

Agenda item:

West Mercia Joint Audit and Standards Committee Report Summary

Meeting Date: 26 November 2020

Subject: Internal Audit Annual Report 2019-20

Contact details: Paul Clarke – Head of Audit
Tel: 07887 218003
Email: paulclarkere@warwickshire.gov.uk

Purpose of the Report:

This report reviews the Internal Audit work undertaken during 2019-20 and sets out the annual opinion of the Head of Audit on the control environments operated by West Mercia Police and West Mercia Police and Crime Commissioner.

Recommendation:

The Committee is requested to

- a. note the report

Internal Audit Annual Report 2019/20

“Providing assurance on the management of risks”

Internal Audit Annual Report 2019/20

“Providing assurance on the management of risks”

This document summarises the results of Internal Audit work during 2019/20 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the control environment that operated during 2019/20 in respect of West Mercia Police and West Mercia Police and Crime Commissioner (PCC).

Opinion

Based upon the results of work undertaken during the year my opinion is that the control environments operated by West Mercia Police and West Mercia Police and Crime Commissioner (PCC) provide **moderate** assurance that the significant risks facing their respective organisations are addressed.

Context

This report outlines the work undertaken by the Internal Audit service of Warwickshire County Council for the Police and Crime Commissioner and Chief Constable between 1 April 2019 and 31 March 2020.

Warwickshire Internal Audit section during the year worked to a joint Audit Plan, Strategy, Service Level Agreement and Audit Charter covering West Mercia OPCC, West Mercia Police, Warwickshire OPCC and Warwickshire Police agreed by the Joint Audit and Standards Committee on 18 March 2019. The Audit Plan was intended to deliver a programme of assurance audits which would enable end of year Head of Audit opinions to be delivered for West Mercia OPCC, West Mercia Police, Warwickshire OPCC and Warwickshire Police. The original plan 2019/20 only covered the period to October 2019 due to the termination of the Alliance, this was kept under constant review and amendments were agreed by the West Mercia Joint Audit and Standards Committee on 26 February and 07 April 2020. For the year 2020 /21 a separate Audit Plan, Strategy, Service Level Agreement and Audit Charter was agreed for West Mercia Police at the West Mercia Joint Audit and Standards Committee April 2020 meeting.

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. On behalf of the organisation, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual Internal Audit opinion and report to those charged with governance timed to inform 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 and the results of the quality assurance and improvement programme.

The primary role of audit is to provide assurance to both policing organisations, managers, Joint Audit and Standards Committee and ultimately the taxpayers that the organisations maintain an effective control environment that enables them to manage their significant business risks. The service helps each organisation achieve its objectives and provides assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of each organisation's control environment which feeds into the annual governance statements.

Internal audit work during 2019/2020

The underlying principle to the 2019/20 audit plan was risk and accordingly audits were only completed in areas that represented an *'in year risk'*.

The methodology adopted in preparing the 2019/20 audit plan, and the plan itself, were approved by the Joint Audit and Standards Committee on 18 March 2019.

Since the original plan was approved a number of variations to the plan have proved necessary. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. These changes were subsequently confirmed at the Joint Audit and Standards Committee.

Appendix A provides a summary of those jobs completed since the last update report to the Committee on 07 April 2020, which relate to West Mercia only. A summary of the progress made against the revised 2019/20 audit plan is attached at Appendix B, detailing those jobs that relate to West Mercia. This appendix shows **all** work completed against the 2019/20 plan including those jobs previously reported to the Committee.

A small number of audits started during the year were not completed at year end but have been prioritised for completion in 2020/21, although some difficulty has been experienced in completing the work and finalising audits due to the availability of officers during the Covid 19 pandemic. The net effect is that although the work undertaken during the year was different to that anticipated when the plan was agreed, 94% (325.6 days) of the revised planned days were delivered by 31 March 2020. Since 1st April a further 6.25 days have been spent on progressing 2019/20 assignments which means that (96% 2019/20 plan has now been completed.

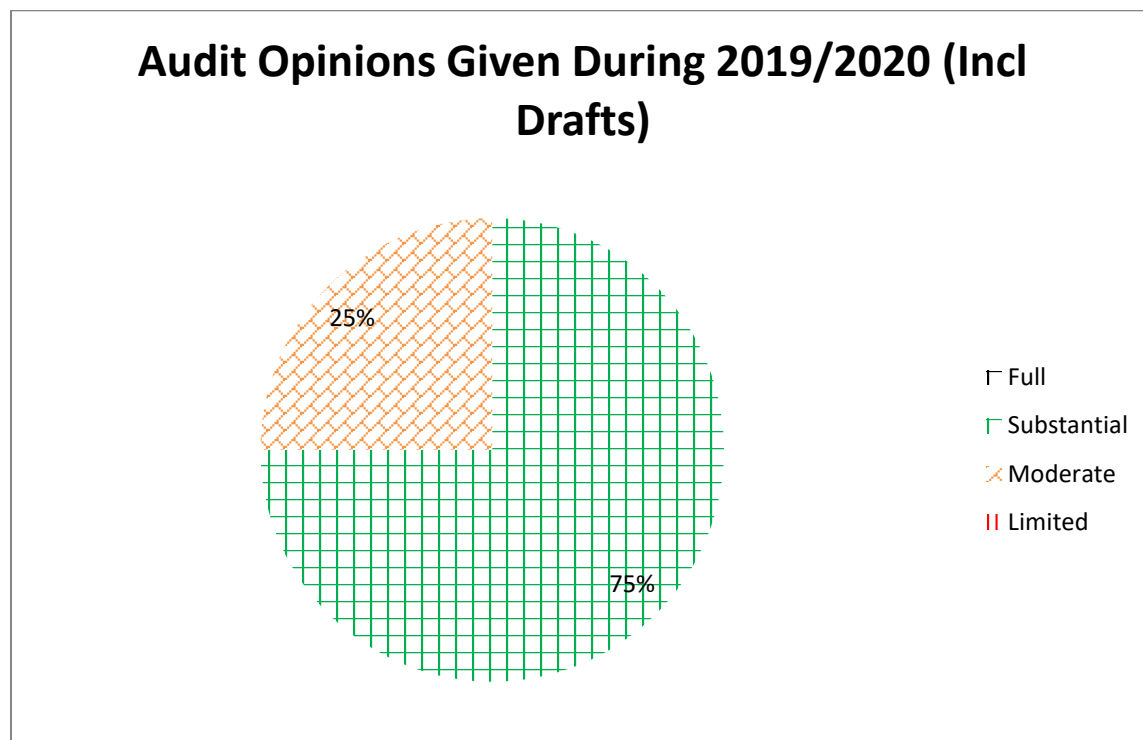
Each final report includes a detailed action plan that has been agreed with the relevant manager. These plans specify the manager responsible for implementing each action and a target implementation date. Where a manager has not agreed a recommendation and is therefore accepting the risks involved this will be noted in progress reports to the Committee.

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 ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls. The lowest category, Limited, is a negative view whilst the others are all positive. The individual opinions given during the year are considered along with other sources of assurance and inform the overall annual opinion. The Joint Audit and Standards Committee has received regular reports during the year summarising audits undertaken.

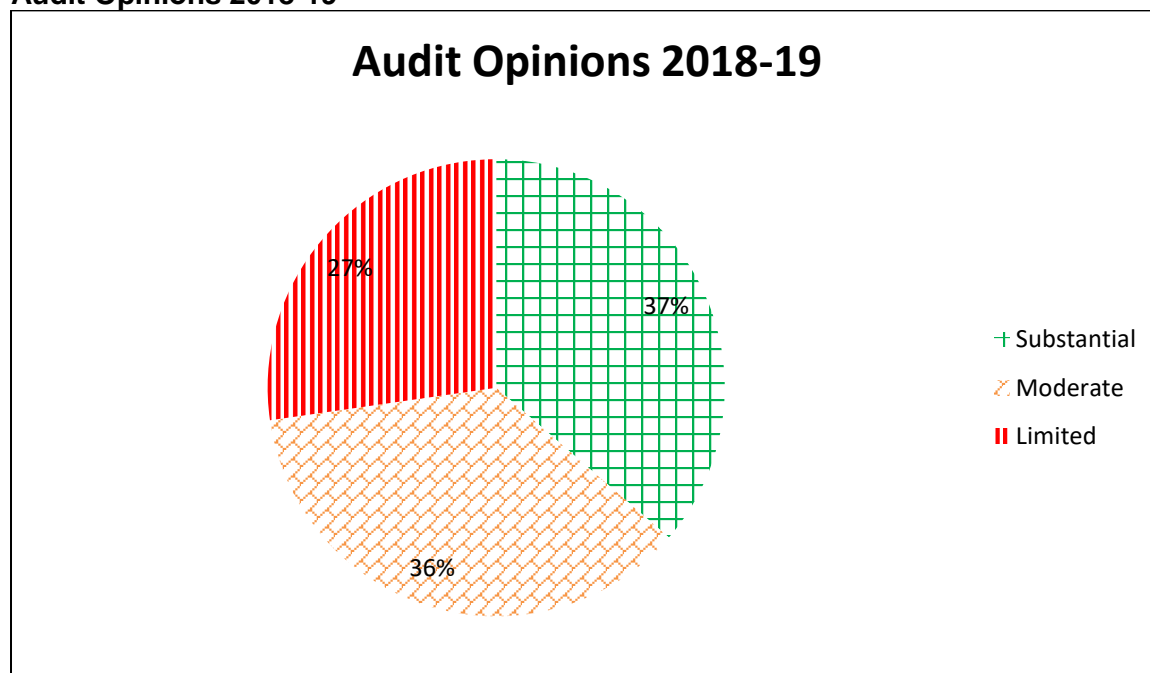
As shown in the following chart all this year's audits have resulted in a positive opinion with all having a moderate or substantial opinion.

