI) Analyst post had been filled. The T/DCC said that, to the best of his knowledge, the post had now been recruited to.

Contract Review

- 3.12 The Senior Audit Manager confirmed that the follow up on the recommendations would be reported on at the next Audit Committee meeting.

Police Stations

- 3.13 The Senior Audit Manager confirmed that implementation of recommendation 3 regarding the return of equipment from leavers, including 'Salto' cards, would be reported in the next audit progress report.
- 3.14 The Chair noted there was no date for implementation as the auditors were waiting for HR to respond. The Senior Audit Manager said that this would be followed up as a matter of course and suggested that quarterly follows up are undertaken with a report at 6 months. The Chair said that, considering previous security audits, confirming an implementation date should be a high priority. The return of Salto cards from leavers was also considered very important.
- 3.15 A member also asked for reassurance that recommendation 5, regarding arrangements for confidential waste, had been implemented as the previous security audit had also highlighted disposal of confidential waste as an issue. The CFO said that £7k had been allocated to purchase suitable waste containers and collection. Progress would be reported in the follow up report and additional audits were planned in 2016/17. The Chair suggested that security needed to remain in the audit plan and members and the T/DCC concurred.
- 3.16 A member asked the T/DCC whether he was satisfied with the security of Constabulary facilities. The T/DCC said that the security risk had not changed but recent events had refocussed minds. There were regular communications with the

workforce regarding security and premises were difficult to access without the required entry cards. The T/DCC said that security remained an important area of focus for the Constabulary.

- 3.17 A member asked whether a reduction in premises should be considered. The PCC said that a major estates review was planned. Public access to Police Stations will be available at Ipswich, Lowestoft and Bury St Edmunds from 4 April whilst other police stations would be a base for local officers.

Proceeds of Crime

- 3.18 The Chair noted the rating of limited assurance assessment given for this audit despite there being no urgent recommendations. The Senior Audit Manager confirmed that five recommendations rated 'important' was the borderline between assurance assessments. The judgement had been taken that this audit should be limited assurance but the Senior Audit Manager said that it was marginal.
- 3.19 A member asked about the degree of liaison with the court system regarding proceeds of crime. It was confirmed that TIAA did not liaise with courts during the audit. The T/DCC said that the court takes an independent view, following which the Constabulary received a percentage of the award, usually between 20 to 40% with the remainder allocated to the Crown.
- 3.20 A member noted that this summary indicated that many actions had already been completed indicating that the audit process was working. The Senior Audit Manager said that some recommendations had been implemented during the audit process and the management response reflected this.

Accounts Payable

- 3.21 Recommendation 2 regarding access rights had not been accepted by management. The Head of Finance said that segregation of duties was managed and monitored and it was felt that the risk was managed adequately. Following further discussion the internal auditors had agreed that this was an acceptable risk. The risk had been noted and would not be raised in future audits.
- 3.22 A member questioned whether the management comments on recommendations 1 and 4 should be strengthened so that changes to bank details were subject to senior management confirmation. The Head of Finance said that checks were made where changes to bank details were undertaken.

Accounts Receivable

- 3.23 The Senior Audit Manager said that the audit had found access rights similar to the Accounts Payable audit. However, there no issues had been found during the sample testing.

Purchase Cards

- 3.24 The Senior Audit Manager said that the audit included one urgent recommendation for Norfolk, which had been included in the Suffolk progress report for information.
- 3.25 The Head of Finance said that communications had been sent out to reinforce the acceptable use of purchase cards. Controls such as cash limits were in place and the Procurement Department were monitoring usage. The Head of Finance and T/DCC confirmed that there were a limited number of credit cards in use.
- 3.26 It was confirmed that fuel cards were not included in the audit.

General Ledger.

- 3.27 The Senior Audit Manager reported a positive outcome from the General Ledger audit.

- 3.28 A member noted that the External Auditors (EY) had found that the general ledger was consistent with the previous year. The Head of Finance said that previously high standards had been reported for the general ledger however there were likely to be areas for improvement with the new ERP system. The Executive Director (EY) confirmed that general ledger and the new ERP system would be a risk that the external audit considered.

Code Of Ethics

- 3.29 The summary report indicated there were 2 important and 4 routine recommendations.
- 3.30 A member asked how close to achieving the recommendations the Constabulary was. The Senior Audit Manager said that the follow up work would report on implementation.
- 3.31 A member asked whether the planned training would cover Whistleblowing. The T/DCC said that the training programme was aligned to the national Code of Ethics. Whilst some of the training was generic it also included organisational context and how the code would work in practice in local communities. The PCC said he had seen a step change in attitudes to Whistleblowing and he felt that senior management were setting the right tone.
- 3.32 The Chair asked whether the Code of Ethics linked to the disciplinary process. The T/DCC confirmed that it did and enabled greater accountability, for example the ability for junior level officers and staff to challenge senior levels.

