



Internal Audit Annual Report

For the year ended 31 March
2009

Presented to Audit Committee
meeting of: 23 June 2009

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Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group.

1. Introduction

Background

- 1.1 Surrey Police Authority (SPA) is required under statute to provide policing services to the people of Surrey. In order to do this, it delegates its powers to Surrey Police Force to conduct the business of policing on its behalf.
- 1.2 In order to ensure that the business is being conducted in accordance with the Authority's wishes, efficiently and effectively, the Authority operates a system of internal control. A key part of this is the Internal Audit Service. Underlying this, the Accounts and Audit Regulations (2003) require the Authority to maintain an adequate and effective internal audit function.

Scope and purpose of internal audit

- 1.3 The responsibility for maintaining risk management, control and governance systems rests with management. The work of the internal audit service forms a part of SPA's overall assurance framework. Its purpose is to provide the Authority, through the Audit Committee, and the Treasurer, the nominated Section 151 Officer, with an independent and objective assessment on governance, risk management and internal control, and their effectiveness in achieving the organisation's agreed objectives. Internal Audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control arrangements.
- 1.4 The work of internal audit, culminating in our annual opinion, forms a part of the Authority's overall assurance framework and should be used to help inform the annual Assurance statement. Internal Audit professional standards and sector guidance such as the Chartered Institute of Public Financial and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK (2006) require the Internal Audit Service to provide an annual report on its activities and including an opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.
- 1.5 Mazars LLP were appointed to provide an internal audit service to SPA from 1st April 2008. This Annual Report covers the work we have undertaken for the year ended 31 March 2009, the first full year of our appointment and incorporates our audit opinion.
- 1.6 The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

Acknowledgments

- 1.7 We are grateful to the Authority's Treasurer and Force Head of Audit Affairs and Accounting, and to all staff throughout the Authority and Force with whom we have had contact, for the assistance provided to us during the year.

2. Internal audit work undertaken in 2008/09

- 2.1 Our Internal Audit Strategy incorporating the Operational Plan for 2008/09, was first considered by the Audit Committee at its meeting on the 3 April 2008. An final version was approved by the Audit Committee at its meeting on the 23 June 2008. Progress on delivery of the Operational Plan has been reported to each meeting of the Audit Committee during the course of the year.
- 2.2 The Plan was for a total of 224 days, including 12 days for follow up, 24 days Audit Management and a 15 day contingency. We have completed all of the planned audit work with the exception of the two audits of Strategic Change Programme – Project Management and ICT – Project Management which have been rescheduled to take account of higher priority work. Both are currently in the processes of being finalised and will be included in our 2009/10 Annual Report.
- 2.3 The contingency days have been utilised for the Special Review - Operation Matchstick and Proceeds of Crime Act, Government Procurement Cards – Self Approvers, National Fraud Initiative and Risk Management training workshop for the Authority.
- 2.4 The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports, which have been presented to Management and the Audit Committee during the course of the year.
- 2.5 A summary of the reports we have issued is included at Appendix A. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

3. Annual Opinion

Scope of the Internal Audit Opinion

- 3.1 In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to SPA is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.
- 3.2 The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
- 3.3 In arriving at our opinion, we have taken the following matters into account:
- The results of all audits undertaken during the year ended 31 March 2009;
 - The results of follow-up action taken in respect of audits from previous years;
 - Whether or not any Fundamental and Significant recommendations have not been accepted by management and the consequent risks;
 - The affects of any material changes in the organisation's objectives or activities;
 - Matters arising from previous reports to the Audit Committee and/or Authority Board;
 - Whether or not any limitations have been placed on the scope of internal audit;

- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

Annual Opinion

On the basis of our audit work, we consider that SPA's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, only one of which was considered as fundamental. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

3.4 In reaching this opinion the following factors were taken into particular consideration:

Risk Management

During the period we conducted a review of Risk Management Arrangements for the Authority and Force, the Authority having adopted the Force's framework.

Historically the focus of internal audit review of risk management had been at Force level only and so this was the first time an explicit review of the Authority had been undertaken. Consequently a number of areas for improvement were identified, two of which were considered Significant. These related to the need to finalise the Authority Risk Register and to ensure that identified risks were explicitly linked to the Authority's overall objectives.

The review at Force level was undertaken in a systematic manner and overall a 'substantial' assurance provided.

