

ANNUAL INTERNAL AUDIT REPORT

2016/17

This document summarises the results of internal audit work during 2016/17 and as required by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards, gives an overall opinion of the control environment within West Midlands Police and Crime Commissioner and West Midlands Police Force.

Opinion

Based upon the results of work undertaken during the year my opinion is that the control environment provides adequate assurance that the significant risks facing the Organisation are addressed.

Context

This report outlines the work undertaken by the internal audit between 1 April 2016 and 31 March 2017.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.

Internal audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual 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. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of audit to provide assurance to the organisation (PCC, Chief Constable, Senior Managers, Managers and the Joint Audit Committee) that the Organisation maintains an effective control environment that enables it to manage its significant business risks. The service helps the PCC and Force achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Police and Crime Commissioner and Forces control environment which feeds into the Annual Governance Statement.

Internal audit work during 2016/17

The methodology adopted in preparing the 2016/17 audit plan, and the plan itself, were approved by the Joint Audit and Standards Committee on 31 March 2016.

A revised plan was subsequently approved in September 2016, with a focus on 'in year' risk and as a result a number of audits originally planned were removed and replaced with higher risk based audits. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is

that although the work undertaken during the year was different to that anticipated 12 months ago, a total of 72 assurance activities have been completed by the Internal Audit Service covering a wide range of areas of governance, risk and control.

Summary of assurance work

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls.

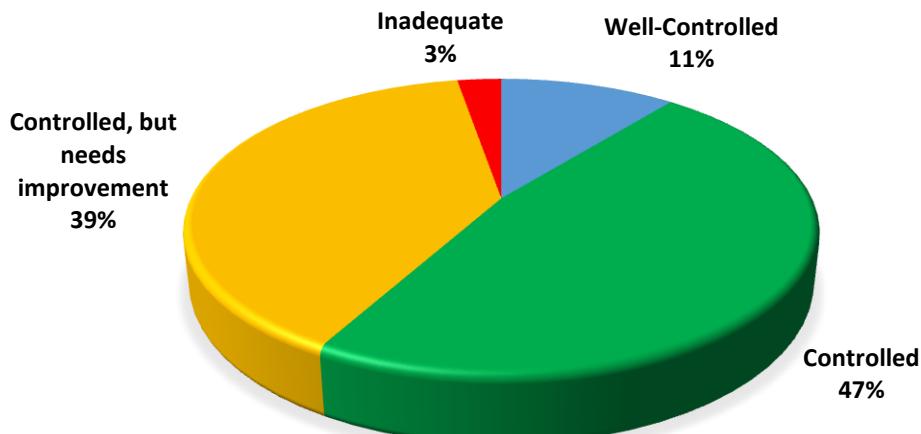
The four categories used during 2016/17 are as follows:

Level of Assurance	Definition
Well Controlled	The system is performing particularly well to achieve business objectives. There is a sound framework of control operating effectively to achieve business objectives.
Controlled	The system is adequate to achieve business objectives. The framework of control is adequate and controls are generally operating effectively.
Controlled, but needs Improvement	Some improvement is required to ensure that business objectives are met. The control framework is adequate but a number of controls are not operating effectively.
Inadequately Controlled	Significant improvement is needed before business objectives can be met. Adequate controls are not in place to meet all system objectives and controls are not being consistently applied.

The Joint Audit Committee has received regular reports during the year summarising audits undertaken, with detailed summaries of findings being provided for those audits receiving an Inadequate or Controlled, but needs improvement opinion.

As shown in the following chart the results of this year's audits are positive with the majority having a Controlled or Well Controlled opinion. However, there were audits where controls provided 'Inadequate' assurance that significant risks were being addressed. The recommendations arising from these reviews relate to specific areas rather than represent an across the board breakdown in controls.