Risk Management

- 3.33 The internal auditors said they were working with the Constabulary Risk and Policy Manager on how risks and controls were recorded and to ensure risk registers were embedded across the organisation.

Mobile

- 3.34 There were no comments raised on the audit of mobile devices.

Cyber Security

- 3.35 The Chair asked why Blackberry devices were being replaced with what seemed like a less secure device. The T/DCC said that Blackberries did not offer the best solution to officers and were not considered to be the most sustainable solution in the long term. Working with the Home Office the Constabulary had found a technology solution which ensured secure use of the Windows system. The Senior Audit Manager confirmed that Cyber Security would remain a key IT audit topic.

Treasury Management

- 3.36 There were no comments on the Treasury Management audit.

4. THREE YEAR STRATEGIC INTERNAL AUDIT PLAN 2016/17 TO 2018/19 AND INTERNAL AUDIT PLAN 2016/17

- 4.1 The Internal Audit Director said that wide consultation had been undertaken with heads of service and the CFO to produce the Internal Audit Plan. The Audit Committee were asked to propose any revisions.
- 4.2 The Senior Audit Manager said that the plan was flexible and could be reviewed during the year. Four audits that had been scheduled for 2015/16 but had been delayed due to system implementation would be undertaken in the first two quarters of 2016/17. These were: Performance Management; Network Security; HR – Recruitment and the Duty Management System.

- 4.3 A member asked whether the resource (15 days) allocated to the performance management audit was excessive. The Senior Audit Manager said there was a large amount of information to cover and it would be an in-depth review including the key performance indicators and the process of setting these.
- 4.4 The Key Financial Controls audit was a combined audit as a full audit of financial systems had been undertaken in 2015/16. It was confirmed that fixed assets would be included in the audit.
- 4.5 A member said that he was not satisfied that fixed assets were included in the Key Financial Controls audit rather than as a separate audit, considering that assets amounted to £60m on the balance sheet. He said that the management of fixed assets should be considered as well as value, for example processing and disclosure, security, use, insurance and condition of the asset/safety aspects. The Senior Audit Manager said the audit would include other areas of fixed assets, not just in the accounting system. The Estates Management audit would consider kit and whether there were any issues with movement and management between Norfolk and Suffolk Constabularies.
- 4.6 The Head of Finance said that fixed assets were considered in depth as part of the external audit. The Executive Director (EY) said that materiality is considered in the audit but they were unlikely to look at moveable areas of kit, for example IT. The Internal Audit Director said the issues raised could be considered in finalising the audit plan.
- 4.7 The PCC asked whether the internal auditors could provide an independent assessment of Constabulary delivery on the Police and Crime Plan. The Senior Audit Manager said that this would need to be resourced through the contingency days. The Chief Executive said that the delivery of the Police and Crime Plan was primarily an issue for the PCC to hold the Constabulary to account on. The CFO said that the Constabulary used recognised project management methods and the findings of post implementation reviews were considered by a 'lessons learnt' group.
- 4.8 It was confirmed that if resource (days) allocated to an audit were unused they would be allocated to contingency.
- 4.9 The Chair asked whether an additional Cyber Security audit should be added to the schedule and whether other technological developments would need to be audited over the coming years. The Senior Audit Manager said that the IT auditor was liaising with the Head of IT on developing areas that may be audited in future.
- 4.10 The PCC asked whether the disposal of assets was considered. For example how a Suffolk vehicle located in Norfolk would be disposed of. The Internal Audit Director said that this could potentially be included in the Fleet audit which currently considered maintenance, repair and fuel use.
- 4.11 The Senior Audit Manager said that the majority of audits in 2016/17 were joint audits covering Norfolk and Suffolk, with the exception of Facilities (Catering) which was Suffolk only. The Chair suggested that the resource allocated to the Catering audit (10 days) seemed excessive. The Senior Audit Manager said that the audit had been requested to consider the new Catering contract, the robustness of processes and how cost was being recharged across the organisation.
- 4.12 The T/DCC said that Suffolk was one of a few Constabularies with a canteen function catering for paying customers as well as training and events. As such the Constabulary wanted to be clear that the facility offered value for money. The T/DCC agreed that the resource allocated seemed disproportionate. The Chair suggested that it might be appropriate to get feedback from staff associations and unions on the canteen facilities.

