Internal Audit Annual Report

For the year ended 31 March 2010

MAZARS

CONTENTS

		Page
1.	Introduction	1
2.	Internal Audit Work undertaken in 2009/10	2
3.	Annual Opinion	2
4.	Benchmarking	4
5.	Performance of Internal Audit	5

Appendices

Appendix A	Summary of internal audit work undertaken in 2009/10

The contents of this report are confidential and not for distribution to anyone other than Surrey Police Authority. Disclosure to third parties cannot be made without prior written consent of Mazars LLP.

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.

MAZARS

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 2010, 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 2009/10

2.1 Our Internal Audit Strategy incorporating the Operational Plan for 2009/10, was first considered by the Audit Committee at its meeting on the 20 March 2009. An final version was approved by the Audit Committee at its meeting on the 22 June 2009. 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 200 days, including 12 days for follow up, 20 days Audit Management and a 9 day contingency. We have completed all of the planned audit work for the year with the exception of HR – Workforce Planning, which was deferred at the request of management. The contingency days were utilised for a review of Seized and Found Cash and Surrey Homes. We were also commissioned to undertake work in respect of Rebilling Costs, Surrey Public First Principles as applied to Inspection and Governance and a Special Investigation for the Treasurer. Work in respect of MOPI/Data Impact will be reported as part of the 2010/11 cycle due to changes in this area since the initial fieldwork was conducted.

2.3 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.

2.4 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 2010;
- The results of follow-up action taken in respect of audits from previous years;
- Whether or not any 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.. Overall recognising that a new framework was in the process of being implemented at the time of our audit, an 'adequate' level of assurance was provided in this area. Twelve recommendations were made in total, five Significant and seven Housekeeping. The Significant recommendations related to:-

- The need for the Authority to ensure the risk register is subject to regular review, update and scrutiny by respective Panels, the Audit Committee and Authority;
- The Authority should revisit its risk register to ensure that identified risks are linked to the Authority's Strategic Objectives, controls identified and any areas for planned further action are assigned to responsible officers with implementation dates;
- The Head of Audit and Review should liaise with the Authority and Force risk owners to ensure that their views are taken into account when changing the risk management framework;
- The Force should consider the inclusion of residual and inherent risk into its risk management process/database to enable it to better assess and report on the effectiveness of its controls; and
- the Head of Audit and Review should chase up the updating of risks with the appropriate risk owners. Thereafter it should be ensured that risks are reviewed on a regular and ongoing basis.

Governance

During the period we undertook a review of Corporate Governance – Community Engagement 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 Force and Authority producing a joint protocol and procedure for Community Engagement to ensure they are effective and efficient and to consider further ways of being pro-active in monitoring satisfaction.

Internal Control

Of the nineteen reports were we provided a formal assurance level, eight were 'substantial', nine were 'adequate' and two 'limited'.

The two 'limited' assurances provided were in respect of Cash and Banking and Seized and Found Cash. In respect of these areas we made a total of nineteen recommendations, nine of which were categorised as Significant and the remaining thirteen categorised as Housekeeping. The Significant recommendations concerned:-

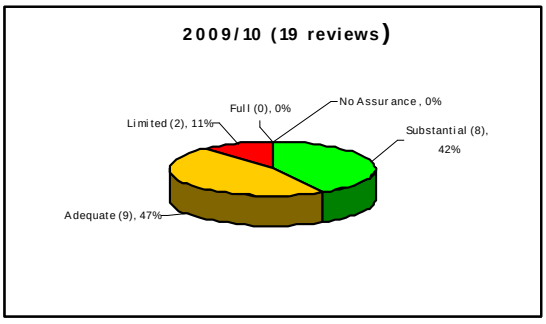
- Guidance for the arrangements of handling, receipting and banking of monies received over front counters;
- Producing procedures to set out roles and responsibilities of the Transaction Services Team in respect of handling and processing of cash and banking;
- Recording details of the receipt number from the receipt issued to customers on the receipting module for a robust audit trail;
- Development of a Property Manual including cash handling and management procedures for seized and found cash;
- Receipts/acknowledgement slips should be signed by the person the money is returned to and then retained; and
- A follow up process should be instigated to ensure monies banked by the Force are handled appropriately.

