

To: Joint Audit Committee
Date: 10th June 2013
By: RSM Tenon
Title: Internal Audit Strategy 2013/14 to 2015/16

Purpose of Report/Issue:

This paper sets out the approach taken by RSM Tenon, the Police & Crime Commissioner's (PCC) and Chief Constable's (CC) internal auditors, in developing a draft internal audit strategy for 2013/14 to 2015/16, taking account of the comments that were given at the previous meeting in March 2013.

The paper seeks the views of the Committee on the proposed strategy and agreement that it addresses the current risks and needs of both the PCC and CC.

Summary:

The proposed Internal Audit Strategy 2013/14 to 2015/16 has been prepared taking into account the views of the PCC's Treasurer and the CC's Head of Finance who have also discussed its content with other representatives of the PCC and CC.

Recommendation(s) -

Members are asked to consider and approve the Internal Audit Strategy for 2013/14 to 2015/16.

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**Office of the Police and Crime Commissioner
for Surrey and the Surrey Police Force**

Internal Audit Strategy

2013/2014 – 2015/2016

Presented at the Audit Committee meeting of: 14 March 2013 and
10 June 2013

David Taylor
Head of Internal Audit

1 INTRODUCTION

This document sets out the approach we have taken to develop your internal audit strategy for 2013/14 to 2015/16 and the annual plan for 2013/14.

1.1 Role of Internal Audit

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.

(Definition of Internal Audit: Chartered Institute of Internal Auditors)

From 1 April 2013, internal auditors in the public sector are required to work to the *Public Sector Internal Audit Standards (PSIAS)*, which are based on the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and which also adopt the institute's definition of internal auditing and code of ethics.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help both organisations to achieve their objectives. The opinion may also be used by the Police and Crime Commissioner (PCC) and the Chief Constable, to support their Annual Governance Statement. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee.

In line with the Financial Management Code of Practice published by the Home Office, both the PCC and Chief Constable must have an internal audit service, and there must be an audit committee in place (which can be joint). To support this, we have developed one internal audit plan, which reflects our view of the audit needs for the coming year, and which maps each assurance assignment to the PCC, the Chief Constable, or reflects where an assurance may be of particular benefit to both.

2 DEVELOPING THE INTERNAL AUDIT STRATEGY

2.1 Issues influencing Internal Audit coverage

The organisation's objectives are the starting point in the development of our strategy for delivery of internal audit services.

Appendix A reflects the range of potential issues that may affect the PCC and Chief Constable. These were used to focus our conversations with the senior management team on where our work would be most effective.

In preparing your strategy and more detailed operational plan we have met with:

- Chief Executive, PCC
- Financial Accounting Manager
- Head of Finance
- Treasurer

The key areas are summarised below:

Key Areas discussed with Management and their impact on the 2013/2014 plan	
	<p>Both organisations are adjusting to the challenges faced by the appointment of the PCC. There is uncertainty as to how this will unfold, especially with the Stage 2 transfer approaching, requiring a determination of the split of assets and staff between the Chief Constable and the PCC.</p> <p>We have included provision within our plan to assist the PCC with the development of Stage 2 through review and challenge of these plans.</p>
	<p>One of the new responsibilities for the PCC will be the award and administration of grants through the Commissioning role. We have completed limited work in this area in 2012/13 to assist the PCC in reviewing a number of partners being considered in 2013/14.</p> <p>We have included further provision within the 2013/14 plan to further assist the PCC, with the grant award criteria, processes for allocating and monitoring grants and, if needed, with assessing potential partners.</p>
	<p>As part of work surrounding Operation Baronet (Leveson inquiry into phone hacking), a review was conducted in 2011 of the Force's procedures in relation to gifts and hospitality. Following that initial review, a number of recommendations were made and implemented.</p> <p>We have included a review of gifts and hospitality to assess progress with implementing these recommendations.</p>
	<p>The Chief Constable has a duty to protect the interests and integrity of the Force by ensuring approved business interests for police officers and staff are not likely to discredit the police service. All officers and staff should disclose their involvement in a business interest or secondary employment. Under the Local Government Act 1972, they must declare in writing any pecuniary interest (direct or indirect) that an employee has or becomes aware of in respect of a contract placed by the Force.</p> <p>We have included a review of business interests in our plan.</p>
	<p>Police Officers are empowered to make professional judgements and apply discretion in deciding whether an incident constitutes a crime, if so what the severity of the crime is, and the most suitable method of disposal. This includes the use of an Effective Resolution, a TIC (Taken into Consideration), a criminal prosecution (charge or summons) or caution. As such, frontline officers are authorised and encouraged to make decisions, using the National Decision Model and application of national and local policy and guidance.</p> <p>In all cases where Effective Resolution, TICs or cautions are used a supervisor must be informed, and the name of the supervisor recorded on the crime report. The decision to use any of these methods of disposal must be recorded on the crime report by the investigating officer, along with a rationale.</p> <p>In instances where Effective Resolution is utilised, crimes are dip-checked monthly by the data quality team and a monthly performance scorecard is used for monitoring.</p> <p>We have proposed a review of disposal methods and crime recording.</p>
	<p>Following concerns being identified with neighbourhood engagement, a review of the effectiveness of community engagement across the Force is being conducted.</p> <p>We will evaluate the progress of this review.</p>

