

**INTERNAL AUDIT STRATEGY 2019/20**

**1 PURPOSE OF THE REPORT**

- 1.1 To set out the Internal Audit Strategy for the consideration of the Audit Committee.

**2 BACKGROUND**

- 2.1 The Internal Audit Strategy sets out the methodology used by Internal Audit to determine the Internal Audit Plan.
- 2.2 Internal Audit's annual plan provides the Humberside Police and Crime Commissioner and Chief Constable with an independent opinion and appropriate assurances on the internal control environment.
- 2.3 The Audit Strategy and Audit Plan defines the strategic approach and establishes audit coverage for 2019/20, providing a detailed plan split into two six month periods. The plan also provides for an audit contingency which allows for flexibility and a mid-year review of the audit plan will take place to ensure any emergent risk can be considered.

**3 OPTIONS, RISKS AND OPPORTUNITIES**

- 3.1 If the Internal Audit function does not provide an efficient and effective risk based audit service the Police and Crime Commissioner and Force will be unable to obtain an appropriate level of assurance regarding the system of internal control operating within both organisations.

**4 POLICING PLAN AND PERFORMANCE**

- 4.1 Internal audit is an assurance function that provides an independent and objective opinion 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 on a collaborative basis to Humberside and West Yorkshire Police and Crime Commissioners and Chief Constables, by the West Yorkshire Office of the Police and Crime Commissioner staff.

**6 FINANCIAL IMPLICATIONS**

- 6.1 The basic cost of the Internal Audit function will be included in the budget for the Police and Crime Commissioner.

**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 AND HUMAN RIGHTS**

- 8.1 There are none in the context of this report.

**9 CONCLUSION**

- 9.1 This report summarises the methodology used by Internal Audit to determine the Internal Audit Plan.

**10 RECOMMENDATIONS**

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

Contact Officers:

Neil Rickwood, Head of Audit

Tel: 01924 294069

Background Papers: Appendix A – Internal Audit Strategy

**Appendix A**

**INTERNAL AUDIT STRATEGY (2019/20)**

**1. STRATEGY STATEMENT**

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

The planning process is risk based, meaning that it is based on the risk assessments of the Chief Constable and the PCC. This includes the risk registers and also areas of concern identified during previous audits, and discussions with the Office of the Police and Crime Commissioner (OPCC) and the Force.

The Internal Audit function was subject to an External Quality Assessment (EQA) in August 2017 in compliance with the requirements of the Public Sector Internal Audit Standards. This assessment 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. OUTPUTS OF STRATEGY**

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

- ▶ Internal Audit will support the PCC and the Chief Constable by providing them, the Chief Finance Officers and the Joint Independent Audit Committee with reports and any significant findings in relation to the adequacy and effectiveness of the internal control environment.
- ▶ Internal Audit contributes 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. This will include co-operation in relation to any audit and inspection requirements agreed as part of regionalised work programmes.
- ▶ 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 2015 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 (CIPFA), 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 replace the CIPFA Code of Practice for Internal Audit.

The Standards provide 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 PCCs and Chief Constables have a shared internal audit service to cover both bodies, and that the Accounts and Audit Regulations 2015 place a responsibility on both the PCC 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 PCC 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 Force, including direct access to the Chief Constable and PCC.

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 risk.

The table below shows an estimated allocation of days for Humberside Police and the Office of the Police and Crime Commissioner (OPCC), by the type of audit.

A substantial proportion of the audit plan (50%) continues to be risk based, with the remainder of the resource devoted to the other categories of audit detailed below.

Audit Days 2019/20	Description
<b>250</b>	<b>Total Days</b>
25	Provision of advice, audit planning, committee reporting, progress meetings, external audit liaison, internal control evaluation and annual opinion drafting.
<b>225</b>	<b>Audit Days</b>
50%	Risk
18%	Financial Systems
12%	Assurance/ Support
5%	Follow Up
15%	Governance

(approximate percentages based on audit days assigned (excluding contingency))

### Comprehensive Coverage

Below are listed 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 OPCC and Chief Constable;
- ▶ The need for the PCC and Chief Constable to have assurance over their own organisation; and
- ▶ The need for the PCC to have overarching assurance over the Force.

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 the Force 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.

Planning is based on multiple activities, including:

- ▶ Strategic Risk Registers
- ▶ Audit experience & professional judgement
- ▶ Consultation with key stakeholders
- ▶ Any previous investigations or irregularities
- ▶ Significant local and national issues
- ▶ Other external reviews (eg through the force HMICFRS PEEL Assessment Boards & HMICFRS Governance Board).

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

Internal Audit will undertake the following types of work:

- ▶ Risk Audit - the Internal Audit plan needs to be aligned to the Organisations' understanding of risk;
- ▶ Financial Systems Audit – key financial systems which are looked at each year;
- ▶ Follow Up Audit – previously agreed Internal Audit recommendations;
- ▶ Governance Audit – the decision making approach, arrangements for accountability and risk management;
- ▶ Assurance/ Support Audit – to assess compliance against a number of key controls or mandated standards and provide support/advice on the design and implementation of new systems; and
- ▶ Irregularity - the investigation of any instances of suspected loss, theft etc.

