

**To: Joint Audit Committee**  
**Date: 12<sup>th</sup> June 2014**  
**By: David Taylor, Baker Tilly**  
**Title: Internal Audit Annual Report 2013/14**

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**Purpose of Report/Issue:**

Internal Audit professional standards and sector guidance such as the Chartered Institute of Public Financial and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK (2006) require the Internal Audit Service to provide an annual report on its activities and including an opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

The work of internal audit, culminating in our annual opinion, forms a part of the Authority's overall assurance framework and should be used to help inform the annual Assurance statement.

The accompanying report summarises the work undertaken by Internal Audit over the 2013/14 financial year and includes our overall opinion on the Authority's governance, risk management and internal control arrangements.

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**Recommendation**

The Committee is asked to consider and comment on the Annual Report for 2013/14.

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# **Police and Crime Commissioner for Surrey and the Chief Constable for Surrey**

Internal Audit Annual Report – Year ended 31 March 2014

Presented at the Audit Committee meeting of: 12 June 2014

David Taylor

Baker Tilly Risk Advisory Services LLP

# 1 Internal Audit Opinion

## 1.1 Context

As the provider of the internal audit service to the Office of the Police and Crime Commissioner for Surrey and the Chief Constable for Surrey we are required to provide the Section 151 Officer and the Audit Committee an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In line with the Financial Management Code of Practice published by the Home Office, both the Police and Crime Commissioner (PCC) and the Chief Constable must have an internal audit service, and there must be an audit committee in place (which can be a joint committee). This annual report is therefore addressed to both the PCC and the Chief Constable, and summarises the work undertaken during 2013/2014.

As your internal audit provider, the assurance and advisory reviews that Baker Tilly Risk Advisory Services LLP (Baker Tilly) provides during the year are part of the framework of assurances that assist the PCC and Chief Constable prepare an informed annual governance statement.

## 1.2 Internal Audit Opinions 2013/2014

### **Police and Crime Commissioner for Surrey:**

For the 12 months ended 31 March 2014, based on the work we have undertaken, there are adequate arrangements in place for governance, risk management and control.

### **Chief Constable for Surrey:**

For the 12 months ended 31 March 2014, based on the work we have undertaken, there are adequate arrangements in place for governance, risk management and control.

## 1.3 The Basis of the Opinion

### 1.3.1 Governance

A review of the Annual Governance Statements was carried out as part of the 2013/14 plan. This review was advisory and therefore no formal opinion was given. However, no significant weaknesses were noted and only three low priority recommendations raised. In addition we have reviewed governance arrangements as part of other assurance work provided, including monitoring and reporting to the most appropriate committee and ensuring content of reporting is sufficient and provides the necessary information for decision making.

### 1.3.2 Risk Management

We completed a review of Risk Management as part of our 2013/14 internal audit work. This review resulted in a Green opinion. However, as the risk management framework had recently been amended, whilst we could confirm the design was appropriate we were only able to complete limited testing regarding compliance with the new risk management arrangements.

### 1.3.3 Control

We have completed seven 'control' reviews which resulted in one green opinion, five amber/ green opinion and one amber/ red opinion for Business Interests.

The follow up work reported adequate progress against completion of the recommendations raised.

In addition, advisory work was completed regarding the Stage 2 Transfer and Commissioning – Victim Support.

### 1.3.4 Acceptance of Recommendations

All of the recommendations made during the year were accepted by management. It should be noted that a number of our reports are currently in draft; we will update the Audit Committee should there be any changes to the opinions contained in those reports, or if any recommendations in those reports are not accepted.

### 1.3.5 Progress made with previous internal audit recommendations

Our follow up of the recommendations made in 2012/13, including those that were outstanding from previous years, showed that the organisation had made adequate progress in implementing the agreed recommendations, as summarised below:

| Recommendation Priority | Number made in 2012/2013 | Of which: |                                      |
|-------------------------|--------------------------|-----------|--------------------------------------|
|                         |                          | Addressed | Not implemented or still in progress |
| High                    | 2                        | 0         | 2                                    |
| Medium                  | 53                       | 31        | 22                                   |
| <b>Totals</b>           | 55                       | 31        | 24                                   |

The two high risk recommendations which had not been fully implemented relate to:

1. IT Disaster recovery and the need to link the plan to the Business Continuity Plan. This had not been fully implemented as it was being further updated as a result of system changes.
2. The Surrey Substance Misuse Partnership where no funding is currently being provided and therefore the recommendation remains on hold.