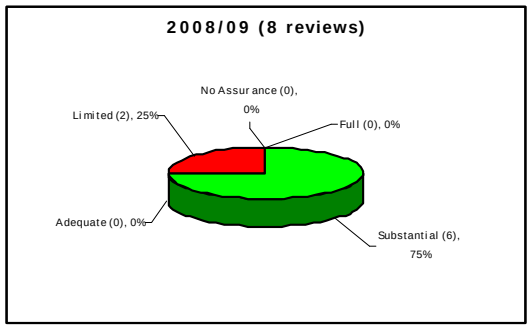
We have made a total of 150 recommendations during the year. All but two of which have been accepted by Management. The two recommendations not accepted were in respect of ICT – Security and concerned matters which could impact on operational effectiveness. A breakdown of the number of recommendations per report and category is included within Appendix A to this report.

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

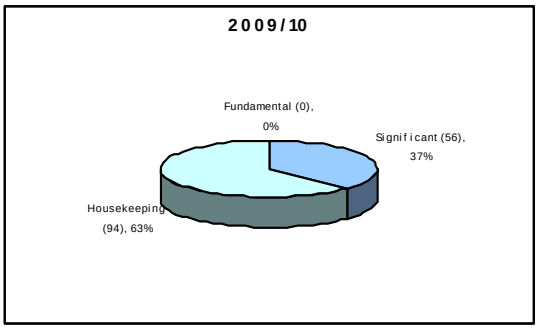
4. Benchmarking

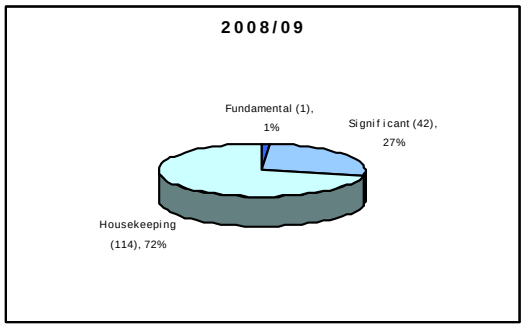
Comparison of Assurance Levels (were given)





Comparison of Recommendations by categorisation (were given)





5. Performance of Internal Audit

Compliance with professional standards

5.1 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.

Adding value through the internal audit process

5.2 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. Efficiency plan, ICT Enterprise, Strategic Change Programme);

- 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. Information Requests);

- 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, and Risk Management);

- We have assisted the Authority and Force in further development of Risk Management awareness/culture through specific audits of Risk Management and consideration of risk as part of our respective assignments;

- Through the internal audit process, we have identified areas of weakness and were 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, Seized and Found Cash);

- 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. Policies and Procedures);
    - Ensuring Best Practice is adopted;
    - Training of Staff (e.g. Information Requests);
    - Risk of inefficient/ineffective practices (e.g. Independent Custody Visiting Scheme);
    - Risk of adverse and Transparency/probity in Authority and Force affairs (e.g. 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. Rebilling, Surrey Homes, Surrey Public First Principles as applied to Inspection and Governance and a Special Investigation;

- 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

5.3 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

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

Performance Measures

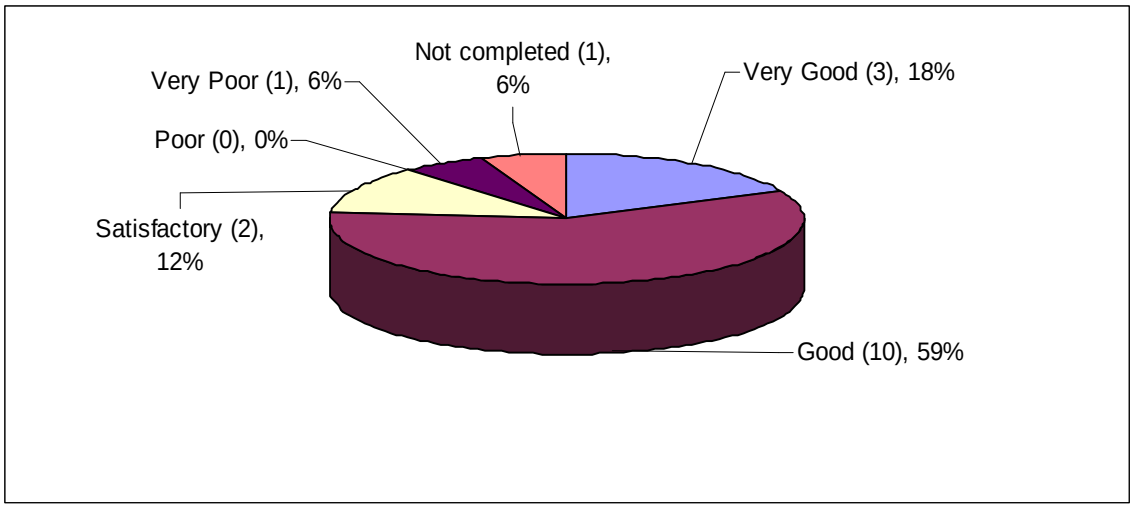
5.5 We have completed our audit work in accordance with the agreed plan.

