

Item 9 (A)

Annual Internal Audit Report & Opinion

2014 – 15

**Office of the Police & Crime Commissioner
for Hampshire & Hampshire Constabulary**

**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents

Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6-9
5. Organisational Change	10
6. Key Observations	10-11
7. Anti Fraud and Corruption	11-12
8. Quality Assurance and Improvement	12
9. Disclosure of Non-Conformance	13
10. Quality control	14
11. Internal Audit Performance	15
12. Acknowledgement	15
Appendices	
A Quality Assessment & Improvement Programme	16-18

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

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 organisations 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 Police and Crime Commissioner for Hampshire and the 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 Police and Crime Commissioner for Hampshire and the Chief Constable that these arrangements are in place and operating effectively.

The Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary’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 informing the annual opinion.

The approach to each review is determined by the Deputy Head of the Southern Internal Audit Partnership and will depend on the:

- 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 Office of the Police and Crime Commissioner for Hampshire and Hampshire



Constabulary on the framework of internal control, risk management and governance in operation and to stimulate improvement.

3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary 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 Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary's audit need that has been covered within the period

Audit Opinion

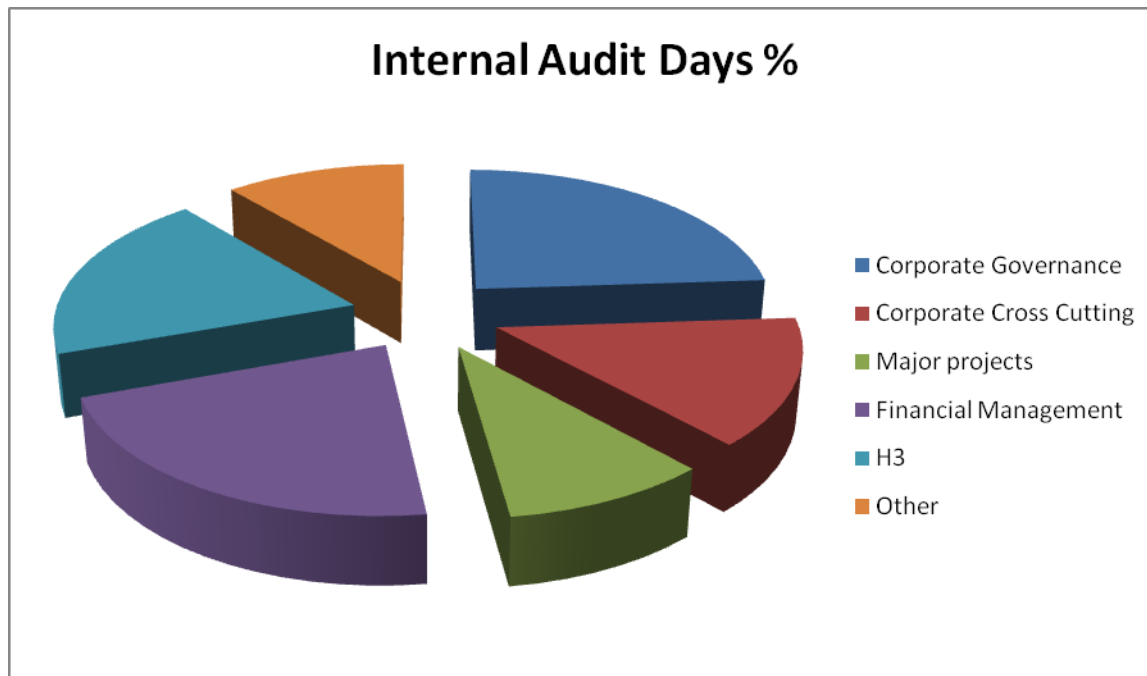
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary's internal control environment.

In my opinion, the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary's frameworks of governance, risk management and management control are adequate and audit testing has demonstrated controls to be working in practice.

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 Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary’s 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 2014-15 internal audit plan was considered by the Joint Audit Committee in March and June 2014 prior to approval by the Police and Crime Commissioner and Chief Constable. It was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisations.