During the year at the request of the Authority we used delivered a Risk Management workshop to the Authority Board. This was delivered by a specialist Risk Management trainer who is not a member of the core internal audit team.

Governance

During the period we undertook a review of the overall Corporate Governance framework for the Authority. We provided a 'substantial' assurance in this area. Whilst we made a number of recommendations for improvement, only two were categorised as Significant. These related to the review and update of the Code of Governance and the appraisal of members in accordance with Association of Police Authorities best practice.

Internal Control

Of the eight reports were we provided a formal assurance level, six were 'substantial' and two 'limited'. These were for Cash and Banking and Data Quality.

Cash and Banking

Six Significant recommendations were made within our review of Cash and Banking concerning:-

- Reference to arrangements for the collection, storage and banking of monies received;
- Ensuring a consistent approach across the Force for cash and banking;
- Security of safes and the controls over access to these;
- Process for collection, counting and transport of funds;
- Central records of funds held in safes; and
- Communication of procedures in the event of any financial losses.

A follow up audit of this area is scheduled to take place during June 2009 as part of the Internal Audit Plan for 2009/10.

Data Quality

Our review of Data Quality considered there is still some progress which needs to be made in regards to the managing of Data Quality within the Force in order to meet the objectives which have been set out by the Authority and compliance with the national guidelines for MoPI and Data Quality.

One Fundamental recommendation was made concerning the accurate, relevant and timely input of information to the CIS system. Seven significant recommendations were also made concerning;

- Training to staff on the security over sensitive information;
- Reporting process for improvements to the system;
- Training and reminders to staff on the principals of data quality;
- Cleansing of data prior to implementation of Enterprise;
- Ensuring data held accords with the requirements of the Data Protection Act; and
- A terms of reference for the MoPI Project Team.

Resources for the follow up of this area have been included within the Internal Audit Plan for 2009/10.

We have made a total of 157 recommendations during the year. All of which have been accepted by Management. A breakdown of the number of recommendations per report and category is included within Appendix A to this report.

In respect of follow up, our audit work of recommendations discharged by the Authority and Force have confirmed a number have been implemented and/or are in the process of being implemented.

4. Performance of Internal Audit

Compliance with professional standards

- 4.1 We employed a risk-based approach to determining the audit needs of the organisation at the start of the year and use a risk based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Review of Internal Audit Service by external audit (Audit Commission)

- 4.2 The external auditor as part of their own assurance undertake a triennial review of the Internal Audit Provider. This is undertaken once every three years unless there is change in internal audit provider in the period.
- 4.3 As a new provider, the external auditor, undertook a review of Mazars and its approach to internal audit against the CIPFA Code in April and May 2009. The documented results of this review are not yet available. However, we are pleased to report we have been provided with verbal feedback and there are no matters to bring to the Authority and Force's attention.

Adding value through the internal audit process

- 4.4 At the request of the Authority and Management we have listed below a number of examples by which we feel we have added value through providing the internal audit service to Surrey Police:-
- Added value through the strategic focus of Internal Audit and adopting a risk based approach. For instance, explicit referencing to the Risk register/profile of the Authority and Force through our Audit Strategy and Plan, thus focusing on areas that are of importance (e.g. OSR, Workforce Modernisation, Project Enterprise);
 - We identified as part of our risk assessment areas not previously subject to internal audit coverage and these were included within the plan (e.g. Repairs and Maintenance, Assurance Mapping);
 - In undertaking our reviews we specifically focused on the Authority's own controls and procedures, providing advice and examples of best practice (e.g. Governance, Risk Management, Assurance Mapping);
 - We have assisted the Authority and Force in further development of Risk Management awareness/culture through specific audits of Risk Management, consideration of risk as part of our respective assignments and through our Risk Workshop provided to Members. As a direct result of our work there has been changes/additions to the Authority and Force's risk registers (e.g. Repairs and Maintenance);