5.6 On finalisation of each audit report we issue a satisfaction survey to Key Auditees on the finalisation of each report. Once returned, the results are collated and discussed with the Authority and Force.

5.7 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.

5.8 Of the 24 satisfaction surveys issued during the year, 15 have been returned to date (63% response). Note for two audits, two surveys were returned for each one, although counted as one return in calculating the response rate. In 2008/09, 13 of 17 surveys issued at the time of drafting our Annual report had been returned (77% response). A summary of the results of surveys for 2009/10 is included below.

By Overall Conclusion



In respect of the survey returned with a 'Very Poor' overall conclusion, we have approached the auditee with a view to better understanding the reasons behind this assessment, particularly given positive feedback provided at the planning of, and delivery of this particular piece of work. We are also undertaking a review of the individual question scores detailed below to inform our future audit approach with a view to improving on these scores during 2010/11.

By Question

Questionnaire Area/statement	Avg. Score
Audit Planning	
You had sufficient notice of the audit.	3.7
You were able to contribute to the scope of the review through a pre-visit scoping meeting with the lead Auditor.	3.4
The scope and objectives of the audit were appropriate and related to the risks and issues faced in your area.	3.4

Questionnaire Area/statement	Avg. Score
Audit Planning CONTD	
The Audit Planning Memorandum was received in advance of the Audit team's start on site.	3.8
Communication	
You received on-going updates of progress from the audit team.	2.9
You were formally consulted on findings/recommendations in a debrief meeting.	3.3
Quality of audit report	
The report provided a fair presentation of findings.	3.5
The audit was sufficiently detailed and addressed the agreed scope and objectives.	3.5
Recommendations made were constructive, practical and logical.	3.4
The draft report was received in a timely manner.	3.2
Internal audit team	
The audit team conducted themselves in a professional and courteous manner.	3.9

5.9 We would be happy to agree other measures of performance with the Committee should this be considered appropriate.

Appendix A – Summary of internal audit work undertaken in 2009/10

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

Level of assurance	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.
Adequate 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.

Recommendation Classifications	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 2009/10 audit year:

Ref	Auditable Area	Audit Approach	Level of Assurance (If appropriate)	Recommendations				
				Fundamental	Significant	Housekeeping	Total	Total agreed by Management
01.09/10	Policies and Procedures	Systematic	Adequate	-	8	10	18	18
02.09/10	ICT – Project Management	Systematic	Substantial	-	3	1	4	4
03.09/10	Independent Custody Visiting Scheme	Systematic	Adequate	-	1	11	12	12
04.09/10	Strategic Change Programme	Systematic	Substantial	-	1	8	9	9
05.09/10	Corporate Governance – Community Engagement	Systematic	Substantial	-	-	3	3	3
06.09/10	National Fraud Initiative	Not applicable	Not applicable	-	-	2	2	2
07.09/10	OSR - Communications	Systematic	Substantial	-	-	-	0	0
08.09/10	Strategic Planning	Systematic	Substantial			4	4	4
09.09/10	Equality and Diversity	Systematic	Substantial	-	2	7	9	9
10.09/10	Cash and Banking	Systematic/ Follow Up	Limited	-	6	5	11	11
11.09/10	Expenses	Systematic	Adequate		1	4	5	5
12.09/10	Surrey Homes	Advisory	Not Applicable	-	6	4	10	10
13.09/10	Seized and Found Cash	Systematic	Limited	-	3	5	8	8
15.09/10	ICT Security	Systematic	Adequate	-	4	3	7	5
16.09/10	Efficiency Plan	Systematic	Substantial	-	-	2	2	2
17.09/10	Rebilling	Advisory	Not Applicable	-	-	-	0	0
18.09/10	Information Requests	Systematic	Adequate	-	5	5	10	10
20.09/10	ICT - Enterprise	Systematic	Substantial	-	-	-	0	0
21.09/10	General Ledger	Systematic	Adequate	-	5	2	7	7
22.09/10	Creditors and Purchase Ledger	Systematic	Adequate	-	2	8	10	10
23.09/10	Risk Management	Systematic	Adequate	-	5	7	12	12
24.09/10	Debtors and Sales Ledger	Systematic	Adequate	-	4	3	7	7
			Totals	0	56	94	150	148
			%	0%	37%	63%	100%	100%