

Final report for validation of the self- assessment of the internal audit function

West Midlands Police and Crime Commissioner and West Midlands Police Force

Lead Associate: Elizabeth Humphrey, CPFA

**Internal QA: Keeley Lund, Technical Manager, CIPFA, Professional
Standards & Guidance**

14th November 2017

Validation of the self-assessment of the Internal Audit Service at West Midlands Police and Crime Commissioner and West Midlands Police Force (October 2017)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment or validation of a self-assessment by an external person every five years. Now that the standards have been in place for four years, West Midlands Police and Crime Commissioner and West Midlands Police Force Internal Audit Service has undertaken the required self-assessment and commissioned this validation. The self-assessment also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The validation was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed two audits carried out during the 2016/17 financial year and, as part of the self-assessment, a further four audits were checked. I examined key documents, including the Charter, Strategy and reports to the Joint Audit Committee.

The service is now highly regarded within the organisation and provides useful assurance on its underlying systems and processes. The Internal Audit Manager has been in post for just over a year and, in that time, has made significant changes to the way in which the service operates to improve effectiveness and ensure compliance with the PSIAS and LGAN. It is to the credit of the team that they have welcomed these developments and are working hard to implement them. There are still a few areas where further improvements are needed and these were identified in the self-assessment. I also identified some minor areas of non-compliance with the standards.

I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards. The Internal Audit Manager (IAM) will need to take action to implement them and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Mission	Full	The Charter includes the mandatory internal audit mission		
Core principles of internal audit	Partial	The core principles have been integrated into the work of internal audit and I was provided with many examples of this. One area for	See R2, R3 and R5, S1	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		development is around demonstrating the alignment of the service to the strategies, objectives and risks of the organisation		
Code of Ethics	Full	All interviewees stressed the emphasis placed on integrity by the audit team and their independence and objectivity		
Attribute standards				
1000 Purpose, authority and responsibility	Full	The Charter and Strategy contain almost all the required details and are routinely discussed with senior management and the Joint Audit Committee Standard 1000.A1 The Charter does not include the required definition of assurance services	Include a definition of assurance services to mirror that for consultancy services in the Charter	R1
1100 Independence and objectivity	Full	The independence and objectivity of the audit section was emphasised by all interviewees		
1200 Proficiency and due professional care	Partial	The recent shift to risk-based auditing is welcome. As auditors become more confident with this approach some further developments will be required Standard 1210.A2, 2120.A2 and 2210.A2 There was little evidence of broader fraud risks (ie, those where the gain was not immediately financial or involved collusion, etc) being considered as part of audit planning	Improve thinking about fraud risks to consider frauds that do not have an immediate financial gain, collusion, etc	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>Standard 1220.A1 and A3, 2110 and 2210.A1</p> <p>Although audits are planned on a risk basis, this is presented as themes on the terms of reference, making it less likely that auditees will be able to contribute to the risk-based planning. The risks identified tended to be at an operational rather than a strategic level. In addition, there was little evidence that risk and governance arrangements are considered during audit planning.</p>	<p>Include risk information from planning documents (the EDP) in terms of reference, maybe at strategic level</p> <p>Increase the focus on governance arrangements and risk management arrangements in individual audits and rule out explicitly where these are not applicable</p>	<p>S1</p> <p>R3</p>
<p>1300 Quality assurance and improvement programme</p>	<p>Full</p>	<p>There is a detailed QAIP plan that covers all the required aspects.</p> <p>Standards 1311</p> <p>Self-assessments are currently carried out within the audit section. It could be useful to involve others in this process, especially Joint Audit Committee members</p>	<p>Invite others from within the organisation, including the Joint Audit Committee, to contribute to self-assessments</p>	<p>S2</p>
<p>Performance standards</p>				
<p>2000 Managing the internal audit activity</p>	<p>Partial</p>	<p>Standard 2010 and LGAN 7.1.2</p> <p>The annual audit plan does not include some of the specific requirements:</p> <ul style="list-style-type: none"> • A statement about how the service will be developed • The connection to the Audit Charter • How the service links to organisational objectives and priorities 	<p>Include in the Strategy or covering report reference to how the team will be developed (for example, outlining the training being undertaken)</p> <p>Include additional information regarding planning in accordance with the Charter, probably in the covering report paragraph 2.3</p> <p>Include the link to organisational priorities and</p>	<p>S3</p> <p>R4</p> <p>R5</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>Standard 2020 and 2060 The IAM should report directly to senior managers on audit plans and progress. In the Force, these discussions are had with the Director of Commercial Services and DCC who then present audit's plans and reports to the Force Executive</p>	<p>objectives in the published plan The IAM should, as a minimum, present the annual audit plan and annual audit report to the Force Executive</p>	R6
<p>2100 Nature of work</p>	Partial	<p>In general, the work undertaken by the section meets the requirements Standard 2110 See above for comments regarding auditing governance arrangements Standard 2110.A1 The service has not yet carried out any reviews of ethical arrangements, but 17/18 audit plan includes ethical aspects in audits Standard 2120.A2 See above for comments regarding considering fraud risks in planning audits</p>		R3 R2
<p>2200 Engagement planning</p>	Partial	<p>Engagement planning is thorough, with the newly introduced EPD. It could be improved by moving the focus to strategic risks and addressing the issues raised elsewhere Standard 2201 Audits do not routinely consider opportunities to add value</p>	<p>Include opportunities to add value as a standard part of every terms of reference</p>	R7