- 4.13 A member commented that the resource (10 days) allocated to the lone working audit also seemed excessive and asked for clarification on the scope of the audit. The T/DCC said that lone working, for example through the night, could raise health and security issues.
- 4.14 The CFO said that estimated resources in the plan were the best assessment currently. The scoping process at the start of the each audit would finalise the number of days required.
- 4.15 A member asked for information on the method used in developing the plan and how risk was taken into consideration when planning and scheduling audits. The Senior Audit Manager said that the plan was based on risk assessment. The auditors consult with heads of service as well as looking at areas of change, issues arising from previous audits, risk registers and their own knowledge. The financial audits for 2016/17 had been reduced following the full audits conducted in 2015/16 on the new system.
- 4.16 A member asked whether the risk management audits referred to on pages 8 and 12 of the plan for 2016/17 should be combined for efficiency. The Senior Audit Manager said that the Risk Management audit scheduled for quarter 1 was at the OPCC request and the audit in quarter 2 was Constabulary based so whilst there were similar features they were separate audits.
- 4.17 The Chair said that the two internal audit reports demonstrated that an extensive amount of work had been achieved over the past six months. The Audit Committee noted that activity had progressed smoothly which was commendable.

Action: Internal Auditors and CFO to discuss Audit Committee comments in order to amend and re-issue the Internal Audit Plan for 2016/17.

5. THE POLICE AND CRIME COMMISSIONER FOR SUFFOLK AND CHIEF CONSTABLE FOR SUFFOLK - AUDIT PLAN FOR THE YEAR ENDING 31 MARCH 2016

- 5.1 The Executive Director (Assurance – Government and Public Sector), said that the External Audit plan for the year ending 31 March 2016 set out the required communications from the external auditors to the Audit Committee.
- 5.2 The Executive Director provided information on the significant risks that had been identified. These were:
- The risk of fraud in revenue recognition including correct recording of income.
 - The risk of management override. This was a standard risk covered in every external audit.
 - The new ERP system. This will be a focus for the external audit in terms of the control process, project planning, transactions from old system and forming balances and new documenting processes. There will be analytical reviews comparing financial statements to previous years. The External Auditors will rely on internal audit and will have open discussions regarding any issues they find. The Executive Director said that there were no control issues to make the Audit Committee aware of at this point.
- 5.3 The report set out three sub-criteria which will be used to guide the auditors in their overall judgement on value for money. These were: informed decision making, sustainable resource deployment and working with partners and other third partners.
- 5.4 The Executive Director said that the external auditors would be considering how the organisation was reacting to the financial situation as a number of cost pressures continued to have an impact.

- 5.5 The PCC said that partnership working was increasingly significant. The Executive Director said there was no focussed work addressing this as the work plan was risk based and there was no evidence of risk in this area.
- 5.6 The PCC said he was interested in whether value for money was secured and in particular whether this could be assessed where framework agreements were used. The Executive Director said that the external audit was a high level focus and that use of frameworks and procurement had not arisen as a risk. He suggested that findings from internal audit, performance monitoring and management would also provide information on value for money. The Chair asked whether the Internal Auditors could consider framework agreements if there was a concern. The Internal Audit Director said this could be considered.
- 5.7 The CFO said that value for money was assessed through a range of arrangements and by the internal and external auditors with EY providing their opinion on whether value for money had been secured. Tools used to secure and inform value for money assessments include Contract Standing Orders, HMIC Value for Money Profiles, national benchmarking and comparison to the Most Similar Group (MSG), Evidence Based Policing (to inform decision making on investment) and Outcome Based Budgeting.
- 5.8 The CFO said the Procurement Department ensured that national procurement processes were adhered to so that arrangements to let contracts were in line with government processes.
- 5.9 The Executive Director said that pages 9 and 10 of the report dealt with materiality, which is the basis on which the auditors operate. The following levels of materiality were brought to the attention of the Audit Committee members:
- Overall materiality for the financial statements for the Group is £3.9million and Chief Constable is £3.6million;
 - Overall materiality for the PCC is £1.7million;
 - Overall materiality for the Police Pension Fund is £0.6million.
- 5.10 Uncorrected misstatements greater than the following would be communicated to the Audit Committee:
- £195,000 for the PCC Group;
 - £180,000 for the Chief Constable (single entity);
 - £85,000 for the PCC (single entity);
 - £30,000 Police Pension Fund.
- 5.11 A member asked for clarification on the misstatement amounts for the single entities. The Executive Director said that he would hope all errors would be picked up and looked at on their merits. However, the materiality levels show that if for example there was an uncorrected misstatement of £50,000 on the Police Pension Fund this would be brought to the Audit Committee's attention. If a deliberately fraudulent misstatement was found this would also be brought to the Committee. There were cost implications for communicating a lower value but this could be discussed. The Head of Finance confirmed that it would be rare not to correct a misstatement found by the external auditors.
- 5.12 The Executive Director said that page 12 of the report set out the situation regarding a threat of familiarity. A previous employee of EY was now employed by Norfolk Constabulary as a Financial Accountant. The Executive Director said that the composition of the external audit team was therefore being considered to ensure that independence could be clearly demonstrated. The current expectation was that the