Audit Opinions 2019-20



Direct comparison between years is not possible because the content of audits plans varies from year to year and the number of audits is relatively small. Nevertheless, it is helpful to monitor for significant changes. This year there was an increase in the proportion of Substantial opinions and decrease in Limited opinions. The outcomes for 2018/19 were as follows:

Audit Opinions 2018-19

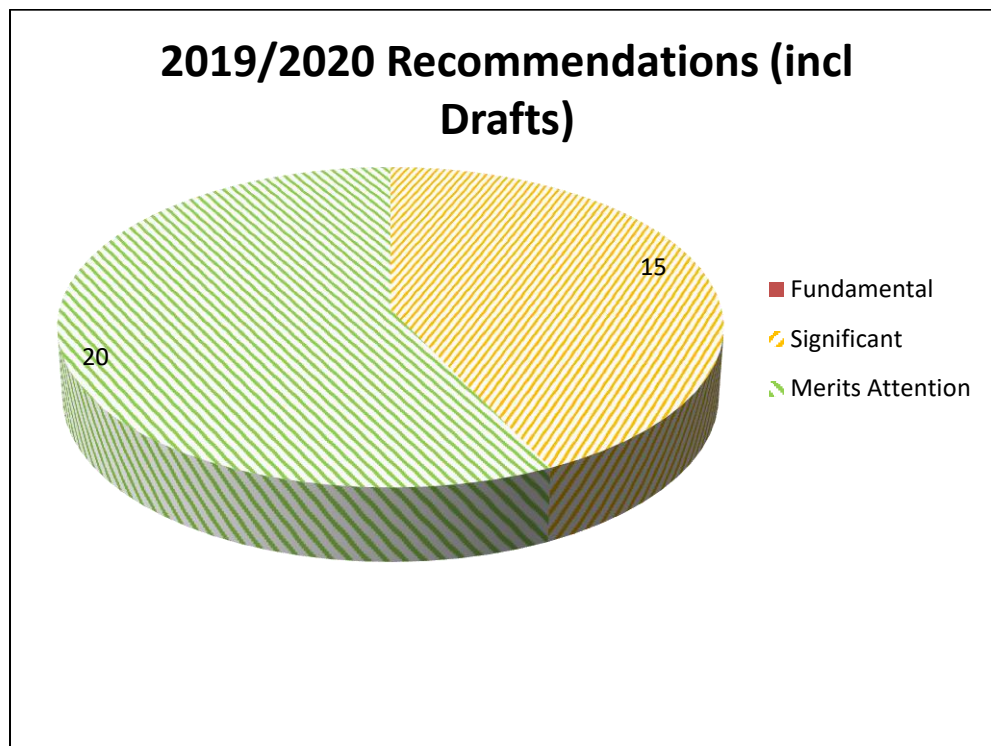


A full list of the assurance work undertaken in respect of West Mercia audits during the year is included in Appendix B.

