



PAPER AC18/24

AUDIT COMMITTEE

A meeting of the Audit Committee was held in the Strategic Co-ordination Centre, Police Headquarters, Martlesham on Monday 30 July 2018 at 9.30am.

PRESENT:

Members

Ian Blofield, 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 Anna Parkinson (PA to the PCC and Chief Executive, observing).

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

Suffolk Constabulary

Ivan Fearn (Head of Financial Accounting & Specialist Functions), Peter Jasper (Head of Joint Finance), Steve Jupp (Deputy Chief Constable) and Melanie Monaco (Senior Financial Accountant).

Present by invitation

Fiona Dodimead (Audit Director, TIAA) and Mark Hodgson (Associate Partner, Government & Public Sector, Ernst and Young).

Apologies

Chris Harris (Head of Internal Audit, TIAA), Chris Hewitt (Audit Manager, Ernst and Young), Robert Millea (Audit Committee member), Tim Passmore (PCC) and Gareth Wilson (Chief Constable).

PUBLIC AGENDA

1. DECLARATIONS OF INTERESTS

1.1 Andrew Peck said that, in respect of item 5 on the agenda (Internal Audit Progress Report – Safeguarding audit), it should be noted that he was a member of the Local Safeguarding Children Board.

1.2 No other declarations of interest were made.

2. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 MAY 2018 AND MATTERS ARISING (Paper AC18/19)

- 2.1 The minutes of the Audit Committee held on 25 May 2018 were agreed as a true record and signed by the Chair.
- 2.2 The Chief Finance Officer said that he would find out when the report on the implementation of IP Telephony will be finalised and would circulate it to members. The Deputy Chief Constable said that the scope of 'lessons learned' reports should be made clear in terms of considering the process, technology and outcomes. A member said that they were particularly interested in what could be learned from the procurement process and delays in delivery for this project.

Action: Chief Finance Officer to circulate outcome report from IP Telephony

3. UPDATE ON THE AUDIT OF THE STATEMENT OF ACCOUNTS 2017/18 (Paper AC18/20)

- 3.1 The Chief Finance Officer said that the statutory deadline for the closure of the accounts would not be met and confirmed that this was the same for Norfolk.
- 3.2 The report provided a summary of the current position, actions to be taken and set out the areas where the Constabulary had challenged Ernst & Young (EY) on their understanding of the delays.
- 3.3 The Chief Finance Officer said that a timetable for completion of the work needed to be produced. An additional Audit Committee meeting would need to be held.
- 3.4 The External Auditor agreed that it was disappointing that the statutory deadline had not been met. He said that he had not been able to sign an audit opinion on the basis that there was a material difference between the valuation of Property, Plant and Equipment provided to them and that of EY's valuations. Further work would be undertaken to understand why this was the case and in order to narrow the gap between the valuations to a point where he would be content.
- 3.5 Additionally the External Auditor said that there had been other delays in provision of information from the Constabulary team and with EY's ability to undertake the work within the timescale. He said that whilst the statutory deadline of 31 July had, in theory, been achievable, these delays had meant it was not possible to complete the audit. The External Auditor said he was therefore not prepared to sign an audit opinion at the current time.
- 3.6 The External Auditor confirmed that additional resources including management support were now in place and the audit would be completed and Statement of Accounts signed as soon as possible.
- 3.7 The Head of Finance said that the letters appended to the report set out the Constabulary reasons why the delays were not due to the Constabulary team. There had been some minor delays however he believed that the approach taken by the auditors had been inefficient. The Constabulary team had the same members that had delivered high quality working papers to the required standard and to time over a period of years. The Head of Finance said that the resourcing of the EY audit team in Suffolk and Norfolk was a key reason why the statutory deadline would be missed.
- 3.8 A member asked about the implications of missing the statutory deadline, whether there would be reputational damage or whether any penalties would be incurred.
- 3.9 The Chief Finance Officer said it was his understanding that there would not be any financial penalties however Public Section Audit Appointments (PSAA) would need to be formally informed. There was a requirement, as set out in the letter from the auditor included in the report, to publish a statement saying that the statutory deadline would

not be met and setting out the reasons why this was the case. It was proposed to publish the notice on the PCC and Constabulary websites within the week.