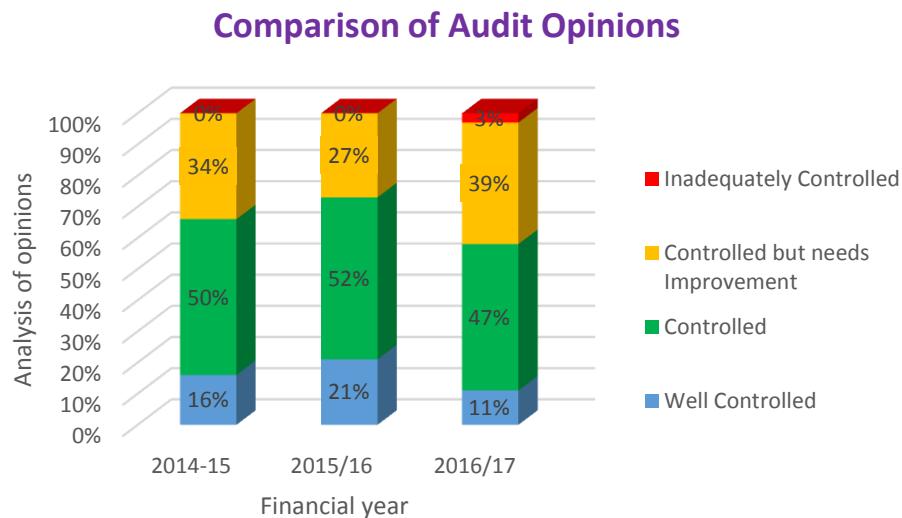
ANALYSIS OF AUDIT OPINIONS 2017/18



The key issues arising from the audits completed during 2016/17 have been reported to the Joint Audit Committee and follow-up audits have been undertaken or are planned during 2017/18.

A list of the assurance work completed during the year is given in Appendix A.

The outcome of this year's audits shows an increase in the proportion of audits given the lower levels of opinion, as shown in the following chart.

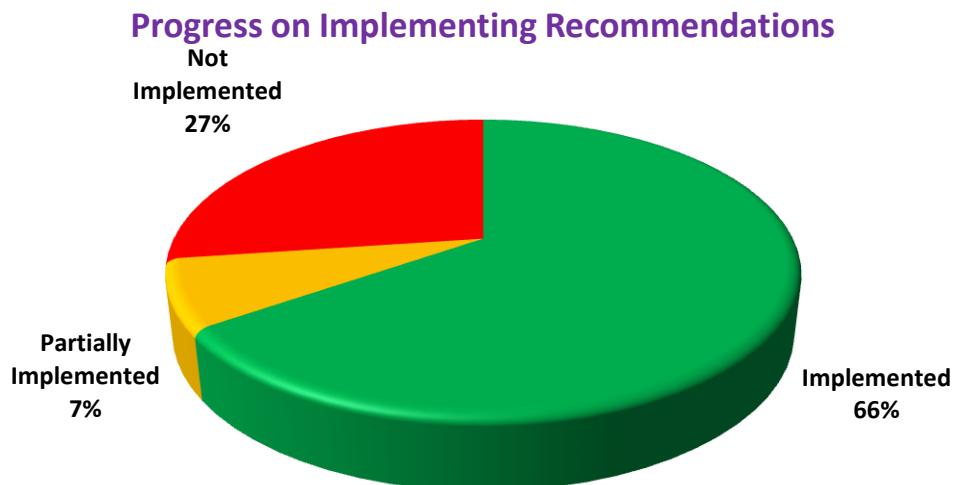


Of course the audit plan includes different topics each year so caution is needed when interpreting this chart.

A number of 'Inadequate' opinions are to be expected each year especially as the audit planning processes and our limited resources means that increasingly only those areas with a significant level of risk or change are included in the plan. The increasing pressures facing the Force and PCC and the extent of transformation may also be a factor.

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The categories used during 2016/17, in increasing order of importance are: Low, Moderate, Significant and Major. During the year 188 recommendations were made to address weaknesses in control which would otherwise not have been identified. 58 of these recommendations were categorised as Significant. There were no major recommendations during the year and none of the recommendations made were rejected by Management.