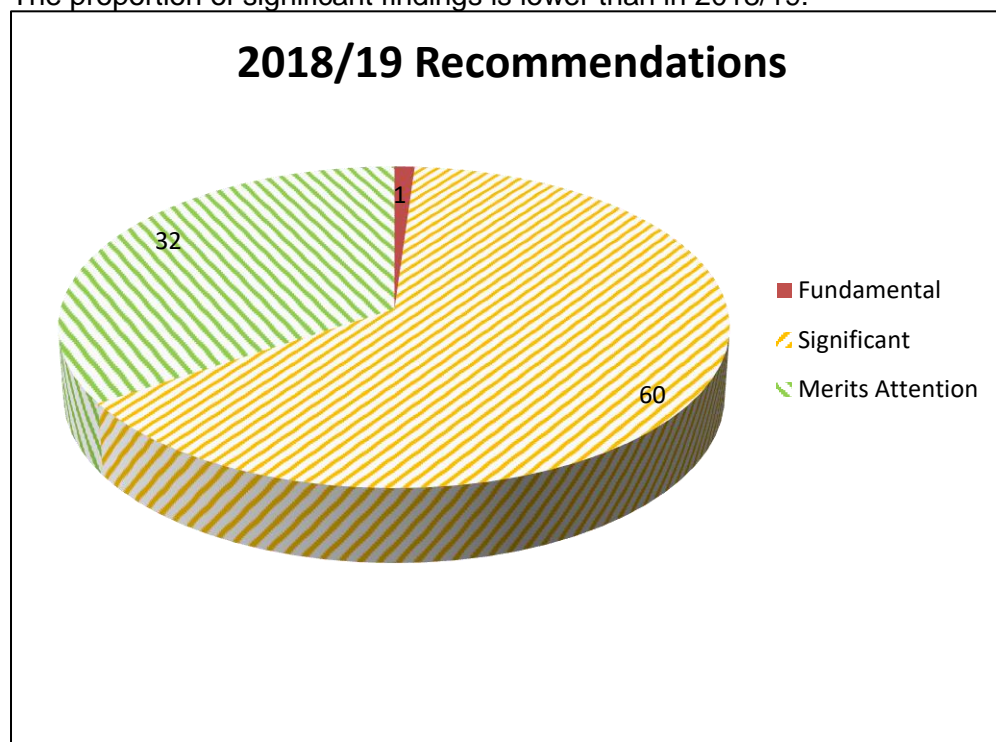
A summary of those audits finalised since the last audit committee meeting or which are currently in draft is included in Appendix A. No audits this year have been given a limited opinion.

Recommendations

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental. During the year 35 recommendations, the majority of which were categorised as merits attention, were made to address weaknesses in control which would otherwise not have been identified. The following chart shows the proportion of recommendations made in each category:



The proportion of significant findings is lower than in 2018/19:



Responsibility for implementing agreed recommendations previously rested with the Chief Executives and Chief Constables of both Forces who implemented monitoring arrangements to establish progress on implementing audit recommendations. Audit, Risk and Compliance are now responsible for recommendation follow up and regularly ask managers for a status update and provide information for inclusion in Committee reports.

The information in Appendix C summarises the results of the latest monitoring exercise based on the information provided by Audit, Risk and Compliance. The table shows all those audits which have recommendations which have still to be implemented. Based upon the target date agreed with management there are 29 recommendations overdue. Whilst none of these are classed as fundamental, there are 21 "Significant" Medium (M) priority recommendations which are more than 6 months overdue. It should be noted that the Head of Audit, Risk and Compliance is to review the outstanding recommendations to ensure that they are all still relevant following the alliance termination.

Summary of non-assurance work

Other sources of assurance

We had planned to undertake assurance work on the Alliance termination and ICT risk. Instead it was agreed that the best use of resources would be to review the information and evidence which was available from other external reviewers.

For the Alliance termination the focus was on the risks relating to continuing operations and transition to the post alliance arrangement, including financial and operational planning. We reviewed the evidence from reports by HMICFRS, the Home Office and the external auditors as well as the budget setting reports for 2020-21. Overall we were satisfied that the work to manage these risks had been effective, with a number of areas already successfully separated and the prudent adoption of a longer timescale for the most complex areas. Such a large scale transition carries risks and the process of transition is continuing into 2020-21, with significant areas of Finance, HR and IT still to separate. Management of these transition risks will require continued focus in 2020-21.

In relation to ICT risks, ICT is recognised as a significant risk area in the force Risk Management system. During the year an independent external assessment was commissioned. This was an IT Health Check security assessment. The assessment, which was undertaken in November 2019, identified important weaknesses which needed to be addressed. I have reviewed the report and the associated remediation work. Whilst progress has since been made in addressing the weaknesses, ICT systems were exposed to important security weakness during 2019-20.

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. We have this year only provided ad hoc advice on minor issues.

Special Investigations

Special Investigations within the organisation are largely dealt with by Professional Standards, although on occasion we may be asked to undertake an investigation into suspected irregularities. We did not undertake any investigations during the year.