- 3.10 The Chief Executive said that, as Monitoring Officer, he had considered whether there were any actions he was required to undertake. However, as the regulations anticipated that the deadline may not be met, he said he did not consider the need to formally inform the Police and Crime Panel, however under regulations a notice needed to be published giving the reasons why the deadline could not be met.
- 3.11 The External Auditor confirmed that he had informed PSAA of the situation. He said that PSAA prepared an annual report on all local government audits and would name those organisations who had not met the deadline, saying whether it was the Auditor or Client fault. The PSAA judgement would be based on submissions from EY and the PCC/Constabulary.
- 3.12 The Chief Executive, Deputy Chief Constable and Chief Finance Officer all suggested that any reputational damage would be minimal. Members agreed with this assessment however it was agreed that the PCC and Constabulary communications teams would be informed of the situation in order to respond, should any media interest arise.
- 3.13 Members said that it was clear from the report provided that the Constabulary did not agree with the External Auditors assessment of the situation.
- 3.14 The Chair said that the difference in opinion from the valuation experts was apparent but he was concerned that there had been a delay in commencing the work and subsequently the issue of the variance in valuations had materialised at a late stage.
- 3.15 The Head of Financial Accounting & Specialist Functions said that the valuations had been submitted in a timely manner. The Constabulary valuations were available in January and the EY expert supplied their information in April, however the issue of tolerance was only raised in the second week of July.
- 3.16 The Head of Financial Accounting & Specialist Functions said that the Constabulary used an external provider for valuations on a 5 year cycle. Where properties in the portfolio were not valued that year within the cycle a letter was provided to reassure there was no material difference. The variance between the Constabulary provided valuations and the auditors had arisen because EY used a variety of national indices to project the value.
- 3.17 The External Auditor said that the auditor's work on Property, Plant and Equipment would not have commenced until the draft accounts were available at the end of May. The issues with the valuation were not due to resourcing but a difference between the Constabulary provided valuations and EY expert valuations. EY had obtained secondary valuations and were now engaging with a third expert to understand the difference in valuations and try to narrow the gap.
- 3.18 The Head of Finance said that the Constabulary had prepared the requisite papers on time and it was EY that had scheduled the work on the audit towards the end of the audit period. He asked the Audit Committee to support the Constabulary position.
- 3.19 Members acknowledged the skills and experience of the Constabulary finance team and considered the other reasons provided for the delayed completion.
- 3.20 The Chair asked whether EY's assessment of Norfolk and Suffolk as 'low risk' was correct as this may have led to the audit being scheduled towards the end of the reporting period and thus when issues had arisen there had not been adequate time to resolve them.
- 3.21 The External Auditor expressed disappointment that some of the remarks made at the meeting on 17 July in confidence had been reported at this public meeting. The Head of Finance said that the reference to Norfolk and Suffolk in the content of other EY

clients was included in the letter from the Chief Finance Officers to EY which was a public document.

- 3.22 The External Auditor said that the EY audit team had been on site and available. He did not agree that the risk rating had been incorrect.
- 3.23 The Chief Finance Officer said there was potential for disagreement should the Auditors seek further costs above the set audit price. The External Auditor said that additional charges would be incurred where work was undertaken in response to a variance in scope, for example the additional work on Property, Plant and Equipment.
- 3.24 The Head of Finance said that the extent of work yet to be completed was set out in the report and indicated that there was a significant amount of basic audit work that had not been undertaken or finalised.
- 3.25 The Chair said he was concerned that the reducing cost of external audit over a series of years may have meant that it was no longer adequately resourced.
- 3.26 A member agreed that service delivery may not now be sustainable and suggested that the PCC may want to raise this at a national level. The Chief Executive suggested that this might only be appropriate if other areas had similar experiences.
- 3.27 The Chief Finance Officer said that the requirement to complete the audit within the reduced timescale had been raised with EY and assurances had been provided. The Chair said that the Audit Committee would want reassurance that a plan was in place to complete the audit on time in 2019.
- 3.28 The External Auditor said that he believed the audit could be delivered within budget, resource and timescale if all went to plan. However the audit was being delivered with two months less time and when issues arose, as happened this year, there was no tolerance in the timescale to accommodate this.
- 3.29 The Head of Finance said that the risks with a shorter timescale, particularly for the audit process, had been raised during the pilot. He said that issues would always arise during the audit and there should be contingency for this.
- 3.30 The External Auditor said that audit procedures should be completed in the next two weeks and suggested that an Audit Committee be held in early September.
- 3.31 It was confirmed that, as only the PCC and Chief Constable were formally required to sign the accounts, the Audit Committee could follow publication of the accounts. The Audit Committee proposed that they should have opportunity to comment on the accounts before publication, as set out in their Terms of Reference.
- 3.32 The Audit Committee members agreed that:
 - i. The minutes should note the members' disappointment that the statutory deadline for publication of the Statement of Accounts would not be met.
 - ii. A pragmatic approach should be taken in order to complete the audit and publish the accounts.
 - iii. The notice setting out the reasons why publication was delayed should be circulated to Audit Committee Members before publication.
 - iv. An additional Audit Committee meeting would be held on 20th September. Members would be kept informed of progress and a meeting would be held sooner if possible.
 - v. A full debrief should be presented to the Audit Committee, following the completion of the audit.

4. POLICE SECTOR AUDIT COMMITTEE BRIEFING (Paper AC18/21)

- 4.1 The External Auditor said the briefing was the standard update from EY.
- 4.2 A member said that the briefing was very helpful and asked what impact the changes to leasing and IFRS 9 would have.
- 4.3 The Head of Financial Accounting & Specialist Functions said that no investments were held that would impact on income and expenditure. The Constabulary had responded to the previous consultation on the IFRS 16 leasing standards and would respond to the new consultation as well.
- 4.4 A member suggested that it would be useful for the PCC and Constabulary management team to provide a short response on the questions raised in the paper.
- 4.5 The Chief Finance Officer said that he was satisfied with the position on the minimum wage. The Head of HR had presented the position on the gender pay gap at the Audit Committee meeting in March 2018.

