

Agenda Item No. 10a 02

To: Joint Audit Committee
Date: 29 July 2020
By: Chief Internal Auditor
Title: Annual Internal Audit Report and Opinion 2019-20

Purpose of Report:

The purpose of this report is to provide an opinion on the framework of governance, risk management and control put in place by the Police and Crime Commissioner for Surrey (PCC) and the Chief Constable.

Paragraphs 19 to 23 in the revised Terms of Reference for the independent Joint Audit Committee of the Surrey Police & Crime Commissioner & the Chief Constable state what the Committee should consider in relation to Internal Audit. This is as follows:

- 19. Monitor performance, with particular reference to the adequacy of cover, quality and timeliness of audits and to consider reports dealing with the management and performance of the providers of Internal Audit services.*
- 20. Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.*
- 21. Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan. Consider the level of assurance that can give over corporate governance arrangements and that appropriate action is being taken where necessary to address areas of weakness.*
- 22. Consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.*
- 23. Consider summaries of internal audit reports and such detailed reports as the JAC may request from the PCC and/or CC, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.*

The report covers the audit work completed from 1st April 2019 to 31st March 2020 in accordance with the internal audit strategy and plan for 2019/20.

Requirement of the JAC

Members of the Committee are asked to:

Consider and make recommendations as appropriate, on the Chief Internal Auditor's annual report and opinion on the framework of governance, risk management and control for 2019-20.

1. Annual internal audit report and opinion 2019-20

- 1.1 Under the Accounts and Audit (England) Regulations 2015, the Police and Crime Commissioner and Chief Constable are responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- 1.2 Internal audit plays a vital role in advising the Police and Crime Commissioner and Chief Constable that these arrangements are in place and operating effectively.
- 1.3 In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the systems of internal control operated by the Office of the Police and Crime Commissioner (OPCC) and Surrey Police and this provides evidence to support the production and review of the Annual Governance Statement
- 1.4 The Annual Report for 2019-20 provides the Chief Internal Auditor's opinion on the systems of internal control and summarises audit work from which that opinion is derived for the year ending 31st March 2020.
- 1.5 The Joint Audit Committee's attention is drawn to the following points:
 - Internal audit was compliant with the Public Sector Internal Audit Standards in 2019-20.
 - The revised internal audit plan for 2019-20 has been substantially delivered.
 - In my opinion I can give limited assurance over the framework of governance, risk management and management control based on the audit work undertaken during the year, primarily due to the result of our work in IT related areas and given that this is such a critical area of control.
- 1.6 Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement have been agreed with the responsible managers.

Karen Shaw
Chief Internal Auditor

For further information please contact Karen Shaw, Chief internal Auditor, on 07784265138 or e-mail karen.shaw@hants.gov.uk

APPENDICES

***Appendix A* = Chief Internal Auditor's Annual Report and Opinion 2019/20.**

Annual Internal Audit Report & Opinion

2019 – 20

**The Police & Crime Commissioner for Surrey
and The Chief Constable of Surrey**

Office of the Police and Crime
Commissioner for Surrey



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The Police and Crime Commissioner for Surrey (PCC) and the Chief Constable are required by the Accounts and Audit (England) Regulations 2015, to undertake an effective internal audit of their affairs. In fulfilling this requirement, the PCC and Chief Constable should have regard to the Public Sector Internal Audit Standards (PSIAS), issued by the relevant internal audit standards setters (Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors), as the internal audit standards set for local government and the police. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

In addition to enabling the PCC and Chief Constable to fulfil their requirements in relation to the relevant Accounts and Audit Regulations, internal audit is needed:

- to help the PCC and Chief Constable satisfy themselves that effective internal control systems are in place; and
- to provide assurance that financial systems and internal controls are effective and that the Police Fund is managed so as to secure value for money.



The role of internal audit is best summarised through its definition within the Standards, as 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 PCC and Chief Constable are responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the PCC and Chief Constable that these arrangements are in place and operating effectively.