Internal Audit regularly follow-up recommendations to ensure they have been implemented. This is based on reviewing the initial actions agreed by management. In 2016/17, 29 follow-up audits were undertaken. An analysis of the implementation of management actions is shown in below:



Significant progress has been made in implementing the recommendations made during the year, with 73% being fully or partially implemented to date. Recommendations for those audits concluded during the year will continue to be followed-up during 2017/18.

Summary of non-assurance work

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service continued to provide consultancy input into a number of topics. The main contribution was on the Payroll Governance Board which provides information, support and guidance to assist the Force in the recovery of payroll overpayments. A small amount of advice was also provided on some financial processes.

Certification

Audit has traditionally carried out a small amount of work in relation to the certification of accounts for miscellaneous funds, for example, Superintendents Association and Tally Ho Sports and Social Club.

Investigations

Whilst no investigations were undertaken by the Internal Audit, the Service continues to support Professional Standards in investigation work in relation to fraud allegations. This ensures that the organisation maintains an effective response to fraud and enables Audit to direct resources where systems improvements may be required.

Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback. When the standards were first introduced a number of actions were identified to improve compliance.

These actions are progressing well and an updated self-assessment against the standards, has been completed which shows compliance in the majority of areas. This report should be read in conjunction with the Public Sector Internal Audit Standards Update. When read together, the two reports demonstrate the effectiveness of the Internal Audit Service. An up to date assessment of compliance against the Standards is provided at Appendix B. The outcome of the assessment is generally positive with the Public Sector Internal Audit Standards being broadly complied with. Where there is less than full compliance, an action plan has been prepared which will be monitored during 2017-18.

Whilst the assessment against the Standards and Code of Ethics has identified some areas which do not fully comply, these are not considered significant areas that would impact upon the overall scope and operation of the Internal Audit Service or that need to be considered for inclusion in the Annual Governance Statement.

As required by the Public Sector Internal Audit Standards, compliance will need to be confirmed by an external assessment in October 2017.

In accordance with best practice there is a rigorous internal review of all Internal Audit work. All audits are subject to on-going supervisory input before and during the audit. Once the audit work has been completed, the working paper file is subject to supervisor/ manager review to ensure that the work is to acceptable professional standards.

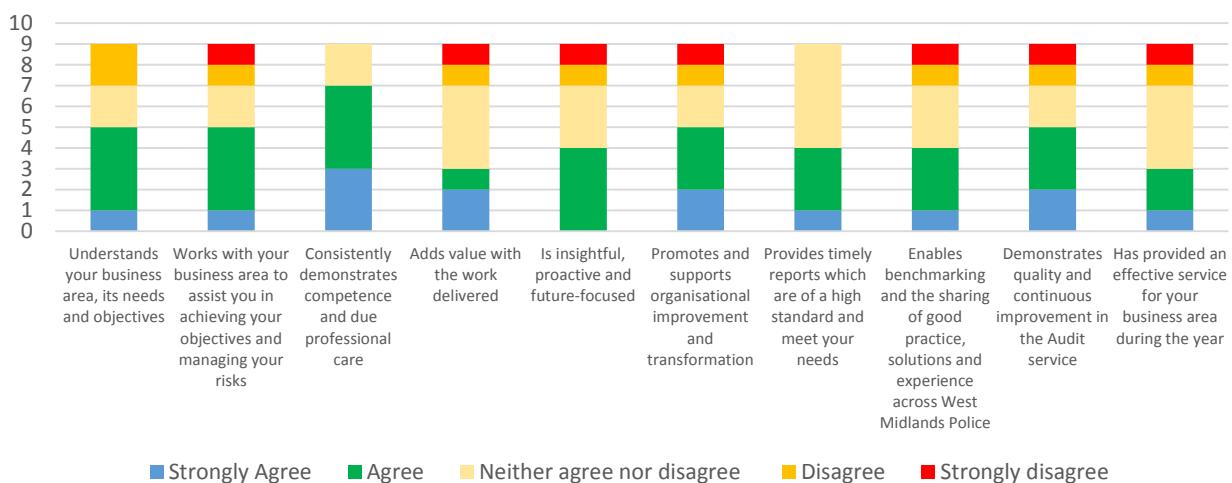
Following most audits a “post audit survey” is issued to the relevant managers asking for their views on the conduct of the audit. The survey includes a range of questions covering the audit approach, value of findings, professionalism of auditor etc.

