

**POLICE AND CRIME COMMISSIONER FOR HAMPSHIRE AND
HAMPSHIRE CONSTABULARY**

JOINT AUDIT COMMITTEE – 4 DECEMBER 2014

PROVISION OF INTERNAL AUDIT SERVICES

**REPORT OF THE CHIEF FINANCE OFFICERS TO HAMPSHIRE
CONSTABULARY AND THE POLICE AND CRIME COMMISSIONER**

1. PURPOSE

- 1.1 Under the Accounts and Audit (England) Regulations 2011 it is a mandatory requirement for the Office of the Police and Crime Commissioner and the Constabulary *‘to maintain an adequate and effective internal audit function’*.
- 1.2 The Financial Management Code of Practice for the Police Forces of England and Wales (October 2013) state that:
‘PCCs and Chief Constables should look to minimise duplication and bureaucracy and to maximise VfM when designing their internal audit arrangements. PCCs and Chief Constables are therefore recommended to have a shared internal audit service which would cover both bodies. The details of audit arrangements should be agreed locally.’
- 1.3 The enclosed report to the Police & Crime Commissioner and Chief Constable (Appendix 1) explores the current and alternate options for the provision of internal audit services to the Office of the Police & Crime Commissioner and the Constabulary.

2. RECOMMENDATIONS

This report recommends that:

- 2.1 To make observations to be shared with the Chief Constable and Police & Crime Commissioner to aid and inform decision making.

Richard Croucher, Chief Finance Officer to Hampshire Constabulary
Carolyn Williamson, Chief Finance Officer to the Police and Crime Commissioner

For further information please contact Richard Croucher, Chief Finance Officer to Hampshire Constabulary, on 01962 871026 or e-mail richard.croucher@hants.gov.uk, and Carolyn Williamson, Chief Finance Officer to the Police and Crime Commissioner, on 01962 847400 or e-mail carolyn.williamson@hants.gov.uk

Police and Crime Commissioner for Hampshire and Hampshire Constabulary	
Police & Crime Commissioner and Chief Constable	Item x
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Provision of Internal Audit Services	
Report of the Chief Finance Officers to Hampshire Constabulary and the Police and Crime Commissioner	

Contact: Richard Croucher, Chief Finance Officer to Hampshire Constabulary, 01962 871026; email: Richard.croucher@hants.gov.uk; and Carolyn Williamson, Chief Finance Officer to the Police and Crime Commissioner, 01962 847400; email: carolyn.williamson@hants.gov.uk.

1 Summary

- 1.1 Under the Accounts and Audit (England) Regulations 2011 it is a mandatory requirement for the Office of the Police and Crime Commissioner and the Constabulary *'to maintain an adequate and effective internal audit function'*.
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'PCCs and Chief Constables should look to minimise duplication and bureaucracy and to maximise VfM when designing their internal audit arrangements. PCCs and Chief Constables are therefore recommended to have a shared internal audit service which would cover both bodies. The details of audit arrangements should be agreed locally.'
- 1.3 Within the Police & Crime Commissioner's 'Scheme of Delegation' it is the responsibility of the Chief Finance Officer to *'provide an adequate and effective internal audit service'*. Such delegation is afforded without reference to the Commissioner.
- 1.4 The role of the Joint Audit Committee is to *'oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence'*.
- 1.5 This paper explores the current and alternate options for the provision of internal audit services to the Police & Crime Commissioner and the Chief Constable.

2 Recommendation

- 2.1 That in fulfilling the requirements of the Accounts and Audit (England) Regulations 2011 to avoid duplication and maximise consistency, efficiency and effectiveness, internal audit is provided to participating organisations as part of the H3 framework.

3 Role of the Chief Finance Officer

- 3.1 The functions of PCCs and Chief Constables in England and Wales are set out in the Police Reform and Social Responsibility Act 2011

- 3.2 Under the Police and Social Responsibility Act 2011, every Police & Crime Commissioner, outside London (Schedule 1 Paragraph 6) and Chief Constable (Schedule 2 Paragraph 4) is required to appoint a person to be responsible for the proper administration of financial affairs, referred to as the Chief Financial Officers

- 3.3 The Chief Financial Officers' each has a personal fiduciary duty by virtue of their appointment as the person responsible for proper financial administration. The statutory duties of both CFOs are broadly similar consisting:

- Ensuring the proper administration of the financial affairs of the organisation;
- Reporting to relevant bodies when it appears expenditure is likely to exceed the resources available;
- Ensuring that the funding required to finance agreed programmes is available;
- Reporting any unlawful or potentially unlawful expenditure;
- Production of the Statement of Accounts;
- Liaising with the external auditor;
- *Ensuring regularity, propriety and Value for Money in the use of public funds; and
- *Advising on safeguarding of assets including risk management and insurance.