The Office of the PCC (OPCC) and Force’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

As the Chief Internal Auditor I review the approach to each audit, considering the following key points:

- level of assurance required;
- significance of the objectives under review to the organisations' success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the PCC and Chief Constable on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

As the Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the PCC and Chief Constable to inform their governance statements. The annual opinion concludes on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinions on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the PCC and Chief Constable's audit need covered within the period.

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of the OPCC and Force services, has resulted in some delays in completing planned 2019/20 reviews, particularly those which were planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the OPCC and Force's framework of risk management, governance and control during 2019-20.

We acknowledge that Covid-19 presents new risks as well as challenges to the normal operation of existing risk management, governance and control frameworks, at least in the short term and this will be reflected in our work, as appropriate, going forwards. It is not possible at this time to form a view on the impact of these challenges on the overall risk management, governance and control environments operated by the OPCC and Force.

We enjoy an open and honest working relationship with Surrey Police. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. As Chief Internal Auditor, I feel that the maturity of this relationship and the PCC and Chief Constable's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk and control over the 2019/20 financial year.

Annual Internal Audit Opinion 2019-20

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

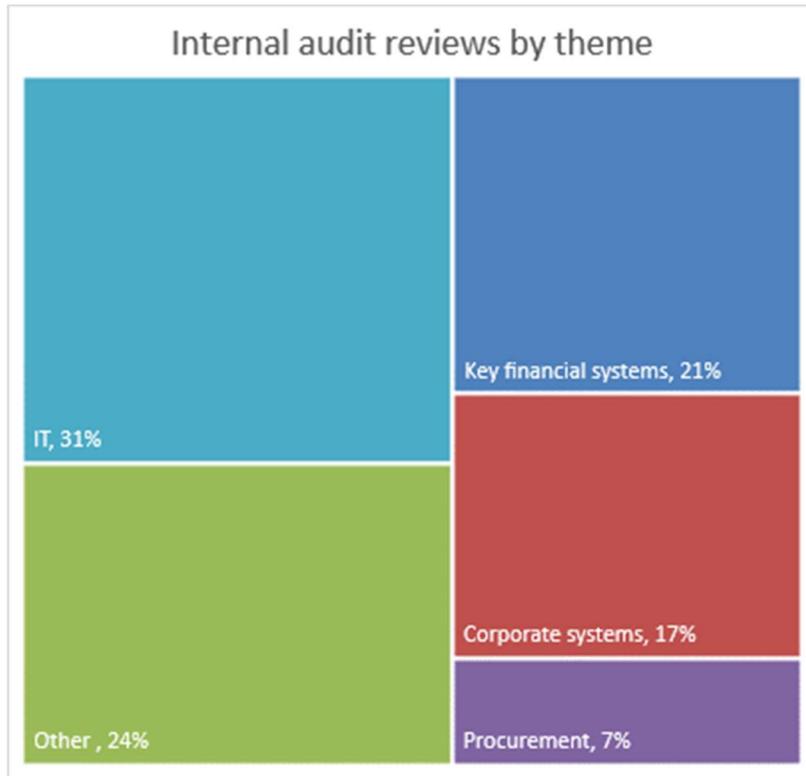
In my opinion I can give limited assurance over the framework of governance, risk management and management control based on the audit work undertaken during the year.

Historically there has been very little assurance work completed in the collaborative area of IT and following our appointment from April 2019, a joint internal audit plan was agreed with Sussex Police to address this going forwards. The results of the IT related reviews conducted during the year are the primary reason for this limited assurance opinion as outlined in section 5 below, given that this is such a critical area of control.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the OPCC and Surrey Police activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control systems are operating effectively.