- Through the internal audit process, we have identified areas of weakness and where controls have not been operating and as a result identified potential risks if not addressed. We have made recommendations to improve the internal control framework (e.g. Cash and Banking);
- Linked to above, whilst recommendations within individual reviews are specific to those areas, it is possible to pull out common areas of risk, and as such internal audit has contributed to the management of risks. For example:-
 - Unambiguous/Unclear roles and responsibilities and inconsistent practice (e.g. Assets and Inventories, Assurance Mapping, Cash and Banking);
 - Ensuring Best Practice is adopted (e.g. Assurance Mapping, Corporate Governance - CIPFA);
 - Training of Staff (e.g. Assurance Mapping, Data Quality);
 - Risk of inefficient/ineffective practices (e.g. VFM - Mobile Communications, Cash and Banking, Data Quality);
 - Risk of adverse PR (e.g. Cash and Banking, Data Quality); and Transparency/probity in Authority and Force affairs (e.g. Corporate Governance, Cash and Banking).
- Undertaken work in addition to the internal audit plan for the period at request of the Authority and Force to address particular needs, e.g. Special review on Operation Matchstick and POCA, Work on the National Fraud Initiative, additional testing on Govt/ Procurement Cards;
- Received positive assurances/feedback through the outcomes of our internal audit satisfaction surveys. Further details are included below; and
- Providing assurance to external auditors – The Audit Commission.

Internal Audit Quality Assurance

4.5 In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- The use of satisfaction surveys for each completed assignment.
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- The maintenance of the firm's Internal Audit Manual.

Conflicts of Interest

4.6 There has been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Measures

- 4.7 We have completed our audit work in accordance with the agreed plan. All of our key findings from our final reports have been taken to the Audit Committee on a timely basis.
- 4.8 Of the 17 satisfaction surveys issued during the year, 13 have been returned to date (77% response). A summary of the results is included below and over the page.
- 4.9 The questionnaire asks for Internal Audit to be assessed against a series of statements covering Audit Planning, Communication, Quality of Audit Report and Internal Audit Team. Responses are scored as 1 = Disagree completely, 2 = Disagree slightly, 3 = Agree slightly and 4 = agree completely. There is also the opportunity for comments to inform future audit coverage and risk management. At the end of the survey, an overall conclusion is made. This is assessed as Very Good, Good, Satisfactory, Poor and Very Poor.
- 4.10 We would be happy to agree other measures of performance with the Committee should this be considered appropriate.

Results of satisfaction surveys

Summary per Audit

Audit	Overall Conclusion	Avg. Score	Comment
Assurance Mapping	Very Good	4	
Authority - Risk Management	Very Good	4	
Estates – Repairs & Maintenance	Very Good	3.5	Six of 11 areas resulted in score of 4. Remainder all '3's.
VFM – Mobile Communications	Very Good	3.8	Nine of 11 areas resulted in score of 4. Others assessed as 3.
Government Procurement Cards	Good	4	
Performance Management	Very Good	3.7	Eight of 11 areas resulted in score of 4. Others assessed as 3.
Partnerships	Very Good	3.7	Nine of 11 areas resulted in score of 4. One area assessed as 3 and one as 2. The 2 concerned the notice of the audit.
Cash and Banking	Very Good	4	
Assets and Inventories	Very Good	4	
ICT – Management Arrangements	Very Good	3.8	Nine of 11 areas resulted in score of 4. Others assessed as 3.
ICT – Project Enterprise	Very Good	4	

Audit	Overall Conclusion	Avg. Score	Comment
OSR – Finance Review	Good	3.5	Eight of 11 areas resulted in score of 4. One area assessed as 3 and the other two areas as 2. These concerned ongoing updates of progress of the audit and the timeliness of the draft report.
Treasury Management	Good	3.8	Nine of 11 areas resulted in score of 4. Others assessed as 3.

Overall Summaries

By Overall Conclusion

Overall Conclusion Grade	No. of Surveys	% Breakdown
Very Good	10	77
Good	3	23
Satisfactory	-	-
Poor	-	-
Very Poor	-	-
Totals	13	100

By Question

Questionnaire Area/statement	Avg. Score	Comment
Audit Planning		
You had sufficient notice of the audit.	3.6	Nine of 13 surveys gave a score of 4. Three gave a 3 and one a 2.
You were able to contribute to the scope of the review through a pre-visit scoping meeting with the lead Auditor.	3.9	Twelve of 13 surveys gave a 4, one gave a 3.
The scope and objectives of the audit were appropriate and related to the risks and issues faced in your area.	3.8	Ten of 13 surveys gave a score of 4, The remaining gave a score of 3.
The Audit Planning Memorandum was received in advance of the Audit team's start on site.	3.8	Eleven of 13 surveys gave a score of 4, The remaining two gave a score of 3.
Communication		
You received on-going updates of progress from the audit team.	3.6	Nine of 13 surveys gave a score of 4, three a score of 3 and one a score of 2.
You were formally consulted on findings/recommendations in a debrief meeting.	4.0	

