

Triennial

Review of

Internal Audit

Humberside Police Authority

Audit 2007/08

December 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 Under the requirements of ISA (UK&I) 610: Considering the work of Internal Audit, we are required to undertake a triennial review of the Internal Audit function. Our review considers whether the Internal Audit function complies with the required standards and we will conclude from this assessment whether we can place reliance on the work of Internal Audit to discharge our own audit responsibilities.
- 2 This report summarises the main findings and recommendations from our recent review.

Background

- 3 Regulation 6 of the Accounts and Audit Regulations 2006 requires Humberside Police Authority (the Authority) to 'maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'. The guidance accompanying the legislation states that proper internal audit practices are those contained within CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the CIPFA Code).
- 4 Internal audit is defined by the CIPFA Code as 'an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations objectives'.
- 5 The CIPFA Code sets out definitions and principles in the form of 11 standards which establish how a professional Internal Audit service should operate. These 11 standards form two groups. The first six encompass the organisational and structural aspects of Internal Audit; the second five encompass the activity and operation of Internal Audit.
- 6 Our work is governed by the International Standards of Auditing for the UK and Ireland (ISA UK&I). Compliance with the ISAs (UK&I) is mandatory. In particular, ISA (UK&I) 610: Considering the work of Internal Audit, requires external auditors to:
 - consider the activities of internal auditing and their effect, if any, on external audit procedures;
 - obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures; and
 - perform an assessment of the internal audit function when internal auditing is relevant to the external auditors risk assessment.
- 7 We are also required to undertake a detailed review of Internal Audit every three years, supplemented by annual updates and assessments of coverage. Our last review was undertaken in 2004/05; therefore we are required to undertake a detailed review in 2007/08.
- 8 The Authority commissions Internal Audit services from the Internal Audit function of North Lincolnshire Council.
- 9 The CIPFA code makes reference to the Head of Internal Audit within the 11 standards. The responsibilities of the Head of Internal Audit are discharged by the Audit and Risk Manager within the Internal Audit function, therefore references to 'the Head of Internal Audit' within the standards have been replaced with 'the Audit and Risk Manager' for the purposes of this report.

Audit approach

- 10 We liaised with the external auditors of North Lincolnshire Council, who were responsible for undertaking a triennial review of the Internal Audit provider, and sought assurance from their work. Where necessary, we carried out further work to assess Internal Audits compliance with the requirements of the CIPFA Code specifically in relation to the Authority by:
- meeting with key audit staff;
 - reviewing relevant Authority documents and policies; and
 - reviewing a sample of 2007/08 Internal Audit files;

Main conclusions

- 11 The Internal Audit function meets all 11 standards as set out within the CIPFA Code. Therefore, we are able to place reliance on the work of Internal Audit to discharge our own audit responsibilities.
- 12 Whilst we have found no issues of non compliance with the required standards, we have identified some areas for improvement, most notably:
 - compliance with Standard 2 - Independence could be improved by ensuring that the Audit and Risk Manager (or delegated representative) reports in their own name to the Finance Committee on a more frequent basis;
 - compliance with Standard 4 - Audit Committees could be improved by ensuring that the Audit and Risk Manager (or delegated representative) regularly attends Finance Committee meetings, and presents the annual Internal Audit report and Internal Audit progress updates; and
 - compliance with Standard 5 - Relationships could be improved by ensuring that Internal Audit, External Audit and the section 151 officer clarify their respective roles and responsibilities in terms of identifying and addressing the internal control risks within the Authority.
- 13 A summary of compliance against each of the standards set out within the CIPFA Code is attached at Appendix 1.
- 14 An Action Plan based on the recommendations raised within this report is attached at Appendix 2.

Detailed findings

Standard 1 - Scope of Internal Audit

- 15 The standard has been met.
- 16 Terms of Reference are in place that meet the requirements of the standard, and these are reviewed and updated at least annually. The Audit and Risk Manager ensures that the scope of Internal Audits work takes account of the Authority's assurance and monitoring mechanisms and partnership arrangements.
- 17 Whilst the role of Internal Audit in any fraud related or consultancy work is defined in the Terms of Reference, the Authority's Anti-Fraud and Corruption Policy was last updated in January 2005. The policy could be improved to make specific reference to notifying the Audit and Risk Manager of all suspected or detected fraud, corruption or impropriety, and ensuring that reporting lines refer directly to the Audit and Risk Manager rather than to the Authority Treasurer (also the Director of Performance and Resources).

Recommendation

- R1** The Authority's Anti-Fraud and Corruption Policy should be updated. The revised document should:
- make specific reference to Management's and Internal Audit's roles in preventing and investigating fraud and corruption;
 - make specific reference to the need to inform the Audit and Risk Manager of all suspected or detected fraud, corruption or impropriety; and
 - disclose details of how to contact the Audit and Risk Manager directly.

Standard 2 - Independence

- 18 The standard has been met.
- 19 The Director of Performance and Resources manages the Internal Audit function. In practice this is through line management of, and regular meetings with, the Group Internal Auditor who manages the audit.
- 20 Adequate budgetary resources are provided to maintain organisational independence, and budgets are managed by the Director of Performance and Resources which ensures independence of Internal Audit from service areas.
- 21 There is a system of declarations in force to ensure that the independence of auditors is maintained. Whilst there is no evidence of any issues which may compromise this independence, compliance with the standard could be strengthened by ensuring that the Internal Audit Terms of Reference and Annual Strategy formally recognise these arrangements.

- 22 The Group Internal Auditor attends the Force Audit Board where Internal Audit reports are presented, and progress against recommendations is reported to the Finance Committee (those charged with governance) by the Director of Performance and Resources. Whilst we note these improvements in linking Authority risk and Force risk, Internal Audit is a function of the Authority and the standard requires that the Audit and Risk Manager has the freedom to report to the Authority in his or her own name. We acknowledge that the Terms of Reference formally set out this reporting freedom, but note that in practice the current arrangements raise the risk that the standard will not be met in future periods as indirect reporting becomes embedded.

Recommendations

R2 The Internal Audit Terms of Reference and Annual Strategy should formally reflect the arrangements in place to assess independence risks.

R3 The Audit and Risk Manager (or delegated representative) should report in their own name to the Finance Committee on a more frequent basis, to ensure that independence is not compromised.

Standard 3 - Ethics for Internal Auditors

- 23 The Standard has been met.
- 24 There are arrangements in place to ensure that the Audit and Risk Manager regularly reminds auditors of their ethical responsibilities, and that the principles of integrity, objectivity, competence and confidentiality are observed.
- 25 There is a suitable training and monitoring regime in place and no reported ethical issues.

Standard 4 - Audit Committees

- 26 The standard has been met.
- 27 The Authority's Finance Committee performs the functions of an Audit committee, and approves the annual Internal Audit plan. The Finance Committee monitors progress against the plan.
- 28 Whilst our work has shown that arrangements are sufficient to meet the standard, improvement areas have been noted which should be addressed to ensure future compliance with both this standard and standard 2 - independence. It was seen that:
- the Audit and Risk Manager/Group Internal Auditor does not regularly attend Finance Committee meetings. This potentially inhibits both the ability of Internal Audit and the Finance Committee to build an effective working relationship and the ability of the Head of Internal Audit/Group Internal Auditor to meet privately with the Finance Committee; and

Detailed findings

- the Group Internal Auditor has appropriate input to Internal Audit progress updates and the annual Internal Audit report, but commentary and presentation is undertaken by the Director of Performance and Resources. Whilst there is no evidence that the current arrangements have compromised the content of these reports, the standard requires that they are presented to the Finance Committee by the Audit and Risk Manager.

Recommendations

R4 The Audit and Risk Manager (or delegated representative) should regularly attend Finance Committee meetings.

R5 The Audit and Risk Manager (or delegated representative) should report Internal Audit progress updates and the annual Internal Audit report directly to the Finance Committee.

Standard 5 - Relationships

29 The standard has been met.

30 The Audit and Risk Manager/Group Internal Auditor effectively manages relationships with management, other internal auditors, other regulators and inspectors and elected members.

31 There is an effective working relationship between Internal Audit and External Audit which is designed to minimise the duplication of audit coverage. Notwithstanding these arrangements, a review of documents shows that paragraph 3.2 'Fundamental Financial Systems' of the 2008/09 Internal Audit Strategy states 'major financial systems (as identified by external audit) are reviewed'. The relationship should be clarified to ensure that whilst arrangements ensure that the duplication of audit coverage is minimised, the identification of internal control risks and action taken to address them is directed by Internal Audit and the section 151 officer of the Authority.

Recommendation

R6 Internal Audit, External Audit and the section 151 officer of the Authority should clarify their relationship to ensure that whilst duplication of audit coverage is minimised, the identification of internal control risks and action taken to address them is directed by Internal Audit and the section 151 officer of the Authority.

Standard 6 - Staffing, Training and CPD

- 32 The standard has been met.
- 33 Internal Audit employs appropriately qualified and experienced staff and has access to resources such as computer audit staff if required.
- 34 Internal Auditors maintain CPD records and are assessed against job competencies as part of an ongoing development programme which sets out training and development needs. The development programme is regularly reviewed and monitored.

Standard 7 - Audit Strategy and Planning

- 35 The standard has been met.
- 36 There is an Internal Audit Strategy in place which has been approved by the Finance Committee and includes the content required by the standard.
- 37 There is an annual risk-based Internal Audit Plan in place which has been approved by the Finance Committee. This plan differentiates between assurance and other work, and shows the resources required for completion. Progress against the plan is reported to the Finance Committee by the Director of Performance and Resources.

Standard 8 - Undertaking Audit Work

- 38 The standard has been met.
- 39 Overall, our review of files shows that work is appropriately planned, recorded and reviewed. During our review, we have noted some areas for improvement which could further improve the quality of Internal Audits work. These are:
- a completed Audit Specification form was not shown on all files. This form sets out the objectives, scope, timing, resource and reporting requirements of the audit;
 - individual audit files could clarify which controls have been identified as key controls; and
 - audit tests sometimes addressed a number of controls at the same time within an overall control objective. Whilst testing addressed the required controls, documentation could be improved if the controls tested were more clearly identified and results and conclusions from testing were directly linked to those controls.

Recommendations

- R7** Internal Audit should ensure that a completed Audit Specification form is completed for each audit file.
- R8** Internal Audit should clarify which controls have been identified as key controls.
- R9** Internal Audit should ensure that the controls subject to testing are clearly identified, and linked directly to the results and conclusions of testing.

Detailed findings

Standard 9 - Due Professional Care

- 40 The standard has been met.
- 41 The Group Internal Auditor reviews Internal Audit files to ensure that aspects of due professional care have been exercised and maintained. Whilst we found evidence of an appropriate approach to the work, there is no formal programme showing how the Audit and Risk Manager ensures that due professional care is maintained. For example, there is no documented review of a sample of files by the Audit and Risk Manager.

Recommendation

R10 The Audit and Risk Manager should develop a formal monitoring and review programme to ensure that due professional care has been exercised and maintained.

Standard 10 - Reporting

- 42 The standard has been met.
- 43 There are arrangements in place to ensure that reporting standards meet the requirements of the standard. The results of follow up work are considered by management and implementation of Internal Audit recommendations is reviewed regularly by the Finance Committee.
- 44 The 2007/08 Internal Audit Annual Report meets the requirements of the standard, although we have identified that reporting could be further improved by including a summary of Internal Audit work undertaken during the year showing where opinion assurance has been derived from.

Recommendation

R11 Future Internal Audit Annual Reports should include a summary of work undertaken during the year, showing where opinion assurance has been derived from.

Standard 11 - Performance, Quality and Effectiveness

- 45 The standard has been met.
- 46 The Audit and Risk Manager has set up satisfactory performance management arrangements.

Appendix 1 – Requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Standard	Summary of requirements within the code	Standard met?	Areas for improvement?
Standard 1 - Scope of Internal Audit	Formally defined terms of reference for Internal Audit should be in place. The scope of Internal Audit should be defined and should extend to reviewing services provided through partnership arrangements if required, and to the investigation of suspected fraud and corruption.	Yes	Yes
Standard 2 - Independence	Internal Audit should be independent of the activities that it audits. Audit and Risk Manager should have the ability to report to Management and those charged with governance, in her own name, about any matter that she sees fit. The status of Internal Audit within the Council should be sufficient to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management. Individual auditors should be impartial and unbiased.	Yes	Yes
Standard 3 – Ethics for Internal Auditors	All auditors must observe four main principles: integrity, objectivity, competence and confidentiality. The Audit and Risk Manager must regularly remind staff of these responsibilities.	Yes	No
Standard 4 – Audit Committees	An Audit Committee should be in place within the Council and there should be a close working relationship between that committee and the Internal Audit function, with the Audit and Risk Manager attending all Audit Committee meetings.	Yes	Yes

Appendix 1 – Requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Standard	Summary of requirements within the code	Standard met?	Areas for improvement?
Standard 5 - Relationships	Internal Audit must ensure that it manages its relationships with Management, other internal auditors, external audit, other regulators and inspectors and elected members.	Yes	Yes
Standard 6 - Staffing, Training and Continuing Professional Development	Internal Audit should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives. Training needs and continuing development should be regularly reviewed.	Yes	No
Standard 7 - Audit Strategy and Planning	An Internal Audit strategy should be in place which communicates how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities. The Audit and Risk Manager should produce a risk-based audit plan which spans a period of no more than a year and which outlines the work to be undertaken.	Yes	No
Standard 8 - Undertaking Audit Work	The Audit and Risk Manager should set out in the Internal Audit Manual the requirements for undertaking audit work in terms of: planning, audit approach and recording audit assignments. The Audit and Risk Manager should put in place arrangements to ensure that these standards are met.	Yes	Yes
Standard 9 - Due Professional Care	Individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. The Audit and Risk Manager should develop a monitoring and review programme to ensure that due professional care has been exercised and is maintained. Arrangements must be in place to ensure that auditors are able to report any suspicions of fraud, corruption or improper conduct.	Yes	Yes