### **Risk Audit**

Public Sector Internal Audit Standards require that the internal audit function be risk based. The need to manage risks is recognised as a core part of corporate governance and organisational activities/ actions to manage and mitigate these risks is essential in maintaining an effective internal control environment.

Where possible internal audit should rely on the organisation's assessment of risk, if deemed to be sufficiently reliable.

Internal audit identify risk audits from a number of sources:

- ▶ Risks appearing in the Risk Registers, which by default are those rated most highly, on the basis that management action is required.
- ▶ Emergent/ escalating risks that may not yet feature on organisational risk registers which are based on management concerns and audit experience.
- ▶ Risks that are regarded as controlled and not requiring further management action. Internal Audit can provide assurance to the PCC and Chief Constable that mitigating controls are effective, operating as prescribed and that they continue to be well managed.

### **Financial Systems Audit**

Unless there is a change in the risk factors, such as the introduction of a new system, staff turnover or previous irregularities, the main financial systems of the Force will typically be considered to be operating effectively and therefore not requiring any special attention from management. However, these systems underpin the financial management of the Force, allowing it to be operationally effective. They are therefore given prominence in internal audit coverage and under normal circumstances are covered through systems audits on a rotational basis and an annual regime of transactional testing.

Coverage of the main financial systems may also allow External Audit to place reliance on those systems and thereby expedite the External Audit of the Chief Constable and PCCs Financial Statements.

Given the introduction of new systems as part of the work on the shared ERP platform, the audit strategy and plans for 2017/18 and 2018/19 covered a number of reviews of the main financial systems, including implementation reviews and full system reviews. The audit cycle for 2019/20 reflects this and includes work to evaluate the effectiveness of the governance arrangements in support of the operation of key financial systems, alongside transactional testing of the these systems.

### **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 is based on following up recommendations classed as significant or fundamental.

### **Governance Audit**

In order to form an opinion on the internal control environment, internal audit need to consider aspects of governance and risk management processes of the Chief Constable and PCC. The way that an organisation is controlled and directed is a particularly important aspect of the health of an organisation, contributing towards the organisation's culture and treatment of risk. Internal audit therefore reserve some time to look at these important matters.

### **Assurance/ Support Audit**

Internal Audit will also undertake reviews acting as a critical friend, to ensure compliance against a number of key controls or mandated standards. The purpose of such reviews is to provide assurance that risk mitigating actions are operating as prescribed. These audits also include the provision of support/ advice regarding the evaluation of projects, benchmarking services and the design and implementation of new systems. This will include the provision

of assurances regarding the joint work being undertaken between Humberside and South Yorkshire police forces and OPCC's.

### **Irregularity**

Irregularity work relates to the investigation of any instances of suspected irregularities, loss, theft etc. 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 two CFOs 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 to report whether recommendations the Chief Constable and PCC considers it has discharged have in fact been implemented
- ▶ Irregularity/ Investigation Reports
- ▶ Progress reports submitted to the Audit Committee
- ▶ An Internal Audit Annual Report
- ▶ Reports, where applicable, to the HMICFRS Board

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. 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.

Management can determine their own risk treatment based on the risks reported in audit reports. However it is a requirement under the PSIAS that the Head of Audit, as the Chief Audit Executive (CAE), will report by exception where they consider, that, in their professional opinion management have made the decision to tolerate an unacceptable level of risk to the organisation.

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	Assurance Level	Description
1	<b>Substantial Assurance</b>	Substantial assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Management action may still be required in a small number of areas where the exposure to residual risk is of low impact in nature.
2	<b>Reasonable Assurance</b>	Reasonable assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Limited management action may be required to address a small number of significant issues.
3	<b>Limited Assurance</b>	Limited assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Significant management action is required to address some important weaknesses.
4	<b>Inadequate Assurance</b>	Inadequate assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Significant weaknesses have been identified which 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.

Finalised reports are made available to Joint Independent Audit Committee members and are summarised for each meeting.

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 Standards requires that the internal audit function do have a performance management and quality assurance framework in place.

Mechanisms in place include:

- ▶ A set of timeliness, quality and output measures to gauge performance (these are subject to regular benchmarking and review);
- ▶ 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;
- ▶ Annual Stakeholder Survey implemented to assess perception regarding the integrity, professionalism and added value of the audit function;
- ▶ Quality Assurance and Improvement in placed based on self- assessment against the Public Sector Internal Audit Standards.

## **8. RESOURCES & SKILLS**

The Internal Audit section comprises of 8 posts, consisting of a Head of Audit, one Audit Manager 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 within the section. All staff 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 to continuously update 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
- ▶ Share any best practice identified, where relevant, across the client base
- ▶ Strive to be both constructive and helpful during the course of an audit assignment.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED