



west midlands
police and crime
commissioner



Agenda Item 12

**JOINT AUDIT COMMITTEE
28th June 2018**

**ANNUAL INTERNAL AUDIT REPORT
2017/18**

1. PURPOSE OF REPORT

- 1.1 To receive and consider the Annual Internal Audit report and opinion relating to the Internal Audit coverage and work undertaken in 2017-18.

2. BACKGROUND

- 2.1 The Public Sector Internal Audit Standards require that an annual Internal Audit report is presented to an Audit Committee. This is reflected fully in the terms of reference of the Joint Audit Committee.
- 2.2 This report outlines the work undertaken by the internal audit between 1 April 2017 and 31 March 2018, and provides the basis upon which the annual assurance opinion is derived.

3. RECOMMENDATION

- 3.1 The Committee consider and note the contents of the 2017-18 Annual Internal Audit report.

CONTACT OFFICER

Name: Lynn Joyce
Title: Head of Internal Audit

BACKGROUND DOCUMENTS

None

ANNUAL INTERNAL AUDIT REPORT

2017/18

This document summarises the results of internal audit work during 2017/18 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 of the West Midlands Police and Crime Commissioner and West Midlands Police Force.

Context

This report outlines the work undertaken by the internal audit between 1 April 2017 and 31 March 2018.

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 is to provide assurance to the 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 2017/18

The methodology adopted in preparing the 2017/18 audit plan, and the plan itself, were approved by the Joint Audit Committee on 29 March 2017.

A revised plan was subsequently approved in November 2017, when, due to an unplanned long term absence, a number of audits originally planned were postponed to 2018/19. The net effect is that although the work undertaken by Internal Audit during the year was different to that anticipated 12 months ago, a total of 28 assurance activities have been completed to final stage covering a wide range of areas of governance, risk and control. A further four are in draft stage awaiting management comments. In addition, 45 audits from previous periods were followed up to establish progress made in implementing audit recommendations which contributes to an improved control environment.

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.

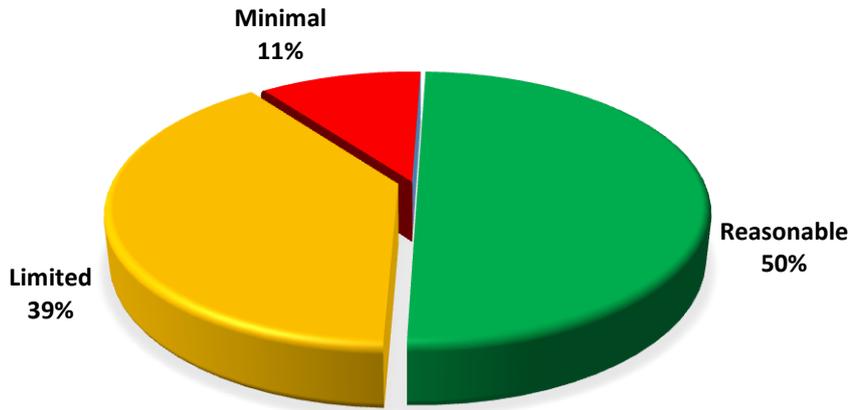
The four categories used during 2017/18 are as follows:

Rating	Definition
Substantial	There is a sound framework of control in place and the controls are being consistently applied to ensure risks are managed effectively. Some minor action may be required to improve controls.
Reasonable	There is a good framework of control in place and the majority of controls are being consistently applied to ensure risks are effectively managed. Some action may be required to improve controls.
Limited	There is an adequate framework of control in place but the controls are not being consistently applied to ensure the risks are managed effectively. Action is required to improve controls
Minimal	There is a weak framework of control in place and/or the controls are not being consistently applied to ensure the risks are managed effectively. Urgent action is required to improve controls

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 a limited or minimal opinion.

As shown in the following chart the results of those audits finalised in 2017/18 are positive with the majority having a Reasonable or Limited opinion. However, there were 3 audits where controls provided 'Minimal' assurance that significant risks were being addressed. The recommendations arising from these reviews relate to specific areas rather than representing an across the board breakdown in controls.

