

**Police and Crime
Commissioner
North Yorkshire**



JOINT INDEPENDENT AUDIT COMMITTEE

8 August 2014

REPORT OF HEAD OF AUDIT

INTERNAL AUDIT ANNUAL OPINION

1. PURPOSE OF REPORT

- 1.1 To set out Internal Audit's Annual Opinion on the internal control environment and Outturn Report for 2013/14.

2. KEY INFORMATION

- 2.1 This report represents the Internal Audit Annual Opinion and Outturn Report 2013/14 for the Police and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire Police, based on the Joint Service arrangement with the Police and Crime Commissioner for West Yorkshire.
- 2.2 The Accounts and Audit (England) Regulations 2011 require that the Commissioner and Chief Constable maintain an adequate and effective internal audit. The Financial Regulations require that the Chief Financial Officer of the Commissioner and Chief Constable must be satisfied as to the system of financial controls in place and the effectiveness of the financial administration system. This report should contribute towards a discharge of those responsibilities.
- 2.3 Internal Audit is an independent assurance service, which provides an objective opinion to the Chief Financial Officer of each body on the control environment comprising risk management, value for money, internal control and governance. In discharging these responsibilities the Internal Audit function operate in accordance to recognised internal audit practices as defined in the Public Sector Internal Audit Standards.
- 2.4 This report also provides commentary and assurances on internal control that contribute to the Annual Governance Statement of the Commissioner and the Chief Constable.
- 2.5 The opinion provided is based upon the audit programme undertaken during 2013/14. 16 audits have been undertaken, 9 were assessed as

providing reasonable assurance and 6 audits as providing Limited Assurance. These were: both the Follow Up Exercises, Managing Police Officer Rest Days and TOIL, the Equality and Diversity Update, Cash Handling and Property Handling - Drugs. The Follow Ups, Property Handling and Equality and Diversity work and Managing RDIL and TOIL were all countering risks that were understood and in some cases had been highlighted previously by Internal Audit. The Organisation therefore needs to consider the arrangements it has in place to implement management action to address known weaknesses in internal control.

- 2.6 At the same time Internal Audit identified that the approach of the Force represented good practice in terms of its Debt Collection activity and payments to Covert Human Intelligence Sources (CHIS)
- 2.7 Overall based on its audit work, Internal Audit considers that risk is continuing to be satisfactorily controlled, with the majority of audit work identifying that **reasonable assurance** can be derived from systems in place.
- 2.8 This continues our opinion from 2012/13 where Internal Audit's overall opinion was also that reasonable assurance could be reported.

3 DETAIL SUPPORTING THE ANNUAL OPINION

- 3.1 The annual audit opinion is determined using information and conclusions drawn from a number of sources during the course of the annual audit programme. These include:
 - A categorisation of individual audit opinions;
 - Specific findings relating to the main financial systems;
 - An analysis of the significant areas of concern relating to other key systems;
 - Findings relating to investigative/ irregularity work undertaken during the year; and
 - Implementation of previous recommendations in areas of significant weakness.

Summary of Audit Opinions 2013/14

Audit	1	2	3	4	
	Reasonable Assurance and Good Practice	Reasonable Assurance	Limited Assurance	Inadequate Assurance	No Opinion
Treasury Management		●			
Financial Systems of the OPCC Testing		●			
Financial Systems of CC Testing		●			
Follow Up Exercise One		●	●		
Implementing Winsor		●			
Managing Police Officer RDIL and TOIL			●		
Equality & Diversity Update			●		
Niche Handling of Exhibits Pilot		●			
Complaints Handling Survey					●
Cash Handling Processes			●		
Sickness Reporting		●			
Debt Collection	●				
Follow Up Exercise Two			●		
CHIS Payments	●				
Property Handling - Drugs			●		
Procurement Compliance		●			

- 3.2 Equating the four levels of audit assessment of internal control to a numerical scale, a score of 2.3 is achieved.

Comparison With Previous Internal Control Scores

Year	2013/14	2012/13	2011/12
Internal Control Score	2.3	2.1	2.5

- 3.3 The 2013/14 performance represents a modest deterioration on 2012/13; however the movement is not sufficient to change the overall opinion from reasonable assurance.

Main Financial Systems

- 3.4 Internal Audit has undertaken work giving coverage of the main financial systems relevant to the Chief Constable and Commissioner. In addition we have undertaken more detailed work considering Treasury Management, Debt Collection and Procurement Compliance. We have

also had involvement with the introduction of the updated Payroll system.

- 3.5 Our audit work found that the fundamental financial systems continue to be well controlled, with reasonable assurance being derived from their operation. Debt Collection activity was found to be particularly well undertaken and the performance in this area has improved significantly over the years. Treasury Management processes were robust and ensure that placements are both secure and maintain liquidity. Analysis of procurement activity up to £50,000 identified notable levels of non-compliance, however corrective activity was already underway at the time of the audit, tightening controls.

