

7 June 2019

INTERNAL AUDIT ANNUAL OPINION AND OUTTURN REPORT 2018/19

1 PURPOSE OF THE REPORT

- 1.1 To set out Internal Audit's Annual Opinion on the internal control environment and Outturn Report for 2018/19.

2 BACKGROUND

- 2.1 This report represents the Internal Audit Annual Opinion and Outturn Report 2018/19 for the Police and Crime Commissioner for Humberside and the Chief Constable of Humberside Police, based on the the service provided by West Yorkshire OPCC staff under a s22 agreement with the Police and Crime Commissioner for West Yorkshire.
- 2.2 The Accounts and Audit (England) Regulations 2015 require that the Commissioner and Chief Constable maintain an adequate and effective internal audit. The Financial Regulations require that the Treasurer of the Commissioner and Chief Financial Officer of the 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 The Internal Audit services are provided in compliance with the Public Sector Internal Audit Standards (PSIAS) which define internal auditing 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.
- 2.6 As previously reported the Internal Audit function was subject to an External Quality Assessment (EQA) in August 2017 that provided confirmation and assurance that the audit strategy and planning processes adopted conforms to the International Standards for the Professional Practice of Internal Auditing (IPPF).
- 2.4 This report also provides commentary and assurances on the internal control environment 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 2018/19. Of 13 audited areas (11 audit opinions), seven audits were rated as providing reasonable assurance and four audits were assessed as providing limited or inadequate assurance, namely volume crime & vulnerability, stop & search, patch management and the payroll & finance review.

2.6 Overall Internal Audit considers that on the basis of the audit work undertaken and subject to the caveats detailed below (Appendix A), that this equates to an overall opinion of REASONABLE Assurance, demonstrating a positive direction of travel and reflects the audit opinions provided in several operational areas of business.

3 OPTIONS/RISK AND OPPORTUNITIES

3.1 If the Internal Audit function does not provide efficient and effective risk based audit service the PCC and Chief Constable will be unable to obtain an appropriate level of assurance regarding the system of internal control operating within the organisation.

4 POLICING PLAN AND PERFORMANCE

4.1 Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

5 IMPACTS ON OR LINKS TO COLLABORATION

5.1 The Internal Audit function is provided to the Humberside Police & Crime Commissioner and Chief Constable by West Yorkshire OPCC internal audit staff under s22 agreement with the Police and Crime Commissioner for West Yorkshire. The WYIA function is working on a collaborative and liaising where necessary with the SYP auditors regarding collaboration work streams.

6 FINANCIAL IMPLICATIONS

6.1 This report illustrates how Internal Audit resources have been directed during the 2018/19 financial year. Due to additional financial and payroll review work 275 audit days were discharged against a proposed annual audit programme of 250 days.

7 LEGAL IMPLICATIONS

7.1 The Police and Crime Commissioner and Chief Constable are required to ensure that appropriate Internal Audit arrangements are in place.

8 EQUALITY AND DIVERSITY IMPLICATIONS

8.1 There are none in the context of this report.

9 CONCLUSIONS

- 9.1 This report provides commentary that Internal Audit's Annual Opinion on the internal control environment for 2018/19 has been assessed, subject to the provisos detailed, as providing reasonable assurance.

10 RECOMMENDATIONS

- 10.1 It is recommended that Members note the contents of the report and discuss any issues arising.

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Background Papers:

Appendix A – Internal Control Assessment

Appendix A: 2018/19 Internal Control Assessment

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:

1. A categorisation of individual audit opinions;
2. Specific findings relating to the main financial systems;
3. An analysis of the significant areas of concern relating to other key systems;
4. Findings relating to investigative/ irregularity work undertaken during the year;
5. Implementation of previous recommendations in areas of significant weakness;
6. Examples of added value; and
7. Summary of performance indicators.

1 Summary of Audit Opinions 2018/19

Audit	1	2	3	4	
	Substantial Assurance	Reasonable Assurance	Limited Assurance	Inadequate Assurance	No Opinion
<i>Circulation of Suspects on PNC (OPCC)</i>		●			
Volume Crime & Vulnerability			●		
Data Quality					● ¹
HMICFRS Action Plans					● ³
Patch Management			●		
Stop & Search			●		
Domestic Abuse		●			
OPCC: Commissioning		●			
PSD Complaints Referrals		●			
Payroll & Finance Review				●	
Financial Systems Assurance Work		● ²			
Follow Up Exercises <i>-Missing Persons</i>		●			
Follow Up Exercises <i>-Workforce Planning</i>		●			

- - Assessment made in the audit report
- - Assessment for the purpose of this report.

(●¹ Collation of previously reported audit findings, ●² Assurance on positive direction of travel & ●³ Advice provided)

1.1 All audits are given a score of between one (highest level of assurance) and four (inadequate assurance) dependent on the level of risks identified. Equating the four levels of audit assessment of internal control for each audit to a numerical scale, a score of 2.45 is achieved.