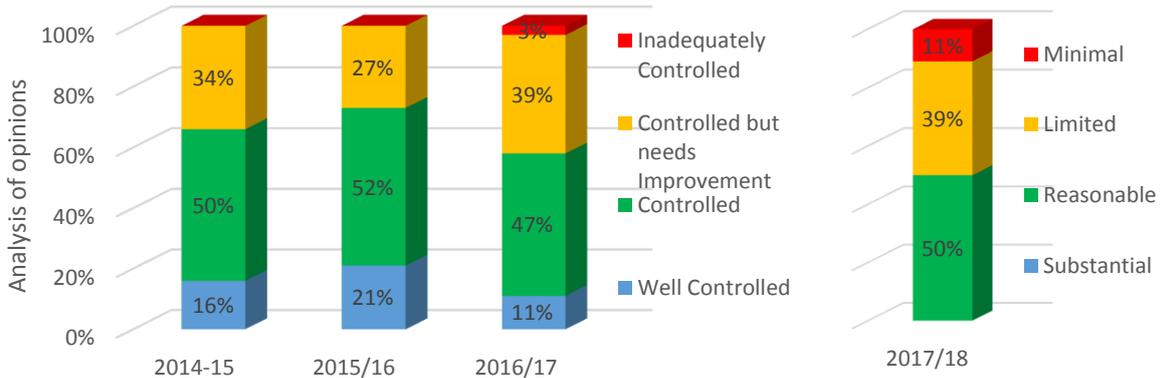
ANALYSIS OF AUDIT OPINIONS 2017/18



The key issues arising from the audits completed during 2017/18 have been reported to the Joint Audit Committee and follow-up audits have been undertaken or are planned during 2018/19. A list of the assurance work completed during the year is given in Appendix A.

The outcome of this year’s audits compared to previous years shows an increase in the proportion of audits given the lower levels of opinion, as shown in the following chart. Caution should however be taken when interpreting the chart as the assurance opinions changed in 2017/18, audits were more risk focussed rather than routine system based approach and different topics have been covered.

Comparison of Audit Opinions



A number of ‘Minimal’ opinions are to be expected each year especially as the audit planning processes and 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.

The three audits that received a minimal assurance opinion were Vetting, Body Worn Video and Creditors Payment Process, all of which have been reported to the Joint Audit Committee. These audits do not affect my ability to give a positive conclusion on the overall arrangements for governance, risk management and internal control for the West Midlands Police and Crime

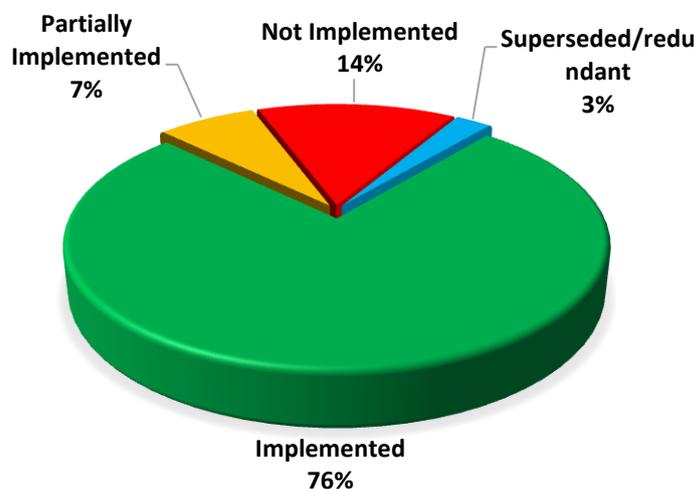
Commissioner and West Midlands Police Force. Management have responded positively to each of these audits and have taken prompt action to reduce the most significant risks. Action plans have been agreed to address the weaknesses identified and the Joint Audit Committee has been provided with summaries of the reports, or in some cases, the full reports have been shared.

Of particular note is the work internal audit have undertaken on the new financial systems, which covers both the Force and PCC financial processes. The new financial systems were implemented part way through the year and internal audit concluded that the some of the automated functions were not working as intended, or have not been utilised. Consequently a number of work arounds were operating. This, coupled with a number of management reporting and compliance issues, resulted in a number of weaknesses being reported and the opinions for some systems being lower than we would have anticipated. Management have shown commitment and investment to resolve the issues as a matter of urgency and internal audit is being kept apprised of progress. Provision has been made in the 2018/19 internal audit plan to follow up on this work and internal audit are liaising with management in the interim to ensure a robust control environment is established.

Recommendations are categorised according to the risks they are intended to mitigate. The categories used during 2017/18, were: High, Medium and Low. During the year 143 recommendations were agreed to address weaknesses in control, 7 of which were categorised as High. None of the recommendations made during the year 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 2017/18, 45 audits were followed up. An analysis of the implementation of management actions is shown below.

PROGRESS ON IMPLEMENTING RECOMMENDATIONS



Significant progress has been made in implementing the recommendations from the previous year audits followed up in 2017/18, with 83% of recommendations followed up being fully or partly implemented, a further 3% are considered redundant or superseded. Recommendations for those audits concluded during the year will continue to be progressed during 2018/19.

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 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. During 2017/18 the accounts for Tally Ho Sports and Social Club were audited. The Executive Committee of this account has been notified that Internal Audit will discontinue with this commitment from 2018/19.