A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys. The post audit survey responses returned continue to be good with 96% of questions answered being scored ‘good’ or ‘very good.’ A number of positive comments and compliments about the service provided have also been received, in response to the question ‘Was there anything about the audit you especially liked?’ including:

- *Communication and having one point of contact for the review, was informed on all outcomes before the audit draft was published, which felt we were included and part of the audit team.*
- *The Auditor is really professional and helpful, she will be intrusive and supportive and is happy to spend time to explain any issues and agree the way forward*
- *The Auditor was very approachable and pragmatic so it was really good working with her.*
- *The friendliness of the auditor!*
- *The Auditor was extremely receptive to opinion and clarity as to roles and legislation which included receiving evidence as to what certain processes were undertaken.*
- *The auditor was welcoming, friendly and very professional*
- *Auditor listened to the Auditees*
- *The audit was conducted in the right way, creating an environment of 'working together' for the benefit of all. Rather than a situation of 'us vs them'.*
- *The auditor was welcoming, friendly and very professional*
- *The way I was briefed and brought up to speed as someone who is new in role and unaware of the audit process etc.*
- *For the first time in my 8 years I have an audit which is structured, useful and informative. I prefer this approach*
- *The Auditor was very useful in his approach he was not at all overwhelming to the team. Whilst the complexity of our business and practices can appear complicated, the Auditor was patient and extremely helpful. Thank you for the time you allowed the Auditor to spend with us it is very much appreciated.*

In addition to the post audit surveys, an annual survey was issued to senior managers to gain insight on their view of the Internal Audit Service. This is the first time such a survey has been undertaken and the response rate is low with only nine returns from 51 managers, therefore some caution needs to be taken when interpreting the results. Whilst a number of questions received positive feedback, there are some questions where the lowest score has been given, mostly by the same manager who felt that the work of internal audit duplicated an external accreditation the service receives. The 2017/18 audit strategy agreed in March 2017 sets out the future approach to relying on the work of other assurance providers, which should avoid such issues arising in the future. Further consultation will be undertaken with managers during 2017/18 to explain and explore how the service can better add value and help drive organisational improvement.

Senior Management Survey



Audit Performance is measured against a set of Key Performance Indicators, which are regularly reported to and monitored by Joint Audit Committee. The performance at year end was as follows:

KPI Description	Narrative	Target	Actual
Output Indicators:			
Audit Coverage	% of Audit Plan Delivered.	90%	70%
Report Production	Completion of Draft Audit Report within 10 working days.	100%	96%
Report Production	Completion of Final Report within 5 days of agreement of the draft.	100%	96%
Audit Recommendations	Recommendations accepted v made.	100%	100%
Quality Indicators:			
Client Satisfaction	% of Post Audit Questionnaires in which management have responded as "Very Good" or "Good".	95%	96%

This identified positive performance against most of the indicators. Whilst the audit coverage was lower than anticipated, detailed explanations have been provided to the Joint Audit Committee and this has not impacted on the ability to provide an annual audit opinion due to the number and variety of audits completed during the year.

Opinion

It is the responsibility of the Police and Crime Commissioner and Chief Constable to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility

under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the PCCs and Forces governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of internal audit is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, the following is taken into account:

- all audits completed during the year;
- any follow-up action taken in respect of audits from previous periods;
- any recommendations not accepted by management and the consequent risks;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in systems; and
- matters arising from previous reports to members. Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified.

Based upon the results of work undertaken during the year my overall opinion on the adequacy of the Commissioner and Chief Constable's arrangements for Corporate Governance, Risk Management and Internal Control is that:

Assurance can be given that that the framework of control is adequate and that controls are generally operating effectively.

The level of assurance, therefore, remains at a similar level from 2015/16.