The plan has remained fluid throughout the year to maintain an effective focus.

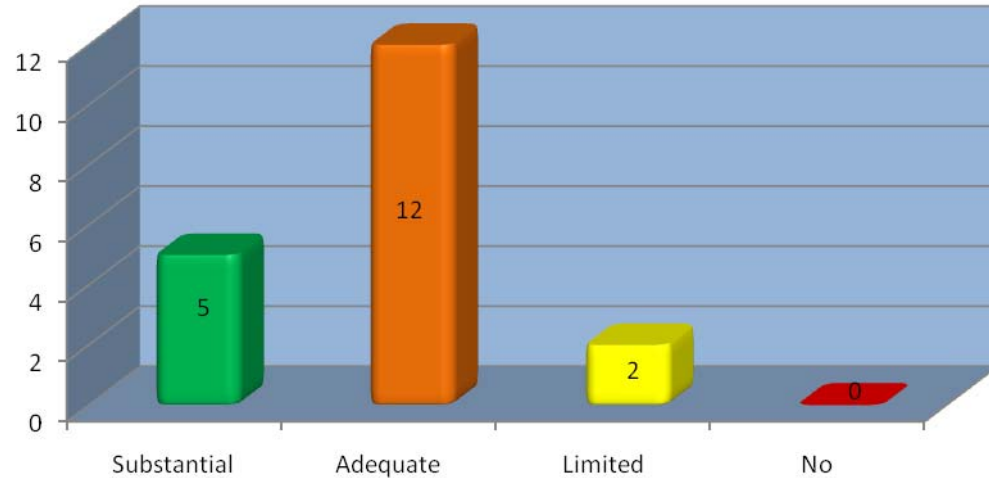
In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 26 reviews in the year ending 31 March 2015.

The revised 2014-15 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 7 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 5 reviews (estates strategy review, change programme, departmental responsibilities (local management of H3 responsibilities), H3 governance arrangements and H3 category management)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period.

The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial- A sound framework of internal control is in place and is 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 identified in the framework of internal control and/or compliance with the control framework which could place the achievement of system objectives at risk; or

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

*2reviewsdid not culminate in an audit opinion as one related to NFI data submissions and the other was advisory work in respect of H3 ICT access controls

In forming my internal audit opinion I have also taken into consideration the work undertaken by the internal auditors for Thames Valley Police on the collaborative arrangements for ICT. This is in accordance with the internal audit protocol approved by all collaborative partners to avoid duplication of coverage.

A summary of the reviews undertaken and the opinions given (based on their own internal audit opinion definitions) is as follows:

- ICT – disposal of equipment – majority assurance
- ICT – South East Police Shared Network Services Agreement (SEPSNA) Part 1 – majority assurance
- ICT SEPSNA Part 2 – majority assurance
- ICT mobile devices – majority assurance
- ICT leavers (majority assurance) and movers (limited assurance).

The definitions used by the internal auditors for Thames Valley Police are as follows:

Full	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.
Majority	There is a good system of internal control in place and the majority of risks are being effectively managed. Some action is required to improve controls.
Limited	There is a limited system of internal control in place and the majority of risks are not being effectively managed. Actions are required to improve controls.
No	The system of internal control is weak and risks are not being effectively managed. Significant action is required to improve controls.

5. Organisational Change

The Office of the Police and Crime Commissioner and Hampshire Constabulary changed to the Corporate Services operating model in November 2014, moving into a shared partnership between Hampshire Constabulary, OPCC, Hampshire Fire and Rescue and Hampshire County Council.

The new operating model incorporates a number of key systems centred on buying and paying for goods and services, finance, HR and employee self serve functionality. In response, internal audit have developed a programme of reviews covering all aspects of the new model to enable assurance over the new governance, risk and control environment.

To date our audits of the new operating model have primarily focused on the key financial systems. Internal Audit have been able to provide assurance that a strong control environment is in place across the areas of review. We will continue to focus audit resource on this new operating model over the forthcoming year(s) as reflected in the annual audit plan 2015-16.

6. Key observations

Internal audit provided limited assurance in two areas during 2014-15.