The strategy is set out in Appendix B, with the more detailed annual plan for 2013/14 set out at Appendix C.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior and current financial year and will serve to inform the adequacy of the organisation's own recommendation tracking process
- an audit management allocation, used at Partner and Manager level for quality control, client and External Audit liaison and for preparation for and attendance at Audit Committee.

2.2 Working with other assurance providers

We intend to meet with the External Auditors to confirm the scope of the work in the areas of financial control to ensure they can continue to place their planned level of reliance on our work for 2013/2014.

The Audit Committee are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes relevant to the PCC and the Force. We will however seek to work closely with other assurance providers, such as External Audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

3 INTERNAL AUDIT RESOURCES

3.1 Your Internal Audit Team

Your internal audit team is led by David Taylor as Head of Internal Audit.

Your Client Manager is Lorna Raynes.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

Internal Audit Fees

The fee for the internal audit service for 2013/14 is split as follows:

- PCC - £22,529.50
- Force - £28,269.50

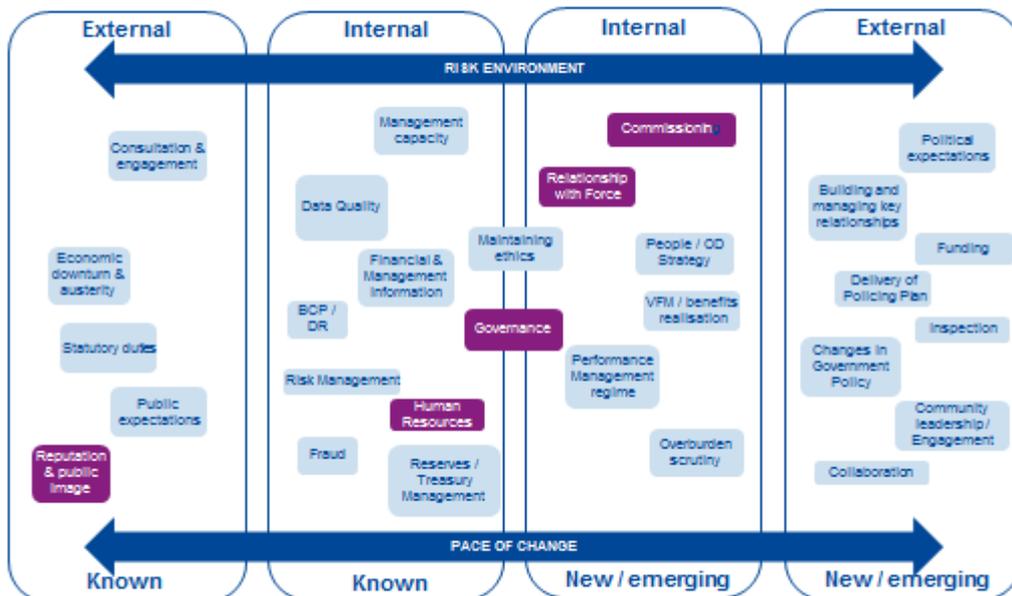
4 CONSIDERATIONS FOR THE AUDIT COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Audit Committee?
- Does the detailed internal audit plan for the coming financial year (as set out at Appendix C) reflect the areas that the Audit Committee believes should be covered as priority?
- Is the Committee satisfied that sufficient assurances are being received by the PCC and the Force to monitor the organisation's risk profile effectively, including any emerging issues / key risks (see Appendix A) not included in our annual plan?