*explicit within the role of the CFO for the Police & Crime Commissioner

- 3.4 Internal audit play a vital role in assisting the Chief Finance Officers in the discharge of their functions by providing independent, objective assurance on the effectiveness of risk management, control and governance processes.

4 Role of Internal Audit

- 4.1 The Police and Crime Commissioner and the Chief Constable are responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit play a vital role in advising the Police & Crime Commissioner and Chief Constable that these arrangements are in place and operating effectively.

- 4.2 Proper practices for internal audit within the sector are governed by the Public Sector Internal Audit Standards

- 4.3 The role of internal audit can be 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.'

- 4.4 The Public Sector Internal Audit Standards require the Chief Internal Auditor to deliver an annual audit report and opinion that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

5 Current Arrangements

- 5.1 As part of the transition from the Police Authority to the Police and Crime Commissioner (November 2012) the provision of internal audit services was transferred, in accordance with the wider statutory transfer of contracts and formal 'Decision' by the Police & Crime Commissioner, to ensure the continued delivery of internal audit assurance.

- 5.2 Given the substantial and continuing change programme arising from on-going financial challenge, the Police & Crime Commissioner and the Chief Constable sought to ensure robust internal audit assurance on both existing and developing processes to support good governance.

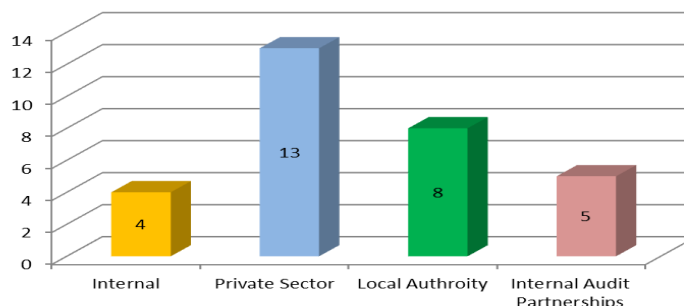
- 5.3 Internal Audit is currently provided to the Police and Crime Commissioner and Chief Constable by the Southern Internal Audit Partnership (a joint agreement between Hampshire County Council and Southampton City Council). Due to the historic nature of arrangements, services are provided on the basis of a sold service / SLA agreement.
- 5.4 The cost of internal audit to the Police and Crime Commissioner and Chief Constable has been fixed for a number of years in response to the on-going period of austerity. The current fee is reflective of the risks borne by the Partnership as a sold service provider and further of the dedicated Chief Internal Auditor role that forms a key component of the service offering (see Appendix 4).
- 5.5 The joint working initiative between the Office of the Police and Crime Commissioner, Hampshire Constabulary, Hampshire Fire and Rescue Service and Hampshire County Council (Section 7), provides an opportunity to reassess the Police & Crime Commissioner and Chief Constable's engagement with internal audit and to further drive economies of scale.

6 Provision of Internal Audit

6.1 Internal audit may be sourced through a variety of alternate routes:

- Internal service – directly employed by the PCC / CC;
- Private sector provider;
- Local Authority;
- Internal Audit Partnership; or
- Hybrid of the above

6.2 Benchmarking against available data provides a relative distribution of providers nationally within the Office of the Police and Crime Commissioner and the Police Constabularies:



*The internal audit partnership arrangements are similar to the Southern Internal Audit Partnership which also provide internal audit services to the associated county council

- 6.3 An analysis of the various delivery models are summarised at Appendix 1. The summary further provides perceived advantages and disadvantages associated with each option.