Other Significant Concerns

- 3.6 At the start of the year we undertook work to consider the approach to managing rest days and TOIL. Internal Audit sought to verify whether cancelled rest days have been re-rostered within four days, as is required by policy, a sample of cancelled rest days were selected and it was found that 90% of the cancelled rest day had not been re-rostered. In addition little was being done to reduce historic rest day in lieu balances, at the time of the audit. The Organisation was aware of the problem and had initiated action to address it. Internal Audit was able to act as an important assurance mechanism to evidence that further action was required.
- 3.7 NYP disestablished their Diversity Unit and have sought to mainstream its activities across the Force. Internal Audit was asked to consider the effectiveness of the move to integrate diversity matters throughout the Force. The transition process was accompanied by some uncertainty as to the relative roles of Legal Services, Human Resources and Response and Reassurance. This led to some of the functions not being immediately picked up. The current model depends on the operational directors and heads of service determining the gaps in their own provision and the deciding what action is necessary. This form of self assessment depends on a level of understanding of their own performance and the regulatory requirements, which may not be present. If the portfolio leads are to be the driving force then NYP needs assurances that what they are planning is sufficient and necessary.
- 3.8 The Cash Handling Audit considered how cash and cheques are dealt with by the Force. Internal Audit identified two cheque payments totalling almost £22,000, for 7 vehicles disposed of by auction, which had not been banked. These cheques were re-issued by the auctioneers. It was also not possible to perform accurate reconciliations in relation to Overseas Visitors Registration Certificates and Firearms Licensing Applications. As a result there is currently a risk that payment may not be received for each certificate. Further whilst the Organisation's policy requires that banking should be undertaken on at least a weekly basis, 45% of the transactions reviewed took longer. In addition cash was held

insecurely at two of the locations reviewed.

Investigations/ Irregularity Work

- 3.9 During the course of the year Internal Audit has had no involvement in investigative or irregularity work. Should the need arise to become involved in 2014/15 the Audit Plan will be adjusted accordingly.

Follow Up Work

- 3.10 Internal Audit have continued to seek evidence that recommendations rated as fundamental or significant, which are classed as being closed had in fact been implemented.
- 3.11 In 2012/13 we reported that the performance of the Force warranted some attention in this area, with over optimistic appraisals of the action manager being accepted as closing the matter, when in fact insufficient action had been undertaken. The past year has encountered considerably more evidence that this is the case and we have concluded that only limited assurance can be derived from the Organisation's follow up arrangements.
- 3.12 The same issue was identified when the handling of drugs seized as evidence was revisited in the Property Handling Drugs Audit. Statements had been made to the Delivery Unit that action had been taken, which were not supported by evidence.

Important Recommendation Implementation 2013/14

Closed Recommendations Reviewed	Recommendations Which Should Be Closed.	Implementation Rate
30	19	63%

- 3.13 63% of the recommendations which were reported as having been implemented, where in Internal Audit's opinion, validly closed. Further recommendations were made to cover the remaining 37%.

4. AUDIT DELIVERY

- 4.1 Internal Audit prepares performance indicators to enable ongoing monitoring and to allow comparisons to be made. A year end summary is provided below:

Summary of Performance Indicators 2013/14

Output Indicators	2012/13	2013/14
<i>Cost per day (£)</i>	259	263
<i>Audit Days Charged</i>	225	231
<i>Number of Reports</i>	14	16
Timeliness Indicators		
<i>% of Final Reports issued within 5 working days of Draft discussion</i>	100%	93%
<i>% of Audits finished within timescale indicated in Audit Brief</i>	63%	47%
Quality Indicators		
Recommendations (Fundamental/ Significant) where Management Action does NOT fully address risk	0%	0%
<i>Client Surveys - % Excellent / Good</i>	78%	82%
<i>Client Surveys - % below Fair</i>	4%	8%

- 4.2 Internal Audit has striven to minimise the increase in costs, keeping the increase in the cost per day down to 1.5%.
- 4.3 The performance on delivering audits within the timescales indicated in the audit brief, has dipped. There will be an increased focus on this with each auditor. Some of the enlarged timescales were also due to the need to do further work, for example with respect to Cash Handling, in order to determine how widespread internal control problems were.
- 4.4 We have continued to perform well in terms of getting report out at the completion of an audit and following discussion with management.
- 4.5 Internal Audit considered that all responses from the Force addressed the fundamental and significant recommendations set out in each report.
- 4.6 Our surveys continue to indicate that our work is generally well received, with a small increase in the level of excellent and good results over the previous year.
- 4.7 As in 2012/13 the below fair results can be attributed to a particular report that was critical of management. However, we do draw out from that audit and also other pieces of work some dissatisfaction with the level of communication about our audit work as it progresses and this is something we will improve on.

5 VALUE ADDED

- 5.1 Whilst delivering the audit plan the Committee's attention is drawn to a number of activities also undertaken by Internal Audit, which have enhanced the value derived by the Force and Commissioner.

- 5.2 Internal Audit identified £22,000 that was owed to the Force but had not been received. As a result the funds have been paid over to the Force.
- 5.3 Internal Audit have provided advice to the Payroll team on the implementation of an updated payroll system.
- 5.4 Internal Audit continue to work closely with the Delivery Unit and the risk management function to co-ordinate our work. In addition resource has been made available to the Joint Corporate Risk Group to be called on when required to review implementation of actions to address risk.
- 5.5 In addition to work at Headquarters at Newby Wiske, Internal Audit have undertaken visits to: Harrogate, Northallerton, Selby, York, Whitby, Thirsk, Scarborough and Melmerby,

6 EQUALITY AND DIVERSITY ISSUES

- 6.1 There are no equality and diversity issues within the context of this report.

7 RECOMMENDATION

- 7.1 Members are asked to note the report.

Neil Rickwood
Head of Audit