JOINT INDEPENDENT AUDIT COMMITTEE

POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND NORTH YORKSHIRE POLICE

1PM MONDAY 21 SEPTEMBER 2015 CONFERENCE ROOM ONE, POLICE HEADQUARTERS, NEWBY WISKE, DL7 9HA

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

INTRODUCTION

1. The purpose of this report is to provide members with information with which to review the system of internal audit.

BACKGROUND

2. Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires audited bodies to conduct a review at least once a year of the effectiveness of the system of internal audit and for this to be taken into account when considering the system of internal control. The review is needed to ensure that the opinion in the annual report can be relied upon for the Annual Governance Statement (AGS).

3. The Public Sector Internal Audit Standards (PSIAS) have been accepted by all the Relevant Internal Audit Standard Setters, as defining professional practice for Internal Auditors in the public sector. They bring together previous guidance from the Chartered Institute of Internal Audit and CPFA.

The purpose of the PSIAS is to:

- *define the nature of internal auditing within the UK public sector;*
- *set basic principles for carrying out internal audit in the UK public sector;*
- *establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and*
- *establish the basis for the evaluation of internal audit performance and to drive improvement planning.*

4. The PSIAS defines the role of Internal Audit in a consistent way to previous standards:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

5. The Head of Internal Audit is currently updating the self-assessment against the PSIAS this process has identified areas where continued improvement is necessary. A Quality Assurance Improvement Programme (QAIP) is constantly being updated to reflect the work identified as being necessary in accordance with the new professional standards and a copy is attached at Appendix A. An independent, external validation of this exercise is being planned in accordance with a current popular consensus across the public sector that it is reasonable to commission such an exercise midway through the five year period allowed for the evaluation (early/ mid 2016).

6. The current arrangements are covered by a shared services agreement. The arrangements require:

    - An Audit Strategy
    - An Annual Audit Plan
    - Individual Audit reports
    - An Annual Audit Report
    - Committee Reports
    - A Performance Management Framework
    - Attendance at Committee meetings

7. The Audit Strategy and Plan for 2015/16 for the first half of 2015/16 only, as new auditors have been appointed from the 1st October 2015, have been presented to the Audit Committee. Individual audit reports have been produced and progress reports have been submitted to the Audit Committee throughout the year. The Head of Audit or the Audit Manager have attended all of the meetings when these reports have been presented.

8. During the year Internal Audit used 240 audit days, as set out in the Internal Audit Annual Report.

9. In all 18 recommendations were made that were either Fundamental or Significant. All of the management responses were agreed.

10. The Internal Audit function have been active in establishing a framework within which Internal Audit reports can be shared with other providers to avoid duplication and ensure that the Audit Committee will receive the assurances that they need.

11. The results for North Yorkshire in terms of assurance level showed a significant improvement over 2013/14 with an overall rating of reasonable assurance still being maintained. The rating continues to be comparable to the results reported in the other two Forces audited by the Internal Audit Section.

OPTIONS / RISK AND OPPORTUNITIES

12. The review is required by the Accounts and Audit Regulations. Failure to comply represents a strategic risk and the review itself provides for an opportunity to identify areas for improvement in the system of internal audit.

13. The effectiveness of internal audit is a key element of the internal control strategy that is needed when seeking to realise business and service objectives.

FINANCIAL IMPLICATIONS

14. There are no direct, specific financial implications within this report.

LEGAL IMPLICATIONS

15. The Police and Crime Commissioner and Chief Constable and their respective s151 Officers are required to ensure that appropriate Internal Audit arrangements are in place.

EQUALITY AND DIVERSITY AND HUMAN RIGHTS IMPLICATIONS

16. There are none in the context of this report.

CONCLUSIONS

17. The Internal Audit Section from West Yorkshire has continued to work closely with the PCC and CC CFO's.

RECOMMENDATIONS

It is recommended that Members note the findings of this review.