5. INTERNAL AUDIT - PROGRESS REPORT (Paper AC18/22)

- 5.1 The report reflected the audits that had recently been completed included finalised reports from 2017/18. The Audit Director confirmed that the Management of Police Information (MOPI) audit had now been finalised. All final audit reports were in line with the draft that had been presented to the Audit Committee in May and had been taken into account in the Head of Internal Audit's Annual Opinion.
- 5.2 It was confirmed that the outcome of the Student Officer Training audit was 'reasonable' and not 'limited'.
- 5.3 There had been good progress on the 2018-19 audit plan. The Audit Director confirmed that there had been one change to the plan since the last Audit Committee. The audit of Custody would not take place as Her Majesty's Inspectorate of Constabulary, Fire and Rescue Services (HMICFRS) had undertaken an inspection. It was likely that an audit of business cases would take place instead to see how the process could be streamlined.
- 5.4 The Chair asked whether the Audit Committee members could see the HMICFRS report on Custody. The Deputy Chief Constable said that the report had not yet been published but overall it had been a good report with a small number of areas for improvement.
- 5.5 The Audit Director said that the Constabulary risk register needed to reflect assurances given from external agencies.

OVERTIME, EXPENSES AND ADDITIONAL PAYMENTS

- 5.6 The audit had a 'Limited' outcome because the overtime and expenses system was based on self-approval and potentially open to abuse.
- 5.7 The weaknesses in the system had been acknowledged by management and it had been proposed that the risk was added to the Constabulary risk register.
- 5.8 A member said it was good to see that the risk had been acknowledged and asked whether the Internal Auditors were content with the interim processes that had been put in place. The Audit Director said that an audit of allowances had just been finalised and had tested the changes that had been made.
- 5.9 The Deputy Chief Constable said that the audit was very timely and had been a useful exercise. He said that a Gold Group was in place to ensure convergence between the forces on policies including overtime and to implement better governance.

STUDENT OFFICER TRAINING

- 5.10 The audit had a 'Reasonable' outcome rating and had found that student training was well embedded. The Deputy Chief Constable said it was expected that Student Training would need to respond to forthcoming changes in the policing qualifications framework.

LEARNING AND DEVELOPMENT SKILLS

- 5.11 The audit had 'Limited' assurance due to the record keeping within Learning and Development of the skills mix within the organisation. There were poor records of training and the budget had been accessed by other departments with limited traceability. Following the audit the budget had been restricted and the Audit Director said she was reassured that things had improved.

SAFEGUARDING

- 5.12 The Safeguarding audit had 'Reasonable' assurance. The main recommendation was to have a consistent support mechanism for victims if they were subsequently taken advantage of by an officer. The Deputy Chief Constable said that a strategy was in place to deal with this. The Professional Standards Department and officers of inspector level and above were tasked with ensuring that victims of crime were appropriately supported.

COMMISSIONER GRANTS

- 5.13 This audit was for Suffolk only and had been given 'Reasonable' assurance. The recommendations related to recording information and performance data.

KEY FINANCIAL SYSTEMS

- 5.14 The Key Financial Systems audit had 'Substantial' assurance. Accounts Receivable had been audited separately.
- 5.15 A member asked about the level of debtors and volume of written off debt. The Chief Finance Officer said that this was considered annually and the level of debt written off was insignificant.

6. INTERNAL AUDIT - FOLLOW UP REVIEW (Paper AC18/23)

- 6.1 The Audit Director said that follow up reviews were an ongoing process and would continue to be reported to each Audit Committee.
- 6.2 Since the previous Audit Committee actions on eight recommendations had been completed. New actions had been added for follow up where the deadline had passed.
- 6.3 It was likely that a longer term solution would be required to address the recommendations that were still outstanding on the Duty Management System (DMS).
- 6.4 The Audit Director said that the recommendations for Vehicle Maintenance would be completed shortly and a meeting had been set up to verify this.
- 6.5 The Audit Director said that as the Data Quality group was no longer operational and the post was vacant, she would find out what the Constabulary plans were for implementing the outstanding Information Management – Data Quality recommendations.
- 6.6 A member asked how new completion dates were identified when the original timescale for implementation had passed. The Audit Director said that if a realistic date was proposed then it would be accepted. If there was no indication of how and when the recommendation would be implemented then the existing deadline would stand. If recommendations continued to be outstanding a discussion would be had

with management on whether to accept the risk and not implement the recommendation.

- 6.7 The Chair said that it was sometimes necessary to make a conscious decision to accept the risk of not implementing a recommendation. The Audit Director agreed but said that revised deadlines were appropriate where management did want to implement a recommendation.
- 6.8 A member noted a few Procurement and HR recommendations were due shortly. The Audit Director said that these would be followed up and reported on at the next Audit Committee meeting.

7. ANY OTHER BUSINESS

- 7.1 There was no other business.

The meeting closed at 11.23am