APPENDIX A: CURRENT ISSUES

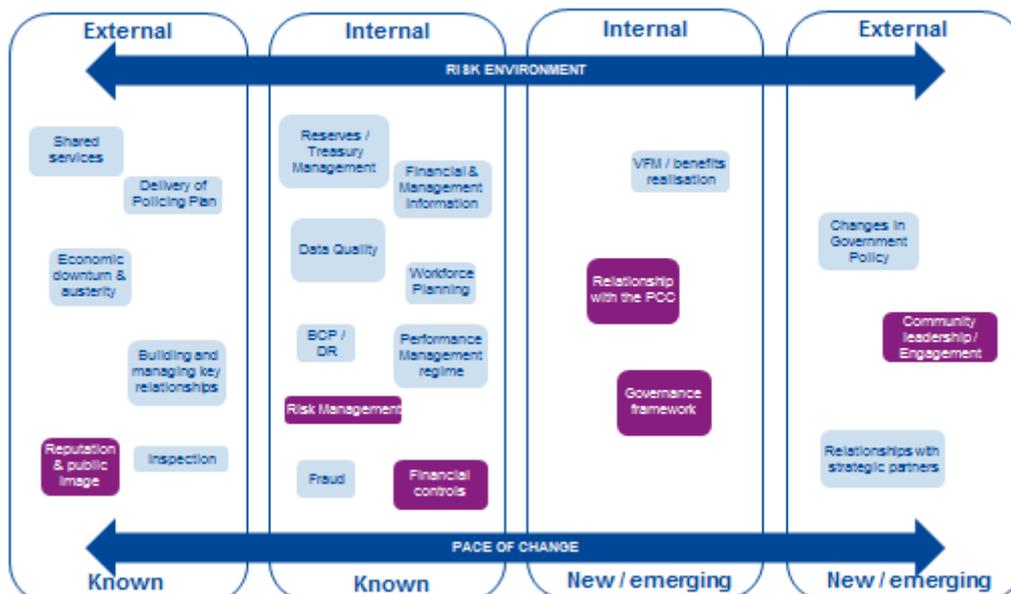
The chart below reflects some of the current issues facing the organisation. Those topics which have been highlighted (in dark blue) are those where internal audit coverage is planned in the coming year.

Office of the Police and Crime Commissioner



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Force



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APPENDIX B: UPDATED STRATEGY FOR INTERNAL AUDIT 2013/14 – 2015/16

Audit Area	Outline scope	2012/13	2013/14	2014/15	2015/16
Gifts and Hospitality	This review will assess the effectiveness of the implementation of the recommendations from the internal review and compliance with the revised governance procedure on gifts and hospitality.		✓		
Business Interests	This review will assess the effectiveness of and compliance with the Force's Business Interests procedures.		✓		
Disposal Methods and Crime Recording	Our review will consider the effectiveness of internal checks and compliance with the National Decision Model and national and local policy and procedures.		✓		
Neighbourhood Engagement	Following concerns being identified in this area, a review of the effectiveness of community engagement across the Force is being conducted. We will consider the progress with the internal review and the implementation of any recommendations arising therefrom.		✓		
Staff Market Supplement	This review will consider whether the current process is transparent, based on a business case with annual review and has appropriate authority levels and whether the agreed process is complied with.		✓		
Stage 2 transfer	We will provide support to the PCC and Force in this area by reviewing the plans for the Stage 2 transfer prior to submission in order to provide an independent check and challenge of the plans.		✓		
Commissioning	The exact scope of this review will be determined by the level of Commissioning proposed, but could include review of internal controls for awarding and monitoring grants as well as review of potential/actual partners.		✓		
Procurement	As both the PCC and the CC may be undertaking procurement, this review will consider the processes			✓	

