



# PCC

Office of the Police and  
Crime Commissioner  
Devon and Cornwall



**Devon & Cornwall Police**  
Building safer communities together

# Internal Audit Annual Report 2014-15

The definition of the professional practice of internal auditing is set out below. The internal audit service provided to the Force and OPCC embodies all the key principles contained within this definition and this report aims to demonstrate strict adherence to these principles.

## **The definition 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.”

*Chartered Institute of Internal Auditors  
Public Sector Internal Audit Standards CIPFA/IIA*

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### Appendix A (FOI Closed s33 Audit Functions)

- i) Record of assurance provided (inc. summary opinions) against plan
- ii) Record of consultancy provided against plan
- iii) Follow up of high priority recommendations (inc. revised opinions)

### Appendix B: Current Annual Internal Audit Plan 15/16 (FOI closed s33 Audit Functions)

### Appendix C: Internal Audit Charter

## 1. Introduction

- 1.1. The Head of Internal Audit is required to provide an annual report on its activities and an opinion on the overall adequacy and effectiveness of the controls in place to mitigate significant business risks. The work of internal audit, culminating in an annual opinion, forms a part of the Force and OPCC's overall assurance framework. This framework generates two annual assurance statements from both the OPCC and the Force which in turn, support for the first time a single annual governance statement for both organisations. Because there is a single internal audit service working to a joint internal audit plan and reporting to a Joint Audit Committee and Management Board, it follows that a joint report is the most appropriate means of communicating the single annual opinion on the effectiveness of the internal control environment both within the OPCC and Force.
- 1.2. The evaluation of the adequacy of the control infrastructure, assessed from a combination of risk based and key control audits, as well as consultancy assignments carried out during the year, informs that opinion. In practice, audit advice is provided in real time as issues arise, and opportunities to improve operations present themselves. Therefore audit activity is designed to be dynamic and responsive to emergent risk. Limited audit resource cannot provide assurance over all risk exposure in a large and complex organisation. However, the planning of audit work is designed to adjust rapidly to the changing risk landscape and to complement other sources of assurance. Quarterly meetings with the Treasurer and Director of Finance & Resources (s151 Officers) ensure that the audit plan is still relevant and aligned to corporate risks. Audit plan flexibility is regarded as best practice within the profession. Where significant changes are made to the plan, the Joint Audit Committee is kept informed.
- 1.3. During the year, the implications of the proposed strategic alliance (SA) with Dorset Police have begun to emerge as the project gathers pace and the first batches of business cases are prepared and presented for approval by the Alliance Executive Board. Although a detailed business case for a combined internal audit service will not materialise until later in 2015, the risks associated with the alliance have necessitated preparatory discussions with both outsourced providers, Devon Audit Partnership (DAP) and South West Audit Partnership (SWAP). In particular, we have identified the need for an assurance programme aligned to the risks associated specifically with the SA. In addition, with the section 22 agreement now formally signed, Internal Audit have helped to facilitate the due diligence exercise undertaken by SWAP which will inform decision making in respect of each of the proposed business cases. This support work was unplanned at the beginning of the year but has been accommodated within the work programme.
- 1.4. The report summarises all of the work delivered by internal audit (see Appendix A). It gives an insight on background activity and provides where appropriate an assurance opinion on the adequacy and effectiveness of the controls in place for each area of risk or control subject to audit scrutiny.

## **2. Annual Internal Audit Opinion 2014/15**

- 2.1. Both the OPCC and Force work to the same risk management methodology.
- 2.2. The OPCC has not yet reached the same level of risk maturity as the Force; however, work continues to align the activities of the OPCC teams to the revised joint risk register.
- 2.3. The depth, quality and level of top down engagement with risk management, especially but not exclusively in the Force, continue to improve. Assurance statements from senior managers and COG members providing an update against each of the high level uncertainties is considered a major step forward. These statements are considered by the Joint Management Board quarterly and once approved, are presented to the Joint Audit Committee for their information and comment.
- 2.4. Early in the year, internal audit obtained agreement to commission an independent assessment of risk maturity in the Force and OPCC and was instrumental in developing the terms of reference for this review based on the guiding principles of the international risk management standard ISO31000. It is regrettable that the review was postponed and therefore the results of the assessment will not be available to inform this annual opinion.