Michael Porter
PCC CFO

Appendix A: Updated Quality Assurance Improvement Programme (QAIP)

Area of Development	Action No.	Action/ Improvement	Evidence	Update (June 2014)	Update (June 2015)
Audit Manual	**1**	**Updated Audit Manual** drafted (covering policies and procedures to guide the internal audit activity, ensuring it is effectively managed). Ensure coverage includes: o Reference to independence of audit. o To include review of working papers & sampling techniques. o Include reference to IIPPF conformance **(when applicable)** o Reference to any future consultancy work (if applicable) so as to ensure this does not impair independence or objectivity.	*All customer bases*: Generic Manual drafted – in e folder: Projects: Audit Management: Audit protocols and processes: Audit Manual o independence of audit. – *Audit Manual paragraph 22* o review of working papers & sampling techniques – AM para 28-32 re quality control and audit review and appendix 3 re sampling o IIPPF conformance **–** *PSIA standards referred in AM para 24 which is in line with IIPPF* o Consultancy work –*code of conduct is referred to at para 25 and this relates to independence, integrity etc.* A Desk Aide is also available outlining the key process	**IMPLEMENTED**	**(1) FURTHER REVIEW OF AUDIT MANUAL** **(i) Initial version was piloted by new auditors and found like a textbook not to be sufficiently user-friendly.** **(ii) Some fundamental changes to our audit approach (as per the audit strategy 2015/16) needs reflecting in a revised Audit manual.**
Audit Strategy	**2**	**Audit Constitution/ Strategy**- although the strategy is effectively reviewed annually as part of the planning process this should be made more formal **Audit Charter** produced as good practice, largely based on the detail already provided within the strategy documents.	**Audit Charter** drafted. **Audit Strategy** is effectively reviewed annually as part of the annual planning cycle- this will be made more transparent.	**IMPLEMENTED**	
	3	Review to include reference to CAE communicating with senior management where they deem tolerance of unacceptable levels of residual risk has taken place.	*All customer bases*: Para 50 and 87 of AM refers to the HIA communicating to senior management re the breach of tolerance re residual risk to an unacceptable level. Also para 86 also highlights auditor needs to inform audit manager and HIA if this becomes apparent.	**IMPLEMENTED**	
			CAE attends the respective Audit Committees and where required is also a members of the respective corporate Risk Management forums where the responsibility for the reporting of unacceptable tolerance to risk can be discharged.	**IMPLEMENTED**	

Area of Development	Action No.	Action/ Improvement	Evidence	Update (June 2014)	Update (June 2015)
Protocols/ Processes	**4**	Various policies & protocols required (or require updating), in include: o Information Sharing Protocols. o Information Security & Management Protocols. o Variation to Audit Forms o New workload planning methodology o New KPI / post audit review/ PDR process o Consultancy protocol o HIA Review process (see section 10)	*Various policies & protocols drafted and in process of being embedded into audit service.:* o Information Sharing Protocols (draft)- when agreed- *copy included as appendix 5 in AM* o Information Security & Management Protocols – *now appendix 3 in AM and has whole section in manual* o Variation to Audit Forms – *updated form in e folder (now includes notification to customer of date/scope changes – consider adoption)* o Further revisions to the workload planning methodology o New KPI / post audit review/ PDR process – E folder o Consultancy protocol o Revised post audit review forms to incorporate HIA cold review o **New 'Keep in View' type form** to be considered for each audit (to pick up issues not directly relevant to audit but of possible relevance/ interest to future audit coverage, etc).	**IMPLEMENTED**	**(2) Continued ongoing work required to ensure the various protocols become embedded in our business as usual practices.** **(3) Information Management Protocols (introduced in 2013) need to be revised to reflect the new open-plan, hot desk working arrangements adopted by IA in the last 18 months.**
	5	Develop assurance mapping to improve documented relationship with other providers/ partners and to scope what assurances we can provide and what reliable assurances are currently available.	Specific Assurance Mapping Audits undertaken (or to be undertaken) across client base. IA will also work alongside the newly established assurance functions across the client base. However it will still need recognising that IA also has statutory responsibilities as part of the third 'line of defence' within an organisation. IA are currently working alongside WYP to compile an Assurance Framework, mapping all the Police & Crime Plan outcomes & priorities (example of framework document attached). IIA run Assurance Mapping training undertaken by some members of the audit team.	**IMPLEMENTED**	
Audit Skills, Competency, Development & Training	**6**	KPIs/ PDRs: Introduce a more clearly defined process to link KPIs, post audit reviews (PARs), the PDR process and any necessary training (both formal & on-the-job training) and development. Ensuring that PDRs are undertaken twice a year (full & interim) and that PARs are carried out after each audit.	All client bases: o New KPI / post audit review/ PDR process which has been designed to make the links to audit performance and training and development more transparent and provides a clearer link to the PDR process.	**IMPLEMENTED**	