Audit Area	Outline scope	2012/13	2013/14	2014/15	2015/16
	undertaken by both, and how value for money is achieved. The review will also consider the governance arrangements in respect of the procurement collaboration with Sussex Police.				
Proceeds of Crime	Review to ensure that the Force complies with the requirements of the Proceeds of Crime Act and that all items seized are held in a secure manner until release			✓	
Project management	This review will consider how any major projects are managed to ensure that they are delivered efficiently.	✓		✓	
Joint estates management	As both the PCC and the CC will have control of their own estate, this review will consider the processes undertaken by both, and how value for money is achieved.	✓			✓
Contract arrangements	Review of ESA Ltd	✓			
Partnerships review	Review of Surrey Youth Services, East Surrey Domestic Abuse Services and Surrey Drug and Alcohol Abuse Team	✓			
Value for money for collaboration arrangements	Review of one of the collaborative initiatives to ascertain that the objectives of the collaboration have been achieved, as has value for money for the Authority and Force.	✓			
Asset Due Diligence	A review to verify that the Authority and Force have appropriate records in place covering the assets that are likely to be transferred to the new Police and Crime Commissioner in November 2012.	✓			
Risk Management	Review of how the organisation uses risk management within its management and governance arrangements.	✓	✓	✓	✓
Governance	The exact scope of this review will be determined with reference to the plans for Stage 2 Transfer.	✓	✓	✓	✓
IT review	In 2013/14 we are proposing a	✓	✓	✓	✓

Audit Area	Outline scope	2012/13	2013/14	2014/15	2015/16
	review of application security and in 2014/15 a review of data loss. These areas will address key IT risks.				
Forensic medical examiners	Audit deferred from earlier years owing to changes in the processes in this area.			✓	

Financial Controls (including work allowing greater external audit reliance on our work)

Systems	Source of Requirement	2012/13	2013/14	2014/15	2015/16
General Ledger	External audit will place reliance on our work to inform their audit.	✓	✓	✓	✓
Financial Reporting		✓	✓	✓	✓
Creditor payments		✓	✓	✓	✓
Cash Receipting and Treasury Management		✓	✓	✓	✓
Income and Debtors		✓	✓	✓	✓

Other Internal Audit Activity

Activity	Rationale	2012/13	2013/14	2014/15	2015/16
Follow Up	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	✓	✓	✓	✓
Contingency	To allow for additional audits to be undertaken at the request of the Audit Committee or management based on changes in assurance needs as they may arise during the year.	✓	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Audit Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	✓	✓	✓	✓

APPENDIX C: INTERNAL AUDIT PLAN 2013/2014

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Sponsor	Proposed Timing	Days	Audit Committee
Compliance						
Gifts and Hospitality	This review will assess the effectiveness of the implementation of the recommendations from the internal review and compliance with the revised governance procedure on gifts and hospitality.	Assurance	Force	June 2013	10	September 2013
Business Interests	This review will assess the effectiveness of and compliance with the Force's Business Interests procedures.	Assurance	Force	July 2013	10	September 2013
Disposal Methods and Crime Recording	Our review will consider the effectiveness of internal checks and compliance with the National Decision Model and national and local policy and procedures.	Assurance	Force	September 2013	15	December 2013
Neighbourhood Engagement	Following concerns being identified in this area, a review of the effectiveness of community engagement across the Force is being conducted. We will consider the progress with the internal review and the implementation of any recommendations arising therefrom.	Assurance	Force	December 2013	15	March 2014
Staff Market Supplement	This review will consider whether the current process is transparent, based on a business case with annual review and has appropriate authority levels and whether the agreed process is complied with.	Assurance	PCC	July 2013	10	September 2013
Stage 2 transfer	We will provide support to the PCC and the Force in this area by reviewing the plans for the Stage 2 transfer prior to submission in order to provide an independent check and challenge of the plans.	Advisory	Both	June 2013	20	September 2013
Commissioning	The exact scope of this review will be determined by the level of Commissioning, but may include review of the arrangements for allocating and monitoring grants	Advisory	PCC	July 2013, October 2013	20	September 2013, December 2013