Investigations

Whilst no investigations were undertaken directly by Internal Audit, the Service continues to liaise with the Professional Standards Department 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

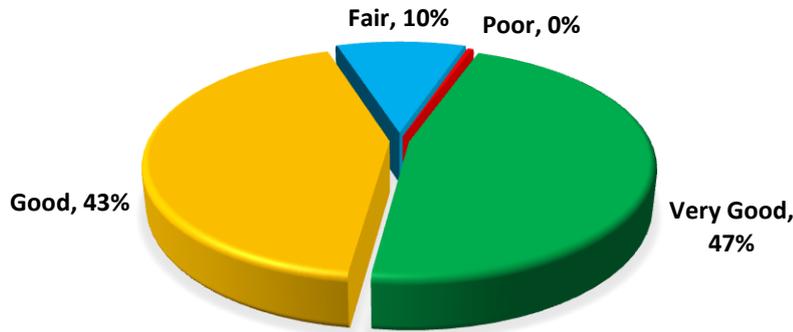
This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback. This report should be read in conjunction with the separate report on the Quality Assurance and Improvement Programme (QAIP). When read together, the two reports demonstrate the effectiveness of the Internal Audit Service.

The external assessment of the Internal Audit Service undertaken in October 2017, provided positive feedback, with only minor non-compliance with PSIAS being identified. 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. Good progress has been made in addressing the majority of improvement actions and the latest self-assessment indicates we are now 95% compliant with the Standards with just a small number of actions left to address.

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 manager review to ensure that the work is to acceptable professional standards.

Following planned 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 sometimes an inherent tension that can make it difficult to interpret surveys. It is however pleasing to report that the post audit survey responses returned continue to be positive with 90% of questions answered being scored ‘good’ or ‘very good.’

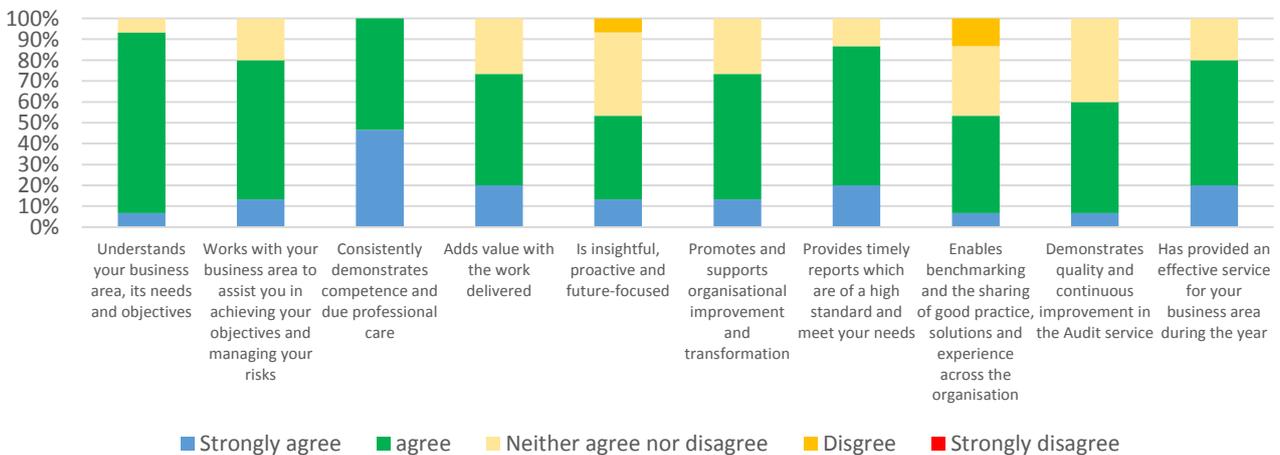
POST AUDIT SURVEY ANALYSIS



All respondents answered ‘Yes’ to the question ‘*Will the implementation of any changes recommended lead to improvements in performance in your area?*’ This confirms the view that service improvements will result from the work of internal audit.

In addition to the post audit surveys, an annual survey is issued to senior managers to gain insight on their view of the Internal Audit Service. The response rate for the 2017/18 annual survey was 23% (15 out of 64 managers.) The survey results provide encouraging feedback with a marked increase in the number of ‘strongly agree’ or ‘agree’ responses compared to the previous year. This is particularly relevant to the questions relating to understanding the business, adding value and providing timely reports that meet the client needs. None of the respondents ‘strongly disagreed’ with any of the statements.