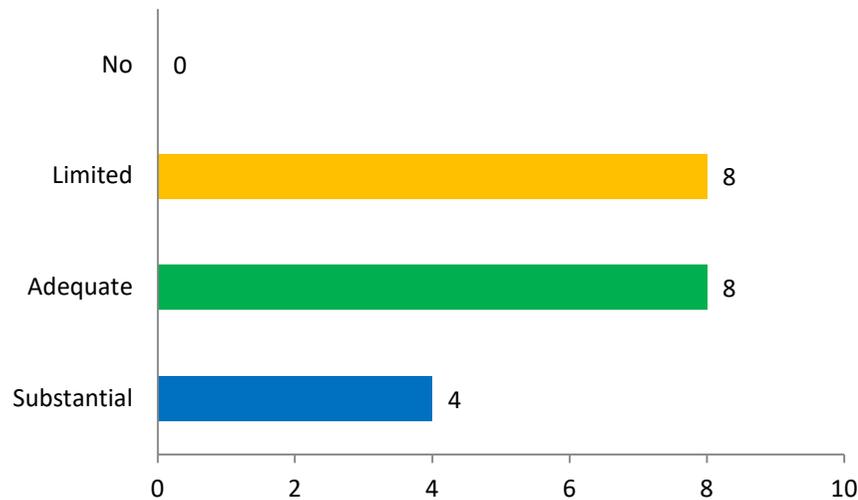
The 2019-20 internal audit plan was considered by the Joint Audit Committee in April 2019 prior to approval by the PCC and Chief Constable. It was informed by internal audit’s own assessment of risk and materiality in addition to consultation with the Chief Finance Officer for the PCC and the Executive Director of Finance and Commercial Services to ensure it aligned to key risks facing the organisations.

The plan has remained fluid throughout the year to maintain an effective focus. As a result, a number of changes were made to the plan that was approved in April 2019 to ensure that it continued to meet the needs of the PCC and Chief Constable during the year. These changes were agreed with the Chief Finance Officer for the PCC and the Executive Director of Finance and Commercial Services and reported in detail to the Joint Audit Committee in the internal audit progress reports which were reviewed at each meeting.

In delivering the internal audit opinion, the Southern Internal Audit Partnership have undertaken 29 reviews in the year ending 31 March 2020.

Although work is complete and an opinion has been formed for our reviews of pension arrangements, a final report has not yet been agreed with management. The outcomes of this review are, however, reflected in my internal audit opinion for 2019/20.

Of the 29 reviews undertaken in accordance with the revised 2019-20 internal audit plan, 4 have yet to be concluded, however, I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The assurance opinions assigned to each internal audit review on issue (including draft reports) are summarised and defined as follows. A table summarising the opinions assigned to each audit review is attached at Appendix A. Five reviews did not culminate in an audit opinion - these related to a post implementation review, proactive fraud review, advisory and follow up work.



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

Collaboration

Surrey Police have entered into a range of collaborative arrangements with Sussex Police and a joint internal audit plan was agreed with Sussex Police for 2019-20 to provide assurance over all areas of collaborated and shared services. The results of this work are reflected in my opinion.

5. Key observations – OPCC and Surrey Police reviews

There were some areas identified that provide challenge to the organisations' risk environment. Where our work identified risks that we considered fell outside the parameters acceptable to the PCC and Chief Constable, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. The implementation of these actions has been tracked by the Joint Audit Committee throughout the year through their review of the quarterly internal audit progress reports and reports from management which provide an update on any overdue actions.

Prior to commencement of our work with Surrey Police in April 2019, we raised concerns regarding the historic level of assurance work completed in the collaborative area of IT. As a result, during 2018-19 a full IT needs assessment was commissioned by Sussex Police and shared with Surrey Police to inform future internal audit plans. The 2019-20 joint internal audit plan with Sussex Police included the first full year of delivery against this assessment, resulting in a significant increase in audit activity in this area.

Despite full support from senior managers, due to changes in key personnel and pressures within the team, we experienced significant delays in completing the work in this area, and at the time of writing this annual report four reviews were still in progress (cyber security; disaster recovery and business continuity; application management; commercial unit). All four of the IT related reviews that were completed resulted in a limited assurance opinion. In my opinion this is reflective of a combination of pressures within the team, staff turnover and the very limited audit scrutiny in recent years, leading to control and compliance issues. This in turn increases the risk in this critical area which underpins all business systems and processes.