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		Standard 2210.A1 and A2 See comments above regarding planning around risk and fraud risk		S1 R2
2300 Performing the engagement	Full	Audit working papers are clear and easy to follow. They deliver the objectives of the terms of reference.		
2400 Communicating the results	Partial	Standard 2420 Audit reports generally met the standards, but the two that I looked at included more detail than necessary. A number of observations were made, but it was not clear which ones were more important Standard 2440 and 2440.A1 Reports are sent out by the auditor and have the auditor's name on them. This increases auditor ownership of the audit but does not comply with the requirement of the standards that the IAM should communicate the final results Standard 2450 The annual audit opinion should conclude on the framework of governance, risk management and control. The annual audit report includes details of the opinion, which covers all three aspects, and a summary opinion which does not include any reference to governance arrangements	Look at ways to reduce the length of and detail included in reports, for example, but including some or all observations in an appendix and reducing the detail in the detailed findings Include the name of the IAM on all reports Ensure the two versions of the opinion in the annual report are consistent, with references made to risk management, governance arrangements and internal control	S4 R8 S5

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		LGAN p19 Audit reports include details of the circulation list but this is not included on audit terms of reference	Include the report distribution list on audit terms of reference	R9
2500 Monitoring progress	Full	The follow-up process is robust and meets the requirements of the standards but some interviewees were unsure about how it works	Provide more information on the follow-up process	S6
2600 Communicating the acceptance of risks	Full	Unmitigated risks have been raised with senior management and the board and resolved through this approach		

The Internal Audit Manager has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include a definition of assurance services to mirror that for consultancy services in the Charter	A definition of 'Assurance' will be included in the charter and reported to JAC for approval	Lynn Joyce	31/3/18
R2	Improve thinking about fraud risks to consider frauds that do not have an immediate financial gain, collusion, etc	Whilst fraud risks are considered as part of planning for each audit they are not as overt as they could be. For future audits, we will clearly identify fraud related risks within the audit working papers	Lynn Joyce	31/12/17
R3	Increase the focus on governance arrangements and risk management arrangements in individual audits and rule out explicitly where these are not applicable	In addition to undertaking corporate reviews, governance and risk management arrangements are included in those audits where we feel relevant. A standard statement explaining the approach to auditing governance and risk arrangements will be included in audit terms of reference.	Lynn Joyce	31/12/17
R4	Include additional information regarding planning in accordance with the Charter, probably in the covering report paragraph 2.3	The 2018/19 will clarify that planning has been undertaken in accordance with the Charter	Lynn Joyce	31/3/18
R5	Include the link to organisational priorities and objectives in the published plan	Links to the police and crime plan objectives will be included in the 2018/19 plan	Lynn Joyce	31/3/18
R6	The IAM should, as a minimum, present the annual audit plan and annual audit report to the Force Executive	Both the annual audit plan and annual audit report are reported to the Senior Management Team, as defined in the Charter, and to the Joint Audit Committee. The Deputy Chief Constable and Director of Commercial Services are the liaison point into the Force Executive	Lynn Joyce	Within next 12 months. Exact date to be agreed

