

**PUBLIC**

**AGENDA ITEM 7B**

**Police and Crime  
Commissioner  
North Yorkshire**



**JOINT INDEPENDENT AUDIT COMMITTEE**

**16 MARCH 2015**

**REPORT OF HEAD OF AUDIT**

**INTERNAL AUDIT STRATEGY 2015-16**

**1. PURPOSE OF REPORT**

- 1.1 To set out the approach of Internal Audit in delivering assurance to the Police and Crime Commissioner and Chief Constable.

**2. KEY INFORMATION**

- 2.1 The Internal Audit Strategy sets out the approach used by Internal Audit to determine the Internal Audit Plan. The audit programme will then provide an independent opinion and appropriate assurances on the internal control environment.
- 2.2 Internal Audit are responsible for the provision of Internal Audit to both the Police and Crime Commissioner and the Chief Constable in their capacity as separate legal persons.
- 2.3 The Internal Audit service is provided in collaboration with the Office of the Police and Crime Commissioners for West Yorkshire, Humberside and North Yorkshire; as well as the West Yorkshire Police, Humberside Police and North Yorkshire Police.
- 2.4 In 2015/16 the contract for Internal Audit Services will be subject to tender and the current contract ends in September 2015, therefore the plan covers a six month period.

**3. RECOMMENDATIONS**

- 3.1 Members to consider the Internal Audit Strategy.

Neil Rickwood  
**Head of Audit**

## **INTERNAL AUDIT STRATEGY**

### **1. STRATEGY STATEMENT**

The Internal Audit Strategy (underpinned by the Audit Charter) establishes the methodology used to determine how Internal Audit will provide assurance on the internal control environment for the Police and Crime Commissioner of North Yorkshire and the Chief Constable of North Yorkshire Police. This document outlines the strategy to be used to create the audit plan that provides those legal persons with assurance.

The strategy acknowledges that there are some specific audit requirements of the Commissioner, in addition to the assurance provided by internal audit reviews of NYP.

The planning process is risk based, meaning that it is based on the risk assessments of the Chief Constable and the Commissioner. The plan is informed by areas of concern identified during previous audits and discussions with Officers and staff within the Office of the Police and Crime Commissioner and NYP. Greater alignment with the risk assessments of the Chief Constable and Commissioner will be achieved through working with the Joint Corporate Risk Group.

### **2. OUTPUTS OF STRATEGY**

The main aims of the strategy are to put into place arrangements whereby:

- Internal Audit will support the Commissioner and the Chief Constable by providing them, the Chief Finance Officers and the Audit Committee with reports and any significant findings in relation to the adequacy and effectiveness of the internal control environment.
- Internal Audit will contribute to the Annual Governance Statements for both organisations.
- Internal Audit will provide management with recommendations resulting from audit work which are intended to improve the internal control environment.
- Internal Audit will co-operate effectively with the External Auditors and other review bodies.
- Internal Audit will deliver the audit programme in accordance with the required professional standards.

### **3. STATUTORY BASIS**

The current legal basis for the provision of internal audit services is the Accounts and Audit (England) Regulations 2011 for Local Government. These regulations state that, "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.”

The Chartered Institute of Public Finance and Accountancy’s, Chartered Institute of Internal Auditors, Department of Health, Welsh Government, Department for Finance and Personnel (Northern Ireland), HM Treasury and the Scottish Government have come together to issue the Public Sector Internal Audit Standards. These became effective from 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The Standards provides a definition of internal auditing:

“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.”

The Home Office Financial Management Code of Practice recommends that Commissioners and Chief Constables have a shared internal audit service to cover both bodies, and that the Accounts and Audit Regulations 2011 place a responsibility on both the Commissioner and the Chief Constable to maintain an effective internal audit of their affairs.

#### **4. INDEPENDENCE OF INTERNAL AUDIT**

To be effective, Internal Audit must operate independently and have unrestricted access to all information relevant to the functions of the Chief Constable and Commissioner which is necessary in the course of our work. In practical terms, this means that auditors should have full access to all records deemed necessary, including information held by or managed by third parties. The Financial Regulations in each organisation provide formal authority for such access.