Effectiveness

This section of the report sets out information on the effectiveness of the audit service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

A full externally conducted quality assessment of the service was conducted during February 2018. External assessments are required every five years. The report of that assessment states that the audit service “complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector.”

In accordance with best practice there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process.



Following each audit a “post audit questionnaire” is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, 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 Internal Audit service continued to rate very highly during 2019/20 with an overall average score of 5 (out of a maximum of 5). A number of positive comments and compliments about the service provided have been received, including:

- Relevant questions asked
- Quick understanding of the area being audited
- Auditor was friendly and approachable

Whilst only one completed questionnaire was returned in 2019-20, these comments are consistent with the comments received across all clients.

It is clearly important for any Audit service to keep abreast of best professional practice. Warwickshire Internal Audit Services are fortunate in having strong links with colleagues both within the Midlands and nationally. The service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. At a regional level there are networking opportunities for auditors specialising in Police audit. As well as good opportunities for sharing best practice these activities provide advance information on new developments which are then considered for inclusion in the audit plan.

The PCC and Force can be confident that a best practice quality Internal Audit service continues to be provided.

Opinion

It is the responsibility of both PCCs and Chief Constables to develop and maintain their 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 respective organisation’s 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, I have taken into account:

- all audits completed during the year;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- anticipated outcome from audits currently in draft;
- work in progress;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Organisation's systems; and
- matters arising from previous reports to the Audit and Standards Committee.

Whilst the assurance opinions on Internal Audit undertaken during 2019-20 were all positive, I am mindful that during 2019-20 there have been slower responses to reports and implementation of actions arising from the audits relating to 2018-19 has taken longer than usual. In addition weaknesses around ICT security have persisted through the year.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. On the whole, 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.

Based upon the results of work undertaken during the year my opinion is that the control environments operated by West Mercia Police and Crime Commissioner and West Mercia Police provide **moderate** assurance that the significant risks facing their respective organisations are addressed.

Paul Clarke
Internal Audit Manager

Appendix A: Summary of progress against the 2019/20 workplan

Topic	Latest Status	Opinion on level of assurance provided by controls.
<u>2019/20 Workplan</u>		
Alliance Termination and future collaboration arrangements	Review of assurance	N/A
Payroll including Self Service	Complete	Substantial
Accounts Payable	Complete	Moderate
IT	Review of assurance	N/A
Corporate Governance – Gifts and hospitality, declarations of interest	Complete	Substantial
Seized Property	Deferred	N/A
HR management –recruitment, pre-employment checks, vetting	Complete	Substantial
Risk Management	Complete	Substantial
HR Management – absence Management	Deferred	N/A
Consultants – IR 35, engagement, performance management	In Progress	
Treasury Management	Complete	Substantial
Covert Funds - 1	Complete	Substantial
Covert Funds - 2	Complete	Moderate
Completion of 2018/19 Audits (already included in 2018/19 Annual Audit Report)		
Budget Management	Complete	Substantial
Contract Management	Complete	Moderate
Crime Property	Complete	Substantial
Business Continuity	Complete	Limited
GDPR	Complete	Moderate
Project Health check - DCD	Complete	Limited
Project health check - KCOM	Complete	Substantial

indicates audits with formal draft issued, but not yet agreed and finalised at time of writing.

Appendix B: Audits with Recommendations Outstanding Monitored During 2019/20

	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Police MASH	10	0	0	5	0	0	0	5 (3 M 2L)	Y
Procurement	7	0	0	7	0	0	0	0	Y
Police Fleet	9	0	0	7	0	0	0	2(2L)	Y
Partnerships	7	0	0	6	0	0	0	1 (M)	N
GDPR and Data Protection	3	0	0	3	0	0	0	0	Y
ICT Active Directory	7	0	0	1	0	0	0	6 (6 M)	N
ICT Database Admin and security	9	0	0	0	0	0	0	9(9 M)	N
Medium Term Financial Plan	4	0	0	4	0	0	0	0	Y
HR Recruitment, pre-employment checks	1	0	0	0	0	1 (L)	0	0	Y
Budget Management	3	0	0	3	0	0	0	0	Y
Business Continuity	3	0	0	3		0	0	0	Y
Corporate Governance: Gifts & Hospitality and	5	0	0	0	0	0	0	5 (2M 3L)	Y

Declarations of Interests									
Treasury Management	5	0	0	5	0	0	0	0	Y
	73	0	0	44	0	1	0	28	

Key: Priority of recommendations, H=High, M= Medium, L=Low