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			○ Customer satisfaction questionnaires (mgt and general levels) also ask various questions which could be used to highlight audit skills, competencies and development. The post audit review also links to the customer satisfaction replies to ensure issues raised are addressed, including training requirements.		
	7	Audit Planning should, formally incorporate the opportunity for staff training and development. Effectively this will include any skills audit requirements.	Information from PDRs, which includes customer survey feedback, to be formally collated and discussed by Audit Management Team (AMT) (in terms of training and developments requirements, skills gaps and how best / most effectively to resource identified requirements) as part of the planning process. **Resourcing limitations still apply.**	**IMPLEMENTED**	
	8	Need to look at alternative learning and development opportunities, wherever practicable, that are free of charge.	*All – Last 2 years only:* ▪ **Force/OPCC training available** – MISPERS Master class; OPCC partnership event. ▪ **Civil Service training** re Dealing with Ministers. ▪ **E training** – Available: Excel, Word, Access, Outlook:, Information Management, Outlook ▪ **Bishopgarth**: Available Force systems/ see website ▪ **Other training**: Leadership course with Deloittes , CIPD, PRINCE 2, Essentials of Enterprise Risk Management, NPAS with CAA. ▪ **Other alternatives**: Consider contacting other departments/other forces for development opportunities. (e.g. supervisory re audit within Data Mgt; opportunities shadowing PSD investigations) An e folder also in place called "here to help" which includes documents from the IIA and other areas. In terms of learning and development this may be an avenue for staff/managers to input documents for knowledge/development purposes – but can be evidence of "alternative learning and development"	**IMPLEMENTED**	
	9	Consideration to potential gaps in specialist accountancy knowledge & IT audit expertise for the most complex types of audit. Additional requirement for financial training in relation to complex financial audits. Impacted upon by the dual role of Audit Manager & Assistant Chief Finance Officer.	Previously auditors have volunteered to be Finance volunteers/finance training – need to link with audit plan and PDRs. **Narrative has changed somewhat due to reflect the recent recruitment of Auditors in trainee roles. Financial training is an inherent element of the professional training being undertaken.** Currently a reciprocal arrangement with SY for IT audit coverage in Humberside.	**IMPLEMENTED**	

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			Sufficient IT audit skills to undertake standard IT systems and control audit work.		
	10	Audit Managers have a degree of supervision of their workloads but tends to be ad-hoc and largely based on the scoping of the work and reporting of findings- establish the appropriate level & form of this? Head of Audit will dip-sample AM work to ensure objectivity & consistency maintained and co-ordinate lessons learnt.	Introduce form of ***cold review*** by HIA –section has been appended to the Post Audit Review (PAR) Form – see section 4.	**IMPLEMENTED**	
International Standards for the Professional Practice of Internal Auditing (IPPF)	**11**	Work towards conformance with the IPPF standards. Statement regarding compliance (conforms to IPPF) in strategy documents, etc, once applicable.	*All clients*: IPPF conforms largely with Public Sector Quality standards. Audit Manual promotes compliance with standards. Evidence of quality standards is evident from leadership, management, documentation, protocols and processes, where they are in line with those standards.	**OUTSTANDING** **(4) Continue to work towards conformance with IPPF standards (challenging long term target)**	
External Quality Assessment (EQA)/ Quality Assurance Improvement Programme (QAIP)	**12**	Issues identified as part of PSIAS self-assessment to form part of a 'Quality Assurance & Improvement Programme (QAIP)'. These documents will form the basis of the evidence file for the External Quality Assessment (EQA) now required at least every 5 years.	The PSIAS self assessment has identified a number of areas of partial or non-compliance and this has been developed into a programme of improvement (QAIP)*(this document).* These are the key elements of the EQA.	**PARTIAL** **(5) QAIP (this document) continues to be updated to reflect that it is an improvement programme.**	
Fraud	**13**	Although like VFM this is always a consideration more explicit referencing to FRAUD needs including in our Audit Briefs & Audit Reports. Also the consideration of fraud risk needs to be a more overt and transparent part of the audit planning process.	Need introductory paragraph/ referencing in all audit reports. **A fraud risk assessment has been undertaken across the client base.** **Still necessary to introduce a 'default' statement to all audit briefs which reinforces position that amendments to any audit scope may be agreed by management in any case where issues relating to fraud, integrity or ethics are identified during the course of an audit.**	**PARTIAL** **(6) Introduce default narrative relating to fraud, integrity and ethics to the scope of all audit briefs**	
Audit Planning	**14**	Action required to formalise the assessment of the audit universe and risk	Key element is to develop a methodology for assessing the audit/ risk universe across the client base under the new governance arrangements. There will be an onus on standardising this as much as possible, whilst recognising specific arrangement at each client. Where possible an assessment of the audit/ risk universe will 'piggy-back' on (the most appropriate) meetings already in place rather than being created	**OUTSTANDING** **(7) Plans to undertake such an exercise in WY with intention of using the agreed approach to this across the client base.**	