7 H3 - Joint Working Initiative

- 7.1 The 'Police & Crime Plan 2013-17' recognises the financial challenges faced in the period to 2015 and beyond, identifying efficiencies to be delivered through the provision of internal corporate services on a shared basis with Hampshire Fire & Rescue Service and Hampshire County Council.
- 7.2 The Office of the Police and Crime Commissioner, Hampshire Constabulary, Hampshire Fire & Rescue Service and Hampshire County Council have been working together for a number of years to develop key business and support services in partnership culminating in the formal creation of H3 on 1 February 2014.
- 7.3 The collaboration brings together a variety of services from across the organisations to jointly improve quality, increase resilience and generate savings. Services currently part of the H3 initiative includes:
- Finance;
 - HR;
 - Learning & Development;
 - Integrated Business Centre;
 - Procurement;
 - Occupational Health & Wellbeing;
 - Print Services;
 - Courier Services;
 - Facilities Management; and
 - Property

*Services for the PCC currently excluded but under consideration include uniformed pension administration; and strategic HR advice

- 7.4 The Southern Internal Audit Partnership currently provides internal audit services to each of the participating organisations. In adapting their approach to the H3 collaboration the Southern Internal Audit Partnership have developed an audit plan to coordinate work across participating organisations, maximising the provision of shared assurance and reporting in joint areas of working.
- 7.5 The services now incorporated within H3 constitute in excess of 40% of the audit universe for the Police & Crime Commissioner and Chief Constable. The decision of the H3 partner organisations to integrate their main corporate support functions requires the approach to internal audit of those functions to be reassessed to avoid overlap and

duplication and to ensure the necessary assurance is provided as part of the overall governance arrangements for H3.

- 7.6 To maximise efficiencies, flexibility and knowledge management it is considered that a continuity of shared internal audit provision across the H3 collaboration is essential, and that this be provided as an integral part of the H3 arrangements.

8 Southern Internal Audit Partnership

- 8.1 The Southern Internal Audit Partnership (Appendix 2) was established in February 2012 and brings together the professional discipline of internal audit across partnering organisations, pooling expertise and enabling a flexible, responsive and resilient service to participating partners and its wider client portfolio.
- 8.2 The Southern Internal Audit Partnership have been assessed through an independently verified self-assessment exercise as compliant with the Public Sector Internal Audit Standards (the Standards), as reported to the Joint Audit Committee in June 2014. In accordance with the Standards, this is to be complemented by an external assessment during 2015. Following assessment of alternate providers the Institute of Internal Auditors have been commissioned to undertake the external assessment.
- 8.3 A cornerstone to compliance with the Standards and the professional Code of Ethics is the internal audit activities independence and objectivity. It is imperative that appropriate safeguards are in place to ensure the integrity of such independence is upheld. This is particularly important in meeting the aspirations of a shared internal corporate service provision outlined in the Police & Crime Plan
- 8.4 Such safeguards are captured in each organisations 'Internal Audit Charter' ensuring that the Chief Internal Auditor reports functionally to the Board, and organisationally to the relevant S151 Officer (Chief Finance Officer) who maintains responsibility as the proper officer either through statute or delegated responsibility for ensuring an effective system of internal financial control and proper financial administration.
- 8.5 In all cases the Chief Internal Auditor has direct access to the Police and Crime Commissioner and Chief Constable as those charged with governance. The Police and Crime Commissioner and Chief Constable carry the responsibility for the proper management of the OPCC and Hampshire Constabulary and for ensuring that the principles of good governance are reflected in sound management arrangements.

- 8.6 The Chief Internal Auditor also has direct access to the Chief Executive for the OPCC where matters arise relating to the Police and Crime Commissioner's responsibility, legality and standards.
- 8.7 The Chief Internal Auditor also has direct access to the Joint Audit Committee who are able to meet privately and separately with the Chief Internal Auditor if this is considered necessary by either party.
- 8.8 Independence is further implicit within the Southern Internal Audit Partnership wider governance structure (Appendix 3) in which representatives of each partnering organisation sit as members of the Key Stakeholder Partnership Board enabling an overview of business planning, performance management, resourcing, and future direction of the partnership, in addition to ongoing delivery.