Internal Audit staff have a right of access to all employees and agents of the Office of Police and Crime Commissioner and NYP, including direct access to the Chief Constable and Commissioner.

The independence of Internal Audit is achieved by reporting in its own name, ensuring that all auditors are free from conflicts of interest and have no direct management responsibility for the development, implementation or operations of systems.

#### **5. SCOPE OF INTERNAL AUDIT**

In order to form an opinion on the Internal Control Environment it is necessary that Internal Audit has sufficient coverage of how the organisation is managing its risks.

The days are allocated on the basis that the majority of audit days will provide assurance to the Chief Constable, and through that to the Commissioner. Internal Audit will also be providing specific assurance on certain activities that are unique to the Commissioner, such as commissioning services.

The table below shows an estimated allocation of days for North Yorkshire Police and the Office of the Police and Crime Commissioner, by the type of audit. Internal Audit will continue with a Joint Audit Plan, but with a clear lead or sponsor for each piece of work in NYP or the Office of the Commissioner.

| <b>Audit Days<br/>2015/16</b> | <b>Description</b>                                                                                                                                                             |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 120                           | Total Days                                                                                                                                                                     |
| 18                            | Provision of advice, audit planning, committee reporting, JCRG attendance, progress meetings, external audit liaison, internal control evaluation and annual opinion drafting. |
| <b>102</b>                    | <b>Audit Days</b>                                                                                                                                                              |
| 60%                           | Risk                                                                                                                                                                           |
| 10%                           | Financial Systems Audit                                                                                                                                                        |
| 8%                            | Follow Up Audit                                                                                                                                                                |
| 22%                           | Governance                                                                                                                                                                     |

### ***Scope and Approach***

Below is more detail on the different types of audit work that make up the audit plan. In drawing up the plan we have been mindful of the following:

- The needs of the separate legal entities of the Office of the Commissioner and Chief Constable;
- The need for the Commissioner and Chief Constable to have assurance over their own organisation; and
- The need for the Commissioner to have overarching assurance over NYP.

We also seek to gain coverage of a range of areas to ensure that we have a comprehensive picture of internal control. Therefore whilst the bulk of our work will be aimed at achieving assurance over the underpinning systems relied on by NYP and Commissioner, we will also seek to specifically consider elements of assurance

that are important operationally and also assurance over expenditure related to assets or their maintenance.

The Public Sector Internal Audit Standards require that the internal audit function be risk based and should rely on the organisation's assessment of risk, as set out in the Risk Register.

### ***Types of Audit Work***

Internal Audit would undertake:

- Risk Audit - The Internal Audit plan needs to be aligned to the Organisation's understanding of risk;
- Financial Systems Audit – of key financial systems each year;
- Follow Up Audit – or previously agreed Internal Audit recommendations;
- Governance Audit – of the decision making approach, arrangements for accountability and risk management; and
- Support – providing advice on the design and implementation of new systems.
- Irregularity - Irregularity work relates to the investigation of any instances of suspected irregularity, loss, theft etc.

### **Risk Audit**

It is proposed that in respect of the Risk Register, Internal Audit will have two audit approaches.

**Proactive Audit:** Where Internal Audit undertakes an audit of a known or suspected risk area in the Organisation. The purpose is to confirm the extent of the risks and to make recommendations for improvement. It is suggested as well as undertaking these audits at the request of senior management, the JCRG may wish to task Internal Audit from time to time throughout the year.

In addition when a risk is first identified and escalated to the Operational Risk Register, the risk owner could ask for such a piece of work to be undertaken. Internal Audit would then work with the risk owner and their team to determine a way forward. Such audit work would be intended to be supportive and collaborative in their approach. The assessment of internal control would still be made, but in the context that this is a known weakness that management are working to address.

**Assurance Audit:** Where Internal Audit reviews the risks on the register, on a six monthly basis and looks for those that have been closed or downgraded on the basis that management action has been effective in addressing the risk. By selecting important risks to the Organisation Internal Audit can conduct an audit once the plans have been put in place, in order to confirm that the actions have become embedded and the risk is continuing to be effectively managed.