Limited assurance was also provided in four other areas during the year as outlined in Appendix A, however I do not consider the issues raised in these reviews to be significant in the context of the overall governance, risk management and control system.

Although the PCC and Chief Constable continue to work on a Tri-Force endeavour with Sussex and Thames Valley Police and Police and Crime Commissioners to develop the Equip programme, the project continues to experience significant delays. Equip is a large and complex undertaking, working with KPMG and Microsoft to develop solutions and at the time of writing continues to experience a cost over-run primarily due to the delay in implementation.

Following the appointment of a new SRO during the year, the respective roles and expectations of the in-house team and the supplier have been reviewed and a further review of the delivery plan and timescales for implementation is under way. Regular reports on the progress and issues experienced by the project are presented to the Joint Audit Committee. The PCC and Chief Constable made arrangements with specialist advisers to provide assurance over the governance and project management arrangements for this programme and as a result this has not featured heavily in the internal audit plan to date.

Once the programme moves towards implementation, however, it will feature heavily in the shared internal audit plan with Sussex Police to provide ongoing assurance that the controls in place, following the system and process changes, are adequate.

6. Anti- Fraud and Corruption

The OPCC and Surrey Police are committed to the highest possible standards of openness, probity and accountability and recognise that the public need to have confidence in those responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence and damage reputation and image.

Policies and strategies are in place setting out the approach and commitment to the prevention and detection of fraud or corruption. This includes well established mechanisms for staff to make confidential reports of any concerns.

Responsibility for the Anti-Fraud and Corruption policy and procedures rests with the Head of the Professional Standards Department who oversees the Anti-Corruption Unit and Joint Force Vetting Unit. However, we are notified of any issues through the Chief Financial Officers to ensure that the impact on the control framework can be assessed as appropriate.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies are required to submit data to the National Fraud Initiative on a regular basis (every two years). The latest NFI data upload was carried out in October 2018.

Potential matches were reviewed by Surrey Police throughout 2019/20 with no significant issues arising from this work to date.

No significant issues relating to fraud or corruption have been brought to my attention during 2019/20 that would impact on the system of governance, risk management or control.

In addition, a proactive fraud review of procurement cards did not identify any concerns over fraudulent activity.

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against 'the Standards' and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self-assessments have been completed by the Head of SIAP since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the OPCC and Surrey Police and maintains consistently high standards. In addition to the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with the External Auditors to ensure development of a cooperative assurance approach.
- An audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional, qualified senior staff members.
- Self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	100%	86%
Positive customer survey response *			
<ul style="list-style-type: none"> • Surrey Police 	90%	98%	100%
<ul style="list-style-type: none"> • SIAP – all Partners 	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

*19/20 actuals are based on the March 2020 questionnaire.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the OPCC and Surrey Police with whom we have made contact in the year. Our relationship has been generally positive and management were responsive to the comments we made both informally and through our formal reporting.

Karen Shaw
Deputy Head of Southern Internal Audit Partnership
July 2020

Appendix A

Summary of assurance opinions provided during 2019-20

Assurance opinion (definitions are outlined on page 8)		
Substantial assurance	Adequate assurance	Limited Assurance
Covert accounts Complaints management (OPCC) Procurement cards / corporate credit card – procedures (joint review – note 1)) Payroll	Complaints management (Force) Project and programme management (joint) Force strategic financial planning and budgeting (joint) Main accounting Accounts receivable Accounts payable Joint Force Vetting Unit (joint) Benefits realisation from investment (joint)	Victims Code Crime recording data quality Fleet management (joint) IT resource management (joint) Data centre facilities and management (joint) Data storage and data back-up (joint) Capacity and performance monitoring (joint) Pension administration arrangements (joint) (draft)

Note 1. Joint review refers to systems shared by Sussex and Surrey Police

In addition, follow up work was completed to assess progress made in addressing the issues arising from a review of IT strategy and direction in 2018/19. We found that progress had been generally effective with five of the nine actions implemented and three partially.