9 Proposed provision of internal audit services

- 9.1 The H3 collaboration provides an opportunity to reassess the Police & Crime Commissioner and Chief Constable's engagement with internal audit and to further drive economies of scale.
- 9.2 The Southern Internal Audit Partnership are the incumbent auditors for the Office of the Police & Crime Commissioner, Hampshire Constabulary, Hampshire Fire and Rescue Service and Hampshire County Council. Alternate internal audit providers working across H3 organisations would lead to inconsistencies, duplication and additional pressures on management time.
- 9.3 To maximise efficiencies, flexibility and knowledge management it is considered that continuity of shared internal audit provision across the H3 collaboration providing joint assurance and a coordinated approach is essential.
- 9.4 Internal audit is currently delivered as a sold service with costs reflective of the risks borne by the provider coupled with the dedicated Chief Internal Auditor role afforded to the service.
- 9.5 Provision of internal audit through the H3 collaboration would further benefit through greater flexibility, governance / accountability and a reduced cost of the internal audit service to the Police & Crime Commissioner and Chief Constable (Appendix 4).
- 9.6 Joining H3 is perceived as a long term commitment; however any partner may terminate its membership from any of the services by giving notice of not less than thirteen months in writing to the Strategic Direction Board, expiring on 31 March in the following financial year.
- 9.7 To ensure this proposal provides value for money benchmarking has been undertaken (from available data) to compare the 2014/15 cost of internal audit to Police & Crime Commissioners and Chief Constables across the country (Appendix 4).

9.8 In assessing the outcomes of the benchmarking exercise and the perceived benefits (Appendix 1) it is proposed that internal audit be provided to the Constabulary and the Office of the Police & Crime Commissioner as part of the H3 framework.

10 **Significant Risks**

10.1 Following the integration of many corporate support functions between the H3 partners, there is a risk of overlap and duplication in the internal audit of those functions. The recommendation addresses this risk by proposing that the internal audit service is itself integrated as part of the overall H3 governance arrangements.

Options for internal audit delivery

Option	Advantages	Disadvantages
Internal service – directly employed by the Police & Crime Commissioner and Chief Constable	<p>Assuming that knowledgeable resources can be recruited to create a new team:-</p> <p>Good understanding of the risks faced and the systems operated to mitigate risk.</p> <p>Up to date sector knowledge and of the change programme within Hampshire.</p> <p>Local and responsive service.</p> <p>Flexible & adaptable to change.</p>	<p>Time and cost to recruit, manage and train</p> <p>Staff on-costs and risks (sickness, redundancy)</p> <p>Time and cost to up internal audit processes and systems</p> <p>Small team would not provide sufficient rotation of auditors, effective skills mix, specialism, resilience, flexibility or career prospects.</p> <p>Loss of joint assurance currently obtained across the H3 collaboration.</p>
Private Sector Provider.	<p>Ability to formally test the market</p> <p>Contractual obligation to deliver agreed days</p> <p>Access to specialists in key fields (although may incur additional costs)</p> <p>Independence from the organisation</p>	<p>Additional time and cost of procurement process (approx. £20k).</p> <p>Additional Chief Internal Auditor retained client side costs.</p> <p>Need to develop working relations.</p> <p>Need to develop knowledge of risks, systems and change programme.</p> <p>Loss of local knowledge.</p> <p>Provision may not be locally based.</p> <p>Loss of joint assurance currently obtained across the</p>

Option	Advantages	Disadvantages
		<p>H3 collaboration</p> <p>Potential loss of flexibility of service and goodwill.</p> <p>May not have experience of working with public / policing sector.</p>
<p>Southern Internal Audit Partnership – Sold Service</p>	<p>Effective working relations with the O of P&CC, Constabulary and Chief Financial Officers already established.</p> <p>Good understanding of the risks faced and the systems operated to mitigate risks.</p> <p>Up to date knowledge of the sector and the current change programme.</p> <p>Internal audit specialists working with other public sector organisations enabling sharing of best practice.</p> <p>Local offices - responsive to need.</p> <p>Joint assurance gained from auditing fundamental systems as part of the H3 plan</p> <p>A resilience to service delivery through a cohort of qualified and experienced auditors at all levels</p> <p>Service compliant with the Public Sector Internal Audit Standards</p> <p>Qualified staff – specialists in IT, Fraud, Procurement etc.</p> <p>Dedicated Chief Internal Auditor role</p> <p>Independent – all procedures and practices and reporting lines in accordance with the Public Sector Internal Audit Standards</p>	<p>Forego open competition (however, benchmarking does provide assurance with regard vfm, Appendix 4)</p> <p>Current sold service model remains competitive, however, does not maximise economies of scale</p> <p>Full benefits (cost / governance) of formally joining the Southern Internal Audit Partnership not realised</p>