Senior Management Survey



A number of positive comments and compliments about the service have also been received, in response to the question on the post audit survey ‘Was there anything about the audit you especially liked?’ including:

- *The way you have conducted this has been very professional.*
- *I like the opportunity to speak with the auditors in the planning and in the feedback stage, as well as the opportunity to comment on findings.*
- *Auditor concentrated on the areas of concern discussed with myself, and also looked at the areas from our previous audit and all aspects of our business. I am extremely*

happy with the audit content, terms of reference and findings. I especially wish to thank the Auditor for taking the time to understand this bespoke business and be robust in recommendations for change.

- *Auditor was attentive and listened to responses. We were kept informed of process, progress and expectations*
- *Hit exactly the right areas that we are focusing on.*
- *Consultation before and after.*
- *Supportive contact from both Head of Audit and Auditor.*
- *Approach and understanding of pressures we were under.*
- *Ability to mention areas of concern.*

More general comments on the annual survey were also constructive and included:

- *Internal audit are much better focussed on the areas of concern in the force now and are closely aligned to business issues. This is a great improvement. The style is pragmatic and supportive.*
- *The team are helpful.*
- *I would say that most of the suggestions made are genuinely productive and necessary, but some are not as they perhaps don't understand our world. However the team do listen to our suggestions or comments and allow some flexibility*
- *The Auditor was the utmost professional. I could not have asked for more. Her communication and engagement was excellent and the product at the end is very useful and insightful. The Auditor listed and challenged striking the perfect balance. thank you*

As agreed in the annual Quality Assurance Improvement Programme, internal audit performance is measured against a set of Key Performance Indicators, which are regularly reported to and monitored by Joint Audit Committee. The performance indicators for 2017/18 are summarised in the following table:

KPI Description	Narrative	Target	Actual
Output Indicators:			
Audit Coverage	% of Audit Plan Delivered.*	90%	93%
Report Production	Completion of Draft Audit Report within 10 working days.	95%	100%
Report Production	Completion of Final Report within 5 days of agreement of the draft.	95%	100%
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%	90%

**Audits completed to draft and final stage, including follow-up reviews*

Opinion

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 and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance and the work of internal audit is intended only to provide reasonable assurance to the organisation that there are no major weaknesses in the organisations governance, risk management and control arrangements. In assessing the level of assurance to be given to each organisation, 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.

Whilst, compared to previous years, there has been an increase in the proportion of audits where the lowest level of assurance opinion was assigned, the weaknesses arising have tended to relate to specific systems or parts of the PCC or Force rather than an across the board breakdown in the framework of governance, risk and control.

Those audits involving major control weaknesses are in the minority with only three audits receiving 'Minimal assurance' and less than 5% of recommendations made being categorised as 'High.' However, it is clearly important that issues identified during the year are addressed and management have continued to demonstrate their commitment to resolving the weaknesses identified. The level of implementation of Internal Audit recommendations is also positive.

Taking these factors into account, the opinion given to both the West Midlands Police and Crime Commissioner and West Midlands Police Force is outlined below.

Head of Internal Audit Opinion

Based upon the results of work undertaken for the 12 months ended 31 March 2018, and the action taken by management to address audit recommendations, the Head of Internal Audit opinion is as follows for the:

- Police and Crime Commissioner; and
- Chief Constable:

Assurance can be given that the Governance, Risk Management and Control frameworks in place are adequate to support achievement of the organisations objectives, and that controls are generally operating effectively in practice.

Appendix A: Summary of audits finalised during the 2017/18

The following audits contribute to the annual audit opinion for 2017/18.

Audit	Status	Opinion
Civil Contingencies	Final	Reasonable
Force Risk Management	Final	Limited
Assurances Over Key HR Data	Final	Limited
Vetting	Final	Minimal
Cybercrime	Final	Limited
Workforce Planning, Diversity & Inclusion	Final	Reasonable
Victims Code Compliance	Final	Limited
Fuel Card Management	Final	Reasonable
Overtime	Final	Limited
Contract Management	Final	Limited
Replacement Finance and systems (UAT; Data Migration, Interfaces)	Final	Reasonable
Key Financial systems (following go live in July 17) - Creditors	Final	Minimal
- Debtors	Final	Limited
- Bank reconciliation	Final	Reasonable
Payroll	Final	Limited
IR35 compliance	Final	Limited
Use of Consultants / agency staff	Final	Limited
Information Management and Ownership	Final	Reasonable
Information Sharing Agreements	Final	Reasonable
Mobility	Final	Reasonable
IT Business Continuity & Disaster Recovery	Final	Reasonable
Intelligence Management & Tasking	Final	Reasonable
Body Worn Video	Final	Minimal
Cadets Scheme	Final	Reasonable
Active Citizens	Final	Reasonable
Section 22a agreements	Final	Reasonable
IIP Performance Management	Final	Reasonable
Tally Ho	Final	Limited