Questionnaire Area/statement	Avg. Score	Comment
Quality of audit report		
The report provided a fair presentation of findings.	3.9	Twelve of 13 surveys gave a 4, one gave a 3.
The audit was sufficiently detailed and addressed the agreed scope and objectives.	3.9	Twelve of 13 surveys gave a 4, one gave a 3.
Recommendations made were constructive, practical and logical.	3.9	Twelve of 13 surveys gave a 4, one gave a 3.
The draft report was received in a timely manner.	3.8	Eleven of 13 surveys gave a score of 4, one gave a 3 and one gave a 2.
Internal audit team		
The audit team conducted themselves in a professional and courteous manner.	4.0	

Appendix A – Summary of internal audit work undertaken in 2008/09

We use the following levels of assurance and recommendation classifications within our audit reports:

<i>Level of assurance</i>	Control Environment	Effectiveness of Controls
Full Assurance:	There is a sound system of control designed to achieve the system objectives.	All controls operate effectively promoting the achievement of system objectives.
Substantial Assurance:	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk.	While controls are basically sound, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Weaknesses in the system of controls are such as to put the system objectives at risk.	Weaknesses in the application of control put the system objectives at risk.
No Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

<i>Recommendation Classifications</i>	Description
Fundamental (Priority 1):	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Significant (Priority 2):	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Housekeeping (Priority 3):	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

The following reviews were undertaken during the 2008/09 audit year:

Report reference	Auditable Area	Days		Level of Assurance	Recommendations				
		Budget	Actual		Fundamental (Priority 1)	Significant (Priority 2)	Housekeeping (Priority 3)	Total	Total agreed by Management
01.08/09	Assurance Mapping	6	6	n/a	-	3	5	8	8
02.08/09	Authority Risk Management	4	4	n/a	-	2	8	10	10
03.08/09	Estates - Repairs & Maintenance	8	8	Substantial	-	3	5	8	8
04.08/09	VFM – Mobile Communications	8	8	n/a	-	4	2	6	6
05.08/09	Corporate Governance	7	7	Substantial	-	2	12	14	14
06.08/09	Government Procurement Cards	8	8	Substantial	-	3	1	4	4
07.08/09	Performance Management	5	5	Substantial	-	2	3	5	5
08.08/09	Partnerships	13	13	n/a	-	2	2	4	4
09.08/09	Special Review – Operation Matchstick and POCA	(-)	(7.1)*	n/a	n/a	n/a	n/a	n/a	n/a
10.08/09	Force Risk Management	7	7	Substantial	-	-	5	5	5
11.08/09	Cash and Banking	8	8	Limited	-	7	-	7	7
12.08/09	Data Quality	10	10	Limited	1	8	-	9	9
13.08/09	Government Procurement Cards – Self Approvers	(-)	(3.5)*	n/a	-	-	-	-	-

* Additional work to Agreed Audit Plan, thus excluded from overall budget/actual days total over the page.

Report reference	Auditable Area	Days		Level of Assurance	Recommendations				
		Budget	Actual		Fundamental (Priority 1)	Significant (Priority 2)	Housekeeping (Priority 3)	Total	Total agreed by Management
14.08/09	Assets and Inventories	8	11	n/a	-	3	2	5	5
15.08/09	Workforce Modernisation	12	12	n/a	-	-	3	3	<i>DRAFT</i>
16.08/09	ICT – Management Arrangements	12	12	n/a	-	1	2	3	3
17.08/09	ICT – Project Enterprise	15	15	Substantial	-	1	2	3	3
18.08/09	OSR – Finance Review	12	12	n/a	-	-	4	4	4
19.08/09	Environmental Audit	6	6	n/a	-	-	9	9	9
20.08/09	Treasury Management	6	6	n/a	-	1	6	7	7
Totals		155	158		1	42	114	157	154[^]
				%	1%	27%	72%	100%	100%

[^] Figure relates to finalised reports only.