Option	Advantages	Disadvantages
<p>Southern Internal Audit Partnership – provision as part of the H3 framework</p>	<p>Effective working relations with the O of P&CC, Constabulary and Chief Financial Officers already established.</p> <p>Good understanding of the risks faced and the systems operated to mitigate risks.</p> <p>Up to date knowledge of the sector and the current change programme.</p> <p>Internal audit specialists working with other public sector organisations enabling sharing of best practice.</p> <p>Local offices - responsive to need.</p> <p>Joint assurance gained from auditing fundamental systems as part of the H3 plan</p> <p>A resilience to service delivery through a cohort of qualified and experienced auditors at all levels</p> <p>Service compliant with the Public Sector Internal Audit Standards</p> <p>Qualified staff – specialists in IT, Fraud, Procurement etc.</p> <p>Dedicated Chief Internal Auditor role.</p> <p>Independent – all procedures and practices and reporting lines in accordance with the Public Sector Internal Audit Standards</p> <p>Governance – the S151 Officer for the Police & Crime Commissioner and the Chief Constable would sit as Stakeholders on the Strategic Partnership Board enabling an overview of business planning, performance management,</p>	<p>Forego open competition (however, benchmarking does provide assurance with regard vfm, Appendix 4)</p>

Option	Advantages	Disadvantages
	<p>resourcing, and future direction of the partnership, in addition to ongoing delivery (current governance structure provided at Appendix 3).</p> <p>Flexibility – with the current client / provider relationship the Police & Crime Commissioner and Chief Constable work to an agreed number of days each year. Should audit needs require additional resource such demand would incur additional (unplanned) expenditure.</p> <p>Participation via the H3 framework, the opportunity to flex resource to meet in-year needs is afforded, with a view that parity is restored over a three year period. As such should additional resource be required in year one, as long as this was recouped over year two / three then no additional charge would be made providing a level of certainty over budget commitments and assurance over changing audit needs.</p> <p>Cost of service – the commitment to a longer term relationship with the Southern Internal Audit Partnership will provide the opportunity for greater assurance over daily rates. Benchmarking has been undertaken to consider Southern Internal Audit Partnership rates across the sector (Appendix 4).</p> <p>Procurement – no tendering costs would be incurred as internal audit would form an additional service offering under the Joint Working Agreement between Hampshire County Council, Hampshire Fire & Rescue Authority, the Police and Crime Commissioner for Hampshire and the Chief Constable of Hampshire Constabulary,</p>	

Option	Advantages	Disadvantages
	<p>Shared practice – share and discuss latest consultations, guidance and advice relevant to the internal audit provision.</p> <p>The Head of the Southern Internal Audit Partnerships currently chairs the national County Chief Auditors Network at which key speakers provide industry updates and sector developments, providing an invaluable source of best practice and up-coming issues. In addition representatives of the Southern Internal Audit Partnership attend the Police Audit Group providing networking opportunities and industry / sector specific developments and initiatives. Relative feedback is provided to the partnership board as a further source of added value.</p> <p>Public / Public partnership – focus on the highest quality service completed by appropriately qualified staff. Emphasis on quality not profit</p> <p>Potential to provide a catalyst for moving towards a collaborative arrangement with other PCCs and Forces in the longer term. This would enable greater sharing of best practice specific to the sector.</p> <p>Any partner may terminate its membership from any of the services by giving notice of not less than thirteen months in writing to the Strategic Director Board, expiring on 31 March in the following financial year.</p>	



The Southern Internal Audit Partnership is now one of the largest providers of public sector internal audit in the region. Operating from their headquarters in Winchester (with a number of sub-offices across the County), the Southern Internal Audit Partnership currently employ 34 fte staff delivering approximately 6,000 audit days across a diverse portfolio of 23 public sector organisations.