Whilst there has been an increase in the proportion of audits where either a "Controlled, but Needs Improvement" or "Inadequately Controlled" assurance opinion was assigned, the weaknesses arising have tended to relate to specific parts of the PCC or Force rather than an across the board breakdown in controls.

Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. However, it is clearly important that issues identified during the year are addressed.

The level of implementation of Internal Audit recommendations is generally satisfactory.

Appendix A: Summary of audits completed during the 2016/17

Table 1: Audits completed during 2016/17 which were included in 2015/16 annual audit opinion.

2016/17 Internal Audit Plan	Status	Assurance provided
Coventry LPU	Final*	Controlled
Intelligence department	Final*	Controlled
Force CID	Final*	Controlled, but needs Improvement
Office of Policing and Crime	Final*	Controlled, but needs Improvement
Major Investigation Team (Homicide Team)	Final*	Well-Controlled
Payroll - Police, Staff and Pensions	Final*	Controlled, but needs Improvement
Police Probationer Training	Final*	Controlled, but needs Improvement
Proceeds of Crime Act	Final*	Controlled
Treasury Management	Final*	Well-Controlled

*These audits were included in the 2015/16 annual audit opinion, and have therefore been excluded when forming an opinion for 2016/17

Table 2: Audits completed during 2016/17 that comprise the annual audit opinion.

2016/17 Internal Audit Plan	Status	Assurance provided
LPU / DEPARTMENT REVIEW (C/Fwd From 2015/16 Plan)		
Birmingham East	Final	Controlled
Corporate Communications	Final	Controlled, but needs improvement
Corporate HR	Final	Controlled
Criminal Justice Services	Final	Controlled, but needs improvement
Executive Team	Final	Well-Controlled
Force Contact	Final	Controlled, but needs Improvement
IT & Digital	Final	Controlled
Learning and Development	Final	Controlled
Operations	Final	Controlled, but needs Improvement
Property Services	Final	Controlled, but needs improvement
Public Protection Unit	Final	Well-Controlled
SYSTEMS/APPLICATIONS/CAATS		
ICT Risk Based Plan:		
Social Media Risk Management	Final	Controlled
IT Change Control	Final	Well-Controlled
FUNCTIONAL AREAS (C/Fwd From 2015/16 Plan)		
Creditors	Final	Controlled, but needs Improvement
Detained Property	Final	Controlled, but needs Improvement
Forensic Support	Final	Well Controlled
Procurement	Final	Controlled, but needs Improvement
ROCU – UK PPS	Final	Controlled, but needs Improvement
Shared Services – Overtime Policy & Processing	Final	Inadequately Controlled
Training – Internal / External	Final	Controlled
Value for Money - Grants	Final	Controlled, but needs Improvement
FUNCTIONAL AREAS		
Assisting Offenders Unit	Final	Controlled
Attendance Management & Management of Sickness absence	Final	Controlled
BACSTEL	Final	Controlled, but needs Improvement
Building Maintenance	Final	Controlled, but needs Improvement
Cash Office	Final	Controlled, but needs Improvement
Central Secure Stores	Final	Controlled