Our review of seized and found property found that although property was being held securely, there were issues with how property was being recorded at stations with no property store; how long items were held for; and how promptly cash was banked. We also identified inconsistencies in the way in which vehicle recovery agents are logging and treating property left in the vehicles. The Constabulary have set up a Gold Group to ensure that these issues are addressed in a robust and timely manner.

Our review of the Compliance Unit also resulted in a limited assurance opinion. Although we were able to obtain verbal assurances around the work of the Unit, there was no documentary evidence to support the overall risk assessment and planning processes that direct their work priorities so we were unable to form a view on whether the work undertaken had met the objectives. The actual work conducted, however was well documented.

The work undertaken by the internal auditors for Thames Valley Police also provided limited assurance over access to ICT systems where staff move role within the organisation. They found that systems administrators were not being notified to enable access permissions to be adjusted as appropriate. They also identified that the ICT desk was not being notified of all moves to enable servers and distribution lists to be reviewed; also, where they were notified directly by staff, they were not reviewing folder access to ensure it remained appropriate to the new role.

Where our work identified risks that we considered fell outside the parameters acceptable to the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

7. Anti Fraud and Corruption

The Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary have established Confidential Reporting and Whistleblowing policies respectively. No allegations of fraud, corruption or improper practice have been reported to us during the year for investigation. Given the nature of the business such issues are reported to the Constabulary's Professional Standards Department for assessment and investigation.

The Office of the Police and Crime Commissioner and Hampshire Constabulary continue to conform to the requirements of the National Fraud Initiative. The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an

error or an overpayment may have taken place, signalling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

In October 2014 internal audit facilitated the submission of relevant datasets for inclusion in the 2014/15 NFI exercise for both the Office of the Police and Crime Commissioner and Hampshire Constabulary. Feedback on potential matches was received in February 2015. Both the Office of the Police and Crime Commissioner and Hampshire Constabulary will need to review the identified 'recommended matches' for fraudulent activity during 2015/16.

8. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a new 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.

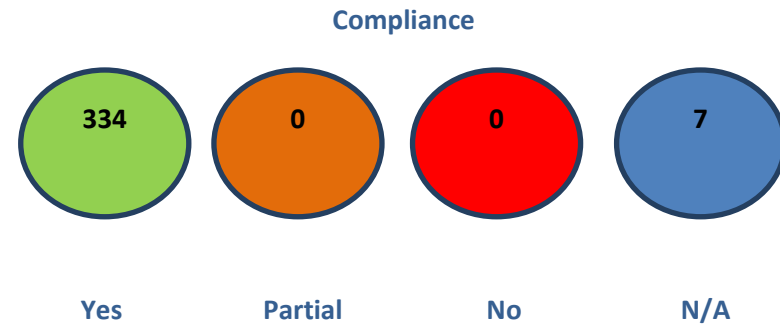
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

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.

The Standards stipulate that internal assessments should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015.



9. Disclosure of Non-Conformance

'In is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards'

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state that all instances of non-conformance and progress against improvement plans must be reported in the annual report. The QAIP Action Plan is provided at Appendix 1.



10. Quality control

Our aim is to provide a service that remains responsive to the needs of the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary and maintains consistently high standards. In addition to the QAIP this was achieved in 2014-15 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;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complemented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional, qualified senior staff members.

11. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2013-14 Actual (%)		2014-15 Actual (%)
Revised plan delivered (including 2013/14 c/f)	100		95%
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

12. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Office of the Police and Crime Commissioner for Hampshire and Hampshire Constabulary with whom we have made contact in the year. Our relationship has been 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

June 2015

Appendix 1 – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

Public Sector Internal Auditing Standards Action Plan – Not Applicable

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	N/A	Southern Internal Audit Partnership are the appointed auditors for the OPCC and Hampshire Constabulary and the role of the CIA has been delegated to the Deputy Head of the SIAP. As an employee of Hampshire County Council (HCC) the role holder is subject to HCC's HR processes. Any concerns or issues with the service or the role of the CIA should therefore be referred to the Board to raise with the Section 151 Officers.	No further action required.	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-