Strategic Partners

- Hampshire County Council
- Southampton City Council

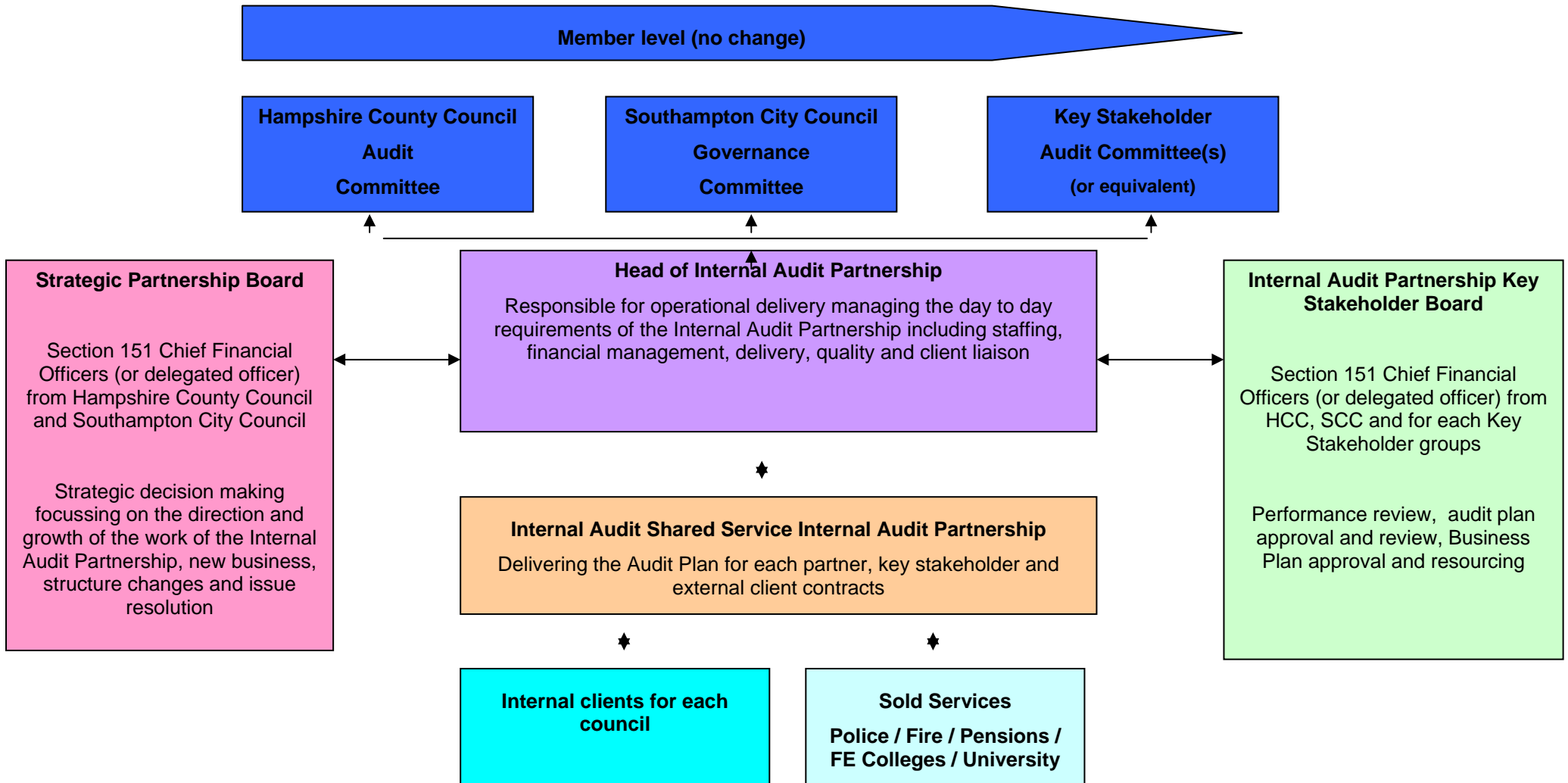
Key Stakeholder Partners

- Havant Borough Council
- East Hampshire District Council
- Winchester City Council

Clients

- Hampshire Police & Crime Commissioner
- Hampshire Constabulary
- Hampshire Pension Fund
- Hampshire Fire & Rescue Authority
- University of Winchester
- Further Education Establishments (x12); and
- Highcliffe Academy

Appendix 3 - Southern Internal Audit Partnership - Governance Structure



- OFFICIAL -