No	Recommendation	Response	Responsible officer	Action date
		<p>Team. The current arrangements are therefore considered appropriate to meet the requirements of the Standard.</p> <p>In addition, the Joint Audit Committee Annual report includes reference to the work of internal audit and this is reported both to the Strategic Police and Crime Board and to the Executive Team.</p> <p>An annual presentation from Audit will however be provided to the Executive team to supplement any reports that Deputy Chief Constable and Director of Commercial services already bring to the Executive Team. The content and timing of the briefing is yet to be determined.</p>		
R7	Include opportunities to add value as a standard part of every terms of reference	A standard reference to opportunities to add value will be included in each terms of reference.	Lynn Joyce	31/12/17
R8	Include the name of the IAM on all reports	Audit Report template will be changed.	Lynn Joyce	30/11/17
R9	Include the report distribution list on audit terms of reference	A 'minimum' distribution list will be included in the audit terms of reference. The distribution may change depending on audit findings.	Lynn Joyce	31/12/17

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Include risk information from planning documents (the EDP) in terms of reference, maybe at strategic level	Risk information is summarised in an engagement planning document. This will be transposed onto the Terms of reference.	Lynn Joyce	31/12/17
S2	Invite others from within the organisation, including the Joint Audit Committee, to contribute to self-assessments	Members of the Joint Audit Committee will be asked to validate the IAM self-assessment periodically.	JAC Chair	Ongoing
S3	Include in the Strategy or covering report reference to how the team will be developed (for example, outlining the training being undertaken)	An outline of ongoing training and areas for progression will be incorporated into the 2018/19 Internal Audit Strategy.	Lynn Joyce	31/3/18
S4	Look at ways to reduce the length of and detail included in reports, for example, but including some or all observations in an appendix and reducing the detail in the detailed findings	<p>Work in progress. The audit team are continuing to develop lean auditing techniques such as root cause analysis and thematic reporting which will result in more concise reporting.</p> <p>Observations will remain as part of the reports executive summary. The purpose of the observations section is to include areas for future consideration or areas where observations may have been made during the audit, but the auditor recognises that management are making progress to address.</p>	Lynn Joyce	Ongoing
S5	Ensure the two versions of the opinion in the annual report are consistent, with references made to risk management, governance arrangements and internal control	The annual report provides annual opinion, but this was reported both within the main body of the report and in the report's conclusion. Care will be taken to ensure the wording is consistent throughout the 2018/19 annual report to avoid confusion.	Lynn Joyce	31/3/18
S6	Provide more information on the follow-up process	To be included on future training programme for Joint Audit Committee Members	JAC Chair	To be determined

Appendix 2: interviewees

Person	Position
Christine Barve	Joint Audit Committee Vice-Chair
Gemma Brookes	Principal Auditor
Neil Chamberlain	Director of Commercial Services (Force)
Richard Conway	Auditor
Parmila Dadra	Principal Auditor
Sue Davis	Joint Audit Committee Chair
Natalie Foster	Auditor
Andrea Gabbitas	Business Services Manager (PCC Office)
Chief Superintendent Peter Henrick	Head of Criminal Justice Service
Jonathan Jardine	Chief Executive (PCC Office)
Lynn Joyce	Internal Audit Manager
Mark Kenyon	Chief Finance Officer (PCC Office)