### **Opinion Statement**

- 2.5. Based on the assurance work undertaken within the OPCC in 2014/15 I am able to give reasonable assurance that the control environment is effective. The progress made jointly between the OPCC and the Force on risk management has improved during the year.
- 2.6. The management team at the OPCC have implemented a revised risk management strategy to align with the objectives set out in the Commissioner's Police and Crime Plan. Evidence from assurance statements indicate that risk management has improved but is not yet fully embedded in day to day management activity.
- 2.7. The Joint Audit Committee has continued to strengthen its effectiveness through its scrutiny of governance arrangements within the OPCC during the year.
- 2.8. The impact of severe budget reductions and the resultant loss of police staff has in my opinion increased the likelihood that the control environment will be weakened.
- 2.9. Development of an integrated assurance framework has not advanced significantly during the year. This will be a key component in the governance toolkit enabling both Corporations Sole to jointly manage assurance efficiently and effectively over the delivery of the Strategic Policing Requirement and Police & Crime Plan. The Joint Management Board and the Joint Audit Committee are now, in my opinion, better equipped to oversee the management of strategic risk at a corporate and portfolio level.

### **3. Audit Resources**

- 3.1. The delivery of the 2014/15 internal audit plan has been achieved by a closer collaboration between the in-house resource and Devon Audit Partnership resulting in a higher percentage of planned work delivered. At year end the original plan is approximately  $\frac{3}{4}$  complete. The remaining  $\frac{1}{4}$  represent audits re-scheduled to 15/16 following management discussion. Please see the detail provided at Appendix A.
- 3.2. The relationship with Devon Audit Partnership (DAP), where the OPCC joined the partnership as co-opted members, has worked well. Shortfalls in audit resources reported in my last annual report were addressed and all resources required were made available.
- 3.3. Follow-up arrangements for recommendations made by internal audit have been strengthened. The 'actions module' in Covalent is being used to track progress of agreed recommendations with overdue actions escalated through formal monitoring reports to senior management teams and to the JAC (see appendix A part iii).

### **4. Governance Support Activities**

- 4.1. In addition to the original audit plan, internal audit were also tasked with a number of deliverables including:
  - Technical support (development and further integration of the OPCC and Force's risk management system) enhancing the joint risk register
  - Providing consultancy to the joint risk review group (see 6 below)
  - Facilitating the preparation of the OPCC annual assurance statement
  - Providing professional advice and support to the development of an integrated assurance framework
  - Continuing development of the Covalent system. Specifically, supporting the OPCC Office Manager to implement the new Feedback module to handle correspondence; and, the ongoing development of the Audit Module.
  - Victims Services Grant monitoring spreadsheets.
  - Advice on OPCC Information Asset Register structure and format.

## 5. Compliance with the UK Public Sector Internal Audit Standards

- 5.1. The Relevant Internal Audit Standard Setters<sup>1</sup> adopted a common set of standards from April 2013: the Public Sector Internal Audit Standards (PSIAS). The PSIAS are made up of the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
  - Code of Ethics, and
  - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)
- 5.2. The PSIAS include additional interpretations and requirements relevant to the public sector, and apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.
- 5.3. As part of our commitment to the Standards we have built in conformance to the Standards through the Internal Audit Charter and associated internal processes. We plan to undertake a formal internal quality assessment as part of the work toward the SA; however, internal monitoring undertaken to date does not suggest any concerns. A copy of the approved Charter is provided as appendix C.
- 5.4. We are required to undertake an external quality assurance and improvement programme at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. An assessment is planned for 2017/18; however, this is subject to any decisions made with regard to a new joint internal audit service through the SA.

## 6. Risk Management

- 6.1. Internal Audit provides an advisory role to help Management improve governance, risk management and internal control arrangements. The development of a joint risk management framework enabled closer alignment of the corporate risk management structures in the OPCC and Force.
- 6.2. Early in the year, internal audit obtained agreement to commission an independent assessment of risk maturity in the Force and OPCC and was instrumental in developing the terms of reference for this review based on the guiding principles of the international risk management standard ISO31000. It is regrettable that the review was postponed and therefore the results of the assessment will not be available to inform this annual opinion. However, internal audit plans to undertake its own review of risk maturity during 2015/16.

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<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

## **7. The Role of Internal Audit in Assurance**

- 7.1. The responsibility for maintaining risk management, control and governance systems rests with senior management of both the OPCC & Force who, together with the policies, strategies and procedures and other internal control, provide the first and second lines of defence in the assurance framework. The work of internal audit forms the third line of defence. Its purpose is to provide the OPCC & Force through the Joint Audit Committee with an independent and objective assessment of governance, risk management and control, and the effectiveness of each of these in achieving the organisation's agreed objectives.
- 7.2. Internal audit are influential in the development of assurance mapping which will help both the OPCC and Force to highlight imbalances in assurance derived from all sources. For 2014/15, the joint annual governance statement for the OPCC and Force is supported by consolidated assurance statements from senior managers which will help populate assurance ratings on key controls for the "first and second lines of defence" in a corporate assurance map.

## **8. Anti-Fraud & Corruption**

- 8.1. Internal audit maintains a high level of analytical capability and, by working with the Force, have adopted a more pro-active approach to the detection of potential fraud or error in its financial transactions. Internal audit supports both the Force and the OPCC in the investigation and reporting of potential fraud and error identified through the National Fraud Initiative (NFI) – see appendix A.
- 8.2. In addition, internal audit offered advice to colleagues in Force finance on the selection and implementation of dedicated accounts payable software. This provides almost real time assurance over transactions, and should correspondingly lower the volume of transactions identified for review through the NFI.
- 8.3. The payroll continuous assurance audit work at Devon & Cornwall has continued throughout the year. No indicators of fraud or irregularity were identified.
- 8.4. Through the West of England Chief Internal Auditor's group we have continued to work with other public sector bodies in the South West in the coordination of counter fraud activity. Through this forum, fraud alerts and advice are disseminated to members and shared with Management of the OPCC and Force.
- 8.5.** Following an audit in 2013, an extensive follow-up audit of seized monies was conducted across the Force area in May/June 2014. The review again identified some fundamental weaknesses in physical and especially system controls which continue to render the organisation vulnerable to fraud through the undetected misappropriation of cash seized. Close working with Professional Standards Department resulted in a number of improvements to processes but also it was necessary to pursue disciplinary proceedings against a small number of staff and officers where established controls had not been operated – see appendix A.

## **9. Audit Groups & Collaboration**

- 9.1. The Head of Internal Audit is a member of the West of England Chief Internal Audit Group see above.
- 9.2. Due to his retirement at the end of March 2015, the Head of Internal Audit resigned as Secretary to the national Police Audit Group (PAG). This is an influential professional support and networking group, which has a close working relationship with the Association of Policing & Crime Chief Executives (APACCE) and the Police and Crime Commissioners Treasurers' Society (PACCTS). The annual PAG conference is attended by internal auditors and contractors representing all police organisations in England, Wales and Northern Ireland. This year's event was held at the University of Warwick in June 2014. The 2015 event is already scheduled for July 2015.
- 9.3. An effective joint working protocol exists with the appointed external auditors Grant Thornton. Regular meetings between internal and external audit have continued to be held to ensure co-ordination of audit activities. We remain committed to maintaining this relationship.

## **10. Completion of the 2014/15 Internal Audit Plan**

- 10.1. 2014/15 was another very busy year for Internal Audit. The audit plan was again flexed to respond to changing priorities with some audit assignments being cancelled, postponed or replaced by emerging assurance and consultancy need. However, 75% of planned and emerging audit assignments were completed, with the remaining 25% being postponed until 2015/16.
- 10.2. Appendix A below reports the results of the work done during 2014/15. This is broken down into three parts i) assurance work, ii) consultancy work, and iii) follow up work, with an assurance indicator/opinion provided where applicable.
- 10.3. For completeness the current annual audit plan for 2015/16 is also attached at Appendix B, where work carried over into 15/16 can be seen in context.

## **11. Equality & Diversity**

- 11.1. Consideration of the OPCC and Force's commitment and responsibilities in relation to equality and diversity is considered implicitly in all audits and investigations as appropriate. Due regard is given to the equality duties, in line with the Equality Act 2010, i.e.:
  - To eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010;
  - To advance equality of opportunity between people from different groups;
  - To foster good relations between people from different groups.
- 11.2. The provision of internal audit services is fundamentally focused upon the organisation and its processes. The primary contact with individuals will be with employees of the either the Force or the OPCC, although occasional contact will also be made with contractors and other professionally interested parties. Therefore the service will also ensure that its own activities are diversity and equality compliant.

## 12. Summary & Conclusions

12.1. Management in both organisations demonstrate a high level of commitment to developing a joint approach to risk management systems and processes. We welcome the “open” approach adopted by the both the OPCC and Force which continues to enable the work of internal audit to be conducted effectively. Examples of control weaknesses need to be seen in the context of an organisation which faces considerable pressures, but continues overall to be well managed. We are committed to supporting both the OPCC and Force through the considerable challenges that lie ahead.

12.2. Finally we would like to use this report to thank the OPCC management team, the Force Chief Officer Group and their staff, for their continued willingness to engage positively in the audit process.

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