Appendix 1 – Requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Standard	Summary of requirements within the code	Standard met?	Areas for improvement?
Standard 10 - Reporting	<p>The Audit and Risk Manager should set reporting standards to be upheld within all reports issued by Internal Audit.</p> <p>Appropriate arrangements for following up on recommendations should be in place including an escalation procedure where agreed actions have not been effectively implemented by the date agreed.</p> <p>The Audit and Risk Manager must provide a written report to those charged with governance timed to support the Annual Governance statement.</p> <p>In addition to the annual report, the Audit and Risk Manager should make arrangements for interim reporting to the council in the course of the year.</p>	Yes	Yes
Standard 11 - Performance, Quality and Effectiveness	<p>The Audit and Risk Manager should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with the Code.</p> <p>The manual should be regularly reviewed and updated to reflect changes in working practices and standards.</p> <p>The Audit and Risk Manager should ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff.</p>	Yes	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	<p>R1 The Authority's Anti-Fraud and Corruption Policy should be updated. The revised document should:</p> <ul style="list-style-type: none"> • make specific reference to Management's and Internal Audit's roles in preventing and investigating fraud and corruption; • make specific reference to the need to inform the Audit and Risk Manager of all suspected or detected fraud, corruption or impropriety; and • disclose details of how to contact the Audit and Risk Manager directly. 	2	Director of Performance & Resources	Yes	The Anti-Fraud and Corruption Statement will be re-issued. A gap analysis will be carried out against the latest CIPFA Better Governance Forum guidance and this will be used to develop an Anti-Fraud and Corruption Strategy and Fraud response Plan. This will address the recommendations and take into account the work undertaken by Force's Professional Standards Branch, including its proactive unit, and the Professional Standards Board, the PSB Control Strategy and six monthly corruption risk assessment. Information flow from the Force to Internal Audit will be determined on completion of the audit of Fraud and Corruption arrangements	March 2009
8	R2 The Internal Audit Terms of Reference and Annual Strategy should formally reflect the arrangements in place to assess independence risks.	2	Audit and Risk Manager	Yes	Assessment of independence risk is done as part of audit planning each year but will be formally recorded within Internal Audit's terms of reference and strategy, which are approved by the Finance Committee.	February each year
8	R3 The Audit and Risk Manager (or delegated representative) should report in their own name to the Finance Committee on a more frequent basis, to ensure that independence is not compromised.	3	Audit and Risk Manager	Yes	The Audit & Risk Manager will report to the Finance Committee in her own name.	December 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R4 The Audit and Risk Manager (or delegated representative) should regularly attend Finance Committee meetings	3	Audit and Risk Manager	Yes	The Audit & Risk Manager (or delegated representative) will attend Finance Meetings on a more regular basis.	December 2008
9	R5 The Audit and Risk Manager (or delegated representative) should report Internal Audit progress updates and the annual Internal Audit report directly to the Finance Committee	3	Audit and Risk Manager	Yes	Refer to R6.	December 2008
9	R6 Internal Audit, External Audit and the section 151 officer of the Authority should clarify their relationship to ensure that whilst duplication of audit coverage is minimised, the identification of internal control risks and action taken to address them is directed by Internal Audit and the section 151 officer of the Authority.	2	Audit & Risk Manager / Audit Commission	Yes	This will be addressed with the production of the Internal Audit / External Audit protocol. All roles will be clearly specified in this document.	To be agreed
10	R7 Internal Audit should ensure that a completed Audit Specification form is completed for each audit file.	N/a	N/a	N/a	There is a jobsheet in all files that sets out the objectives, scope, timing, resource and reporting requirements. These were not on file at the time of review as they were being examined as part of the month end process. They have since been returned and are now on file. The completion of specifications has only been introduced in 2008/09 and is an enhancement of jobsheets.	N/a
10	R8 Internal Audit should clarify which controls have been identified as key controls.	N/a	N/a	N/a	Key controls are indicated on the jobsheets and if they are not met they are highlighted as a high risk recommendation.	N/a

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R9 Internal Audit should ensure that the controls subject to testing are clearly identified, and linked directly to the results and conclusions of testing.	2	Audit & Risk Manager	Yes	Controls subject to testing are identified however this will be made clearer in the working papers.	Immediate
11	R10 The Audit and Risk Manager should develop a formal monitoring and review programme to ensure that due professional care has been exercised and maintained.	3	Audit and Risk Manager	Yes	Some review work is already carried out but more formal monitoring and review programme will be introduced.	March 2009
11	R11 Future Internal Audit Annual Reports should include a summary of work undertaken during the year, showing where opinion assurance has been derived from.	3	Audit and Risk Manager	Yes	Although the current report provides a brief summary of some of the work completed and indicates what the audit opinion is based on, additional information will be provided in the Audit Annual Report.	On completing the 2008/09 report

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