2016/17 Internal Audit Plan		Status	Assurance provided
Dedicated Source Unit		Final	Controlled
Fleet Management		Final	Controlled
Health & Safety		Final	Controlled
Interpreters		Final	Controlled
Inventory - Asset Registers		Final	Well-Controlled
IT Change Control		Final	Well-Controlled
Seized Monies		Final	Controlled, but needs improvement
Shared Service Centre - Payroll Variations		Final	Controlled, but needs Improvement
Spec Services Income		Final	Controlled
Special Operations Unit (Regional Undercover Unit)		Final	Well-Controlled
<u>WMP2020 :</u>			
WMP 2020 Risk Management		Final	Controlled, but needs Improvement
WMP 2020 Project Reviews		Final	Controlled
WMP 2020 Body Worn Video		Final	Controlled, but needs improvement
WMP2020/ICT Procurement		Final	Controlled
HONORARY AUDITS & ADVICE			
Tally Ho! Sports Club Accounts		Final	Controlled, but needs Improvement
Superintendents Association Accounts		Complete	N/A
FOLLOW UPS			
Airport Policing Unit – Firearms & Armoury		Final	Controlled
Birmingham South LPU		Final	Controlled
Business Continuity (2 nd follow up)		Final	Controlled, but needs improvement
CMPG Department		Final	Controlled
Coventry NPU		Final	Controlled
CTU Department		Final	Controlled
Driver Development Unit		Final	Controlled
Events Management (2 nd Follow Up)		Final	Controlled
Facilities Department		Final	Controlled
Finance & Shared Services		Final	Controlled
Force CID		Final	Controlled
Fuel Card Management (15/16)		Final	Controlled
General Stores		Final	Controlled, but needs improvement
GRS Project		Final	Controlled, but needs improvement
Homicide Team		Final	Well-Controlled
Intelligence Department		Final	Controlled
Management of Police Information (MOPI)		Final	Controlled
National Police Air Service (NPAS) (x2 Follow Up)		Final	Well-Controlled
Occupational Health		Final	Controlled, but needs improvement
OPCC		Final	Controlled
Operations Department		Final	Controlled
Payroll		Final	Controlled, but needs improvement
Police Probation		Final	Controlled, but needs improvement
Property Services Department		Final	Controlled
Recruitment		Final	Controlled, but needs improvement
Special Constables		Final	Controlled, but needs improvement
Travel and Expenditure		Final	Controlled, but needs improvement
VAT (2 nd Follow Up)		Final	Controlled
Winsor Allowances (2 nd follow up)		Final	Controlled

Appendix B: PSIAS Self- Assessment as at end 2016-17

Attribute Standards:

Ref	Standard	Ref	Description	Assessment
1000	Purpose, Authority and Responsibility	1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	Compliant
1100	Independence and Objectivity	1110	Organisational Independence	Mainly Compliant
		1111	Direct Interaction with the Board	Compliant
		1120	Individual Objectivity	Compliant
		1130	Impairment to Independence or Objectivity	Compliant
1200	Proficiency and Professional Care	1210	Proficiency	Mainly Compliant
		1220	Due Professional Care	Compliant
		1230	Continuing Professional Development	Compliant
1300	Quality Assurance and Improvement Programme	1310	Requirements of the Q.A. and Improvement Programme	Compliant
		1311	Internal Assessments	Compliant
		1312	External Assessments	Compliant
		1320	Reporting on the Q.A. and Improvement Programme	Compliant
		1321	Conforms with International Standards	N/A
		1322	Disclosure of Non-Conformance	Compliant

Performance Standards:

Ref	Standard	Ref	Description	Assessment
2000	Managing the Internal Audit Activity	2010	Planning	Mainly Compliant
		2020	Communication and Approval	Compliant
		2030	Resource Management	Compliant
		2040	Policies And Procedures	Compliant
		2050	Co-ordination	Compliant
		2060	Reporting to Senior Management and the Board	Compliant
2100	Nature of Work	2110	Governance	Mainly Compliant
		2120	Risk Management	Compliant
		2130	Control	Compliant
2200	Engagement Planning	2201	Planning Considerations	Compliant
		2210	Engagement Objectives	Compliant
		2220	Engagement Scope	Compliant
		2230	Engagement Resource Allocation	Compliant
		2240	Engagement Work Programme	Compliant
2300	Performing the Engagement	2310	Identifying Information	Compliant
		2320	Analysis and Evaluation	Compliant
		2330	Documenting Information	Compliant
		2340	Engagement Supervision	Compliant
2400	Communicating Results	2410	Criteria for Communicating	Compliant
		2420	Quality of Communications	Compliant
		2421	Errors and Omissions	Compliant
		2430	Compliance with International Standards	N/A
		2431	Engagement Disclosure of Non-Conformance	Compliant
		2440	Disseminating Results	Compliant
		2450	Overall Opinions	Compliant
2500	Monitoring Progress			Compliant
2600	Resolution of Senior Management's Acceptance of Risks			Compliant