	as well as review of partners.					
IT Systems	Application security review	Assurance	Both	September 2013	7	December 2013
Risk Management	Review of risk management arrangements.	Assurance	Both	September 2013	10	December 2013
Governance	Scope to be determined to inform the annual governance opinion.	Assurance	Both	September 2013	10	December 2013
Financial Controls						
General Ledger	<ul style="list-style-type: none"> • Access controls • Journals • Month end closedown and reconciliations 	Assurance	Both	January 2014	6	March 2014
Financial Reporting	<ul style="list-style-type: none"> • Raising and authorisation of invoices • Chasing of outstanding debts • Debt write off 	Assurance	Both	January 2014	6	March 2014
Creditor payments	<ul style="list-style-type: none"> • Placing of orders • Confirmation of goods received • Authorisation of invoices • Preparation and authorisation of payment runs 	Assurance	Both	January 2014	6	March 2014
Cash Receipting and Treasury Management	<ul style="list-style-type: none"> • Receipt of cash and processing of cash payments • Bank mandate • Bank reconciliation • Control over loans and investment 	Assurance	Both	January 2014	6	March 2014
Income and Debtors	<ul style="list-style-type: none"> • Raising and authorisation of invoices • Chasing of outstanding debts • Debt write off 	Assurance	Both	January 2014	6	March 2014
Other Internal Audit Coverage						
Follow Up	To meet internal auditing standards and to provide management with ongoing assurance regarding implementation of recommendations.	Follow up review	Both	Ongoing	5	Delivered to each Audit Committee

Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning. ▪ Preparation for, and attendance at, Audit Committee meetings. ▪ Regular liaison and progress updates. ▪ Liaison with external audit. ▪ Preparation of the annual internal audit opinion. 	-	Both	Ongoing	15	As used
Total			£50,799		177	

APPENDIX D: EMERGING ISSUES NOT COVERED WITHIN THE 2013/14 – 2015/16 INTERNAL AUDIT PLAN

Potential internal audit review	Outline scope	Link to your risk profile
Strategic planning	This review would consider the structures for long term planning, in terms of strategy, finance and staffing and how the various plans link together to support medium to long term delivery.	Failure to deliver the Strategic Change programme and achieve savings The scale of change required to deliver the savings target is significant and likely to increase further as a result of reduced/delayed savings in some key projects, external funding risks and announcements in relation to the next CSR. This could impact on operational service ability to deliver Surrey Public First.
Performance management	This review would consider the framework for monitoring performance against the police and crime plan objectives. It would also review the robustness and integrity of performance reporting.	Delivery of the Police & Crime Plan objectives - Surrey Police Force is unable to demonstrate how the organisation is delivering against the strategic priorities set by the PCC in his Police & Crime Plan which he will be expected to achieve on behalf of the public Detection Performance of Surrey Police Force Surrey Police's detection performance, both TNO and SAC, has improved but needs to be sustainable to support the Surrey Public First strategy (particularly public safety and the relentless pursuit of criminal) and in order to maintain public satisfaction and confidence.
Capital projects – development of Salford's custody	This review would consider the project management arrangements for the Salford's custody project, including the framework to ensure future capital projects are managed and delivered within agreed cost, quality and time constraints.	The development of Salford's Custody may not be delivered within the set time and budget resulting in an adverse impact on operational performance, public trust and confidence and finance.
Data protection	This audit would review the management arrangements and procedures for Data Protection governance, which arrangements and procedures need to be in place to enable compliance with the 8 Principles of the Data Protection Act 1998.	Digitisation of the Criminal Justice process The Ministry of Justice requirement for digitisation of the CJ process expects digital files to be passed to the CPS in their component parts as of 01/04/2012. This requirement is being met. Without SIREN going live the Central Prosecution team have had to extend their ' work around' for an extended period. With a further delay in SIREN the

		'work around' requires additional resource, both staff and equipment to be sustainable.
Staff utilisation	This review would consider the controls in place to ensure staff resources are used effectively and efficiently.	Impact on resourcing of Coroners Officers because of changes to Coroner's requirements There has been a significant increase in the number of cases taken to inquest. Additionally, the requirement to produce more detailed histories and case files prior to sign off by HMC for progression to inquest (due in the main to new working practices) has significantly increased workloads for the Coroners Officers. As a result, workloads have more than doubled. There is a potential for increased error rates along with increased complaints and there is a potential for adverse impact upon finance and performance.
Business continuity plan	This review would consider the adequacy of the continuity arrangements in the event of a major incident or loss of operational functionality and the extent to which these have been tested. This review will consider both IT and non-IT continuity arrangements.	Maintenance of Power or Critical IT Infrastructure There is a risk around our ability to consistently provide available critical services which may result in a risk of loss of critical systems due to vulnerabilities of the power source at Mount Browne. In addition, there are challenges in recovering services in these circumstances as the recovery plans are complex.

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