Internal Audit would liaise with management over a suitable period after management action has been implemented, in order to allow it to show signs of change. Such an audit could be a detailed risk based assessment or consider compliance against the relevant mandated standards, depending on the nature of the risk and the risk management action.

In addition a programme of key systems assurance will be established to provide coverage of non-financial systems where risks have proven persistent and compliance is particularly important, and difficult to achieve.

It is intended that the audit planning will be undertaken on a six monthly basis to allow the plan to be more readily updated to the risks of the Organisation at that time and that the plan would come to the JCRG, before being presented to the Audit Committee. However, in the meantime changes can be accommodated in the Audit Plan by substituting audits on the audit plan with those more beneficial to the Organisation. This would take place in consultation with the Chief Finance Officers.

Financial Systems Audit

The main financial systems of NYP may not always appear on Risk Registers, as they will typically be considered to be operating effectively, therefore not requiring any special attention from management. However, these systems underpin the financial management of NYP and therefore allow it to be operationally effective. They are therefore given prominence in internal audit coverage.

Internal Audit will cover the main financial systems each year, either by undertaking a cyclical comprehensive review or by a focused annual review.

*Cycle of Financial Systems Reviews*

| Audit                               | 2015/16     | 2016/17     | 2017/18     | 2018/19     | 2019/20 |
|-------------------------------------|-------------|-------------|-------------|-------------|---------|
| <i>Creditors</i>                    | ●<br>1 in 3 |             |             | ●           |         |
| <i>Debtors</i>                      |             |             |             | ●<br>1 in 5 |         |
| <i>Payroll</i>                      |             |             | ●<br>1 in 3 |             |         |
| <i>Pensions</i>                     |             | ●<br>1 in 4 |             |             |         |
| <i>Treasury</i>                     |             |             | ●<br>1 in 4 |             |         |
| <i>Fixed Assets/ Balance Sheet</i>  |             | ●<br>1 in 4 |             |             |         |
| <i>Financial Management/ Ledger</i> |             |             |             | ●<br>1 in 4 |         |

The cycle is subject to annual review based on any change in risk factors in the systems to be reviewed. For example the introduction of new financial systems, staff

turnover, identified control failures and previous findings from the annual central systems work.

### Follow Up Audit

The follow up of agreed recommendations is an important part of the assurance function of internal audit, communicating that actions being relied upon to address particular weaknesses have in fact been taken. This involves obtaining evidence of compliance or substantive improvement, depending on the recommendation that was made. The approach involves following up recommendations classed as significant or fundamental.

### Governance Audit

In order to form an opinion on the internal control environment, the Internal audit need to consider aspects of governance and risk management processes of the Chief Constable and Commissioner.

### Support

This could include evaluating options in a value for money study and advising on specific approaches, benchmarking services and also providing advice and getting involved with the implementation of new systems.

### Irregularity

The audit work is essentially reactive and variable dependent upon circumstances. No contingency is made for such work and a decision will be made with the Commissioner and Chief Constable as to what work will be substituted on the audit plan should such work become necessary.

Internal Audit will also report to management any systemic weaknesses identified as part of any investigative work, with the intention of preventing a re-occurrence of the incident.

## **6. REPORTING**

The output of Internal Audit primarily comprises:

- Audit reports for each individual assignment
- Follow up reports
- Irregularity/ Investigation Reports
- Progress reports submitted to the Audit Committee
- An Internal Audit Annual Report

Audit assignments will be the subject of formal reports. Initially a Draft Report will be issued and its factual accuracy will be discussed and confirmed at a post audit meeting. Reports will identify insufficiently controlled risks and will recommend actions to address these areas. Once the factual accuracy of a report has been agreed a Final Report is issued for a management response. Agreed actions and deadlines are required against the recommendations made in the report.

Each audit is rated with one of the following categories and these are based on a judgement of internal control in respect of the systems examined. This is therefore a relative judgement.

| Category | Description                                                                                                                                                                                                                                                                                                                             |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1        | Reasonable assurance can be provided that the main risks considered are being effectively managed; action may still enhance the management of risk in a small number of areas. In addition the Internal audit has identified that the approach taken to address risk as representing good practice in this area.                        |
| 2        | Reasonable assurance can be provided that the main risks considered are being effectively managed. Limited management action may be required to address a small number of significant issues.                                                                                                                                           |
| 3        | Limited assurance can be provided that the main risks considered are all being effectively managed. Significant management action is required to address some important weaknesses.                                                                                                                                                     |
| 4        | Inadequate assurance can be provided that the risks identified are being effectively managed. Significant weaknesses have been identified in the risk management action, these are likely to involve major and prolonged intervention by management. These weaknesses are such that the objectives in this area are unlikely to be met. |

All reports are reported in full to the Audit Committee.