Previous Internal Control Scores

Year	2018/19	2017/18	2016/17	2015/16
Internal Control Score	2.45	2.6	2.36	2.36

1.2 For the purposes of the annual report this equates to an overall opinion of REASONABLE Assurance, demonstrating a positive direction of travel and reflects the audit opinions provided in several operational areas of business. There are however a couple of significant caveats in relation to the opinion:

- **Financial Systems:** Recent positive assurance about the direction of travel in relation to the implementation of key financial system controls needs to be realised and become embedded.
- **IS:** Concerns over the degree of oversight HP has as regards the shared IS service with SYP, particularly in relation to the governance arrangements.

2 Main Financial Systems

2.1 Previous coverage of financial systems work in 2016/17 & 2017/18 in relation to the implementation of financial systems through the shared ERP platform highlighted significant and recurring issues in HP in relation to the lack of underpinning governance and control. A Payroll & Finance Review during the year indicated that limited progress had been made in addressing the previously identified concerns and as a consequence audit work focused on recent and ongoing Financial Systems assurance work, rather than detailed transactional testing.

3 Areas of Concern

3.1 The main areas of concerns are reflected in the caveats to the overall audit opinion on the Internal Control environment listed above, namely:

- **Financial Systems:** Significant issues were highlighted in the payroll & finance review which were recurring themes and indicative of a fundamental lack of governance and control, particularly within the payroll function. Recent positive assurance about the direction of travel in relation to the implementation of key financial system controls needs to be realised and become embedded. Ongoing audit work is planned in 2019/20 to assess the progress made.

- **IS:** There are concerns regarding the HP oversight of the underpinning internal control, assurance and governance issues associated with the shared IS service with SYP. These will form part of an IS audit plan based on the IT audit universe from 2019/20 onwards.
- 3.2 In addition **data quality** remains an overarching issue, broadly categorised as falling into the widely accepted data quality characteristics of completeness, consistency, accuracy, validity and timeliness. A range of factors such as human error, poor compliance with processes & procedures, inadequate processes & procedures, and data being housed across a multitude of operational systems & applications.

4 Investigations/ Irregularity Work

- 4.1 During the course of the year Internal Audit has had no involvement in investigative or irregularity work. Should the need have arisen during 2018/19 the Audit Plan would have been adjusted accordingly or alternatively additional audit days agreed.

5 Follow Up Work

- 5.1 Internal Audit has undertaken two significant and specific audit follow-up exercises in relation to Workforce Planning (Direction of Travel commentary) and Missing Persons (20 recommendations). Both provided reasonable assurance and demonstrated progress and a positive direction of travel in relation to the mitigation of the reported risks.

6 Added Value

- 6.1 During the year Internal Audit continued to provide a significant support and liaison function, particularly to the new Chief Officer Team. Internal Audit has by necessity adapted their audit approach throughout the audit cycle to provide increased ongoing ad-hoc advice and proactive contributions as HP endeavours to mitigate many of the current risks associated with the payroll and finance systems and the collaborative working arrangements with SYP, particularly in relation to the shared IS service.
- 6.2 Internal Audit have maintained a visible audit presence and have visited sites throughout Humberside: including Priory Road, Courtland Road, Clough Road, Pearson Park, Melton and Hessle. Audit presence and activity has also been required in SYP locations, including Carbrook House, Robert Dyson House and Nunnery Square.
- 6.3 During 2018/19 IA became part of the HMICFRS Integrated PEEL Assessment & Governance Board oversight processes in HP. This further enhances engagement by Internal Audit across key areas of organisational risk.

7 Performance Measurements

- 7.1 Internal Audit prepares various Performance Indicators to enable ongoing monitoring and to allow comparisons to be made. A year end summary of performance against these is provided below:

Summary of Performance Indicators 2018/19

Output Indicators	2016/17	2017/18	2018/19
<i>Audit Days Charged</i>	250	250	275
<i>Number of Reports</i>	11	12	13
Timeliness Indicators			
<i>% of Final Reports issued within 5 working days of Draft discussion</i>	100%	100%	100%
<i>% of Audits finished within timescale indicated in Audit Brief</i>	43%	30%	40%
Quality Indicators			
<i>Recommendations (Fundamental/ Significant) where Management Action does NOT fully address risk</i>	0%	0%	0%
<i>Client Surveys - % Excellent / Good</i>	96%	95%	90%
<i>Client Surveys - % below Fair</i>	0%	0%	0%

- 7.2 In total all 275 audit days were delivered against an original audit plan of 250 days. This in part reflected the additional Payroll & Finance Review work undertaken at the request of the Chief Officer Team.
- 7.3 The timeliness of issuing the final report shortly after the final discussion remains at 100%, whilst the proportion of audits finished within the timescale indicated in the audit brief has continued to remain low. The timeliness of audit completion is being addressed but it has in part been impacted by the inherent issues associated with resilience and staff turnover identified as reported previously
- 7.4 No recommendations of a fundamental or significant nature were made and not adequately responded to. In accordance with the requirements of the PSIAS, it can therefore be confirmed by the Head of Internal Audit that in their professional opinion there has been no decision made by management to tolerate an unacceptable level of risk to the organisation.
- 7.5 The survey results continue to indicate a high level of satisfaction with the work that we undertake, from those involved in the audit. In addition IA sought feedback in relation to the integrity, professionalism and value added by their service, which provided a positive response, albeit on a very limited response rate.