External Audit Manager for Norfolk and Suffolk would be changed. The Audit Committee said they understood the situation.

- 5.13 A member asked for an explanation of the difference between the Audit Results report and the Annual Audit Letter. The Executive Director said that the results report was the detailed report produced for the September Audit Committee. The Annual Audit Letter was a summary of the key points produced and published for a public audience.
- 5.14 A member asked whether a greater breadth of risks should be discussed within the audit report, as was the practice in FTSE companies. The Executive Director confirmed that the corporate code of governance was not a requirement in the public sector, except in NHS Foundation Trusts and therefore there was no intention to include this in the audit.
- 5.15 The Executive Director confirmed that the Audit Results report would cover the ERP system as it had been raised as a risk.
- 5.16 The Executive Director confirmed that, if it was his judgement, the overall evaluation criterion on page 5 of the report would be used in the Audit Results report.

6. CHIEF FINANCE OFFICER ARRANGEMENTS

- 6.1 The Chief Executive said that the report presented to the Audit Committee set out the PCC's and Chief Constable's wish to extend the current arrangements regarding a shared Chief Finance Officer until further notice. No issues, such as a conflict of interest, had arisen during the arrangements which commenced on 1 May 2015.
- 6.2 A member asked whether there was a financial saving to the joint post. The Chief Executive said that this was difficult to assess as, until January 2015, an Assistant Chief Officer, covering the CFO role plus other responsibilities, was in post. From May 2015 the Chief Finance Officer was full time, shared equally between the PCC and Chief Constable with a saving to both the PCC corporate budget and Constabulary. The CFO estimated the saving to be more than £50k.
- 6.3 Members said they were content with the current arrangement but suggested a date for review. The Chief Executive said he would provide an oral update at the next Audit Committee.

Action: Update on CFO arrangements to be provided by the Chief Executive at the Audit Committee on 24 June 2016.

7. POLICE SECTOR AUDIT COMMITTEE BRIEFING

- 7.1 The Executive Director said that the report was produced by EY quarterly as information for Audit Committee members. He noted that members had previously asked for the report to be dated and he had suggested this to the EY production team.
- 7.2 A member asked whether the Eastern Regional Specialist Operations Unit (ERSOU) delivered the 13 capabilities which were the minimum requirement for Regional Organised Crime Units (ROCU). The T/DCC said that HMIC had inspected and he was not aware of any significant issues.
- 7.3 In relation to the questions on page 10 of the report, the CFO said that the MTFP had been updated to reflect the new funding arrangements. The Head of Finance said that the Constabulary is reliant on the Government grant which contributes 62% of total funding. Currently 38% of income was from the local precept. Should the precept rise by 2% a year, as the government expected, funding will shift so that 60% is grant funded.

- 7.4 The PCC said that the Suffolk Local Policing Review was transforming county policing and suggested that the Audit Committee might like to consider the implications of this.
- 7.5 The T/DCC said that work on honour based violence and female genital mutilation had continued in light of the HMIC national review. The PCC had allocated additional funding to the Protecting Vulnerable People Directorate and a new head of public protection had been appointed. The T/DCC said he was confident the Constabulary was addressing the recommendations in the HMIC report.

8. ANY OTHER BUSINESS

- 8.1 There was no other business.

The meeting closed at 4.10pm

SUMMARY OF ACTIONS

Item	Action	Owner
2.2	The Head of Finance said he would ask Procurement to look at the Facilities Management contract to confirm how a change to the National Minimum wage was dealt with.	PJ
4.17	Internal Auditors and CFO to discuss Audit Committee comments and amend the Internal Audit Plan for 2016/17 as appropriate.	TIAA & CB
6.3	Update on CFO arrangements to be provided by the Chief Executive at the Audit Committee on 24 June 2016.	CJ