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			specifically for audit planning purposes. Many channels through which audit risks were traditionally identified still remain valid (ie irregularities, audit experience, specific management concerns) and should reconcile to those identified through any established governance channels. Also needs to formalise links to the work of other assurance bodies.	**Particular focus will be to ensure how we clearly demonstrate links between the priorities in the Police & Crime Plan and the auditable risk universe.**	
	15	Review how we plan the individual audit assignment work programmes in detail and which practically reflect the more innovative audit assignments which are not audited using a traditional approach. Where possible this should be considered to give greater assurance of coverage at the outset and also to achieve the audit timescales/ budgets. ***(NB WE WOULD EXPECT AUDITORS TO BE ADAPTABLE AND FLEXIBLE TO AUDIT ENVIRONMENT - RELIGIOUSLY STICKING TO A DOCUMENTED WORK PROGRAMME ISN'T NECESSARILY A GOOD THING!)***	*All clients:* ▪ A clearer, initial assessment of risk (above) at the outset will provide additional clarity over the audit risks/ sub-risks being evaluated and the assignment work programmes. However it is still expected that significant flexibility and innovation is required from auditors. Working rigidly and inflexibly to a set work progamme is NOT necessarily seen as a positive and may often be discouraged.	**PARTIAL** **(8) Work on formally documenting the processes by which audit risks are identified, and scoped to form drivers for the planned work programme. Still important not to discourage innovation/ flexible approach to an audit as it progresses.**	
	16	Consider whether a more comprehensive initial assessment of risk should be undertaken before the audit is initiated. ***(NB WHERE WOULD WE DRAW LINE- TOO MUCH ASS'T AS PRECURSOR TO AUDIT MAY EFFECTIVELY BECOME THE AUDIT ITSELF)***	The assessment of risk within an audit, whether at a macro or micro level should be an ongoing and over-present requirement – the Audit Manual revisions provide sufficient guidance on this. Increasingly common practice to undertake risk workshops/ brainstorming exercises within the audit dept as part of the audit planning and scoping process- *consider formal documentation of this.*	**PARTIAL** **(8) See above.**	
	17	Regular client communications and explanations regarding progress and changes to the Audit Plan (to supplement the Audit Committee explanations/ reports).	All clients: ▪ Included within paragraphs 60, 61 & 90 of audit manual. ▪ Audit Variation form ▪ To formally document meetings with key Senior Management to ensure validity of audit plan. Where practicable schedule a quarterly meeting with the primary stakeholders (PCC, CC, CFOs) ▪ Quarterly input to Audit Committee – audit committee papers include summary of review outcomes, discussion and challenge at audit committee. ▪ **Planning currently based on 6-monthly periods which provides more flexibility, control and management input into changes to Audit Plans.**	**PARTIAL**	**IMPLEMENTED**

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Feedback	**18**	Need to survey stakeholder opinion regarding reputation.	Consider building into the current client questionnaires. **Options for this still being researched.**	**Outstanding** **(9) Stakeholder survey required to supplement the current client questionnaires.**	
Independence & Objectivity	**19**	Although not necessarily an issue it needs to be clearly stated the measures/ controls in place to ensure the role of Asst Treasurer and Audit Manager for same client does not impact on independence and objectivity.	Built into our WY audit processes – need to ensure this fact is clearly documented/ made sufficiently transparent.	Audit Manager remains seconded as Assistant Treasurer to the WY OPCC. Unlikely to return to audit- **CLOSE ACTION**	