In line with the OPCC and the Force's own policy, we have not formally followed up on the low priority recommendations raised. We have agreed with the management that during 2013/14 we will complete follow up reviews more regularly in order to provide an update to each meeting of the Audit Committee.

### 1.3.6 Reliance Placed Upon Work of Other Assurance Providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

## 2 Our Performance

### 2.1 Wider value-adding delivery

As part of our client service commitment, during 2013/14 we have:

- Issued client updates and general briefings during the year.
- Provided benchmarking within our reports on the number and category of recommendations and assurance opinions across similar organisations.
- Undertaken both advisory and assurance reviews across both Corporations Sole as part of the establishment of the new Governance and Risk Management arrangements and also sharing practice across the sector through our work.
- We have made suggestions throughout our audit reports based on our knowledge and experience in the public sector to provide areas for consideration.

### 2.2 Conformance with Internal Audit Standards

Baker Tilly affirms that our internal audit services to the Office of the Police and Crime Commissioner for Surrey and the Chief Constable for Surrey are designed to conform with the Public Sector Internal Audit Standards (PSIAS) which came in to effect from 1 April 2013.

Under the standards, internal audit services are required to have an external quality assessment at least once every five years. During 2011 our Risk Advisory service line commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA). The PSIAS are based upon the IPPF, and therefore we are confident that the results of this review apply to our continuing services in the sector.

The external review concluded that *“the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”*.

### 2.3 Conflicts of Interest

We (Baker Tilly) have not undertaken any work or activity during 2013/2014 that would lead us to declare any conflict of interests.

**Appendix A: Internal Audit Opinions and Recommendations 2013/2014**

| Audit  | Link to risk or rationale for coverage        | Audit Sponsor   | Opinion       | Actions Agreed (by priority) |           |           |
|--|---|-----------------|---------------|------------------------------|-----------|-----------|
|  |   |                 |               | High                         | Medium    | Low       |
| Governance: Review of Annual Governance Statements           | Management concern and key risk area          | Both            | Advisory      | 0                            | 0         | 3         |
| Stage Two Transfer   | Management concern and key risk area          | Both            | Adequate      | 0                            | 5         | 4         |
| Business Interests   | Management concern and key risk area          | Chief Constable | Amber / Red   | 1                            | 3         | 4         |
| Staff Market Supplement                                      | Management concern and key risk area          | PCC             | Green         | 0                            | 1         | 1         |
| Disposal Methods and Crime Reporting                         | Management concern and key risk area          | Chief Constable | Amber / Green | 0                            | 2         | 1         |
| Interim Follow Up of Previous Internal Audit Recommendations | As per Public Sector Internal Audit Standards | Both            | Advisory      | 1                            | 21        | 0         |
| Gifts and Hospitality  | Management concern and key risk area          | Chief Constable | Amber / Green | 0                            | 3         | 1         |
| Financial Controls (Draft)                                   | Core Assurance Area                           | Both            | Amber / Green | 1                            | 9         | 8         |
| Commissioning - Community Safety Grants                      | Emerging risk area                            | PCC             | Amber / Green | 0                            | 5         | 2         |
| Risk Management (Draft)                                      | Core Assurance Area                           | Both            | Green         | 0                            | 2         | 0         |
| IT Application Security Audit - Finance and HR (Draft)       | Management concern and key risk area          | Both            | Amber / Green | 0                            | 3         | 2         |
| Commissioning - Victim Support (Draft)                       | Emerging risk area                            | PCC             | Advisory      | 9                            | 8         | 1         |
|  |   |                 | <b>Total</b>  | <b>12</b>                    | <b>62</b> | <b>27</b> |

We use the following levels of opinion classification within our internal audit reports:

| Red  | Amber / Red   | Amber / Green   | Green  |
|--|---|---|--|
| <p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure this risk is managed.</p> | <p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p> | <p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p> | <p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> |

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.