The Head of Audit prepares an Annual Report which provides an overall audit opinion and a detailed analysis and commentary on the internal control environment. The report also provides detail on overall progress against the audit plan and the performance of the internal audit function.

## 7. PERFORMANCE MANAGEMENT

The Public Sector Internal Audit Standards requires the internal audit function to have a performance management and quality assurance framework in place.

Mechanisms in place include:

- ▶ A set of measures to gauge performance
- ▶ Client feedback questionnaires issued for each audit assignment
- ▶ Each assignment subject to supervisory review / quality check as part of audit process
- ▶ Post Audit Review of audit assignments



- ▶ Quality Assurance and Improvement in placed based on an assessment against the Public Sector Internal Audit Standards.
- ▶ Review of the system of Internal Audit performed on an annual basis.

The appendix to this report sets out the Key Performance Indicators that we will report against.

## **8. RESOURCES & SKILLS**

The Internal audit comprises of 9 posts, consisting of a Head of Audit, 2 Audit Managers and 6 Auditors.

These posts have required qualifications, skills and competencies as set out in the respective Role Profiles.

Professional qualifications and ongoing professional development is recognised as important within the section. All employees are either professionally qualified (CMIIA / CCAB) or are currently undergoing a study programme.

Staff are also encouraged to keep up to date with current auditing developments and regularly attend courses in order that they are continuously updating their professional skills.

A formal Personal Development Review (PDR) process is in place in order that training and development requirements of staff can be regularly assessed and re-evaluated.

Budgets are made available to buy in external specialist services/ skills if required.

## **9. PROFESSIONAL APPROACH**

All staff within the Internal audit section are reminded of their responsibilities to maintain a professional, courteous approach with all staff subject to the audit process, and they will also conduct themselves in accordance with the Seven Principles of Public Life enunciated by the 1995 Nolan Committee.

The commitment of staff will ensure that they:

- ▶ Notify the appropriate level of management of the scope of an audit assignment in a timely fashion, offering opportunities for the inclusion of any specific areas of concern
- ▶ Discuss any issues found, wherever possible, with the appropriate level of management so that any control issues can be addressed in a timely fashion
- ▶ Acknowledge areas of good practice in the audit reporting process

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- ▶ Strive to be both constructive and helpful during the course of an audit assignment

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**Appendix**

**KEY PERFORMANCE INDICATORS**

We review our performance internally on a quarterly basis, including the indicators in staff PDRs. A range of indicators is considered including our cost per day and the number of days charged out. In addition to these output indicators we monitor our timeliness and quality and report the results annually to the Audit Committee, as part of the annual opinion and outturn report.

The four indicators compare the previous years data against the current year and are accompanied by an analysis explaining our performance as well as identifying actions to improve matters, should that be necessary.

| <b>Timeliness Indicators</b>                                                                                      | <b>2013/14</b> | <b>Reviewed</b>                |
|-------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| % of Audits draft report issued within 10 working days of agreed timescales (set out in Audit Brief)              | 93%            | Annual Report/ PDR/Quarterly   |
| % of Final Reports issued within 5 working days of final Draft discussion                                         | 47%            | Annual Report/ PDR/Quarterly   |
| <b>Quality Indicators</b>                                                                                         |                |                                |
| <i>Audit Feedback (Client Surveys) - % Excellent / Good</i>                                                       | 82%            | <i>Annual Report/Quarterly</i> |
| <i>Client Surveys - % below Fair</i>                                                                              | 8%             | <i>Annual Report/Quarterly</i> |
| <i>Recommendations (Fundamental/ Significant) - Responses where Management Action does NOT fully address risk</i> | 0%             | <i>Annual Report/Quarterly</i> |

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