Office of the Police & Crime Commissioner for Leicestershire and Leicestershire Police

Draft Internal Audit Strategy 2015/16 to 2018/19

and 2015/16 Internal Audit Plan

May 2015

This report has been prepared on the basis of the limitations set out on page 26.

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1. Introduction

1.1 A four-year proposed Strategic Audit Plan has been prepared on behalf of the Police and Crime Commissioner for Leicestershire and Leicestershire Police (the OPCC and Force) for the period 1 April 2015 to 31 March 2019. The plan has been compiled on the basis of identified risk and materiality, work undertaken by the previous internal audit providers in drawing up an indicative internal audit strategy, our existing experience of audit requirements within the sector, a review of strategic and operational risk registers, and research and horizon scanning of current risks and issues.

1.2 **Appendix A** sets out our assessment of the current risk environment.

1.3 **Appendix B** contains our proposed **Annual Audit Plan 2015 – 2016**.

1.4 **Appendix C** sets out our proposed **Strategic Audit Plan 2015 – 2019**.

2. The Scope and Purpose of Internal Audit

2.1 Internal Audit's primary role is to provide the organisation's management with independent assurance on the effectiveness of the internal control systems that contribute to the achievement of the organisation's business objectives. In so doing, this will support the OPCC and Force in signing the Annual Governance Statement. It is also Internal Audit's role to provide the OPCC and Force with assurance that they have in place effective processes for the management of risk.

2.2 The requirements of the Annual Governance Statement can be summarised as follows:

- The OPCC and Force are accountable for internal control. The OPCC and Force responsible for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness;
- The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives;
- The system of internal control can therefore only provide reasonable and not absolute assurance of effectiveness; and
- The system of internal control is based on an on-going risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

2.3 As set out in the **Audit Charter** in **Appendix D**, Internal Audit fulfils this role by:

- Coordinating assurance activities with other assurance providers (such as the external auditors and HMIC) such that the assurance needs of the OPCC and Force, regulators and other stakeholders are met in the most effective way.
- Evaluating and assessing the implications of new or changing systems, products, services, operations and control processes.
- Carrying out assurance and consulting activities across all aspects of the OPCC and Force's business based on a risk-based plan agreed with the Joint Audit, Risk & Assurance Panel (JARAP).
- Providing the Police & Crime Commissioner and Chief Constable with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issuing periodic reports to the JARAP and Senior Management Team summarising results of assurance activities.
- Promoting an anti-fraud, anti-bribery and anti-corruption culture within the OPCC and Force to aid the prevention and detection of fraud.
- Assisting in the investigation of allegations of fraud, bribery and corruption within the OPCC and Force and notifying management and the JARAP of the results.
- Assessing the adequacy of remedial action to address significant risk and control issues reported to the JARAP. Responsibility for remedial action in response to audit findings rests with line management.

3. Approach

3.1 Whilst vitally maintaining independence from management (in order to remain impartial in making judgements and recommendations), it is important that Internal Audit is recognised as a tool for management. As such, the relationship with management must be to provide support and assistance with the aim of providing assurances to both them and the JARAP about the adequacy and effectiveness of controls in place to manage risk throughout the organisation.

3.2 Risk-based audit techniques will be used wherever appropriate as the principal means of providing assurance on the adequacy and effectiveness of internal controls within financial and non-financial systems. A cyclical approach will be adopted with the frequency and depth of audit depending on the significance band into which the audit falls.

3.3 We have drawn on the following in developing the Strategic Audit Plan for 2015-2019 and the Operational Audit Plan for 2015/16:

- A review of assurance received from audits carried out over the past three years by the previous internal auditors;
- A review of assurance received from inspections carried out over the past three years by Her Majesty's Inspectorate of Constabulary (HMIC) and other justice inspectorates;
- Consideration of the published inspection programmes of HMIC and the Criminal Justice Joint Inspectorate (CJJI) for 2015/16;
- Consideration of the Force's planned use of its own information audit resources; and
- Analysis of current areas of significant risk to OPCC and Force objectives, to identify opportunities for using internal audit to improve understanding of key risk factors and the effectiveness of existing controls.

3.4 Through a focused approach to assurance, the internal audit service can be utilised to provide the right level of assurance, it can avoid unnecessary use of its finite resources and it can support the OPCC and Force in maintaining an effective Assurance Framework. Internal Audit, through its support for the Assurance Framework, should:

- support the OPCC and Force in managing its risks through the establishment (and, more importantly, the maintenance) of an Assurance Framework that is fit for purpose;
- look to other sources of assurance and assurance providers, including third party assurance, to supplement the resources of the internal audit team;
- work along side other assurance providers, such as External Audit, to more effectively provide assurance and avoid duplication; and
- through risk-based auditing, focus internal audit resource on what is really important to each organisation.

3.5 Further to the above risk identification process, it should also be remembered that Leicestershire form part of the East Midlands Policing Region and, as such, collaborate on a wide variety of services. The aim will therefore be to, wherever possible, align the audit plans across the region in order to secure efficiencies through collaborative auditing.

3.6 The plan will be amended each year to reflect changes affecting the organisation and, subsequently, the risks you face.

4 Considerations when drawing up the Internal Audit Strategy

4.1 In producing the Operational Audit plan for 2015/16 we have drawn on the OPCC and Force's own risk registers, discussions with management, the views of the previous internal auditors and our understanding of the wider risks facing the policing sector. This analysis of the current risk environment is provided in **Appendix A.**

4.2 Whilst brief outlines of the individual audit scopes are provided in **Appendix B – Annual Audit Plan 2015/16**, the rationale for including a number of the audit assignments is summarised below:

Audit Area	Rationale
Collaboration	A considerable proportion of the Force's functions are now delivered by collaborative units; there have been different arrangements for formal assurance reporting to the force and PCC in relation to collaboration agreements which means the Force and OPCC could be exposed to issues and risks that they are unaware of.
Change Programme	Whilst the details of the scope will be agreed with management, the over-arching objective of the audit would be to provide assurance that changes brought about by As a consequence of the need to address the £20 million budget deficit by 2017, the Force are reviewing the manner in which it delivers its key functions. As a consequence, assurance for the Force and the OPCC with regards how the likely changes are being managed and that the anticipated savings are being realised.
Human Resources	With many Forces, a response to the need to identify savings to address the budget deficit has been to look for new ways of working. As a consequence, there will inevitably be a human aspect to the changes that will require careful management. The Risk Register paper that went to the February meeting of the JARAP referred to the following risks: • Ability to meet mandatory training requirements. • Potential for industrial action affecting our services. • Loss / absence / churn of key personnel. • Ineffective workforce planning / shift patterns.
Partnership / engagement	It was agreed that assurance is required with regards how the Force and OPCC work with their key strategic partners, in particular, two of the risks highlighted in the Risk Register paper to the February meeting of the JARAP, namely: • Ineffective governance partnership working arrangements; and • Failure to maintain relationships with key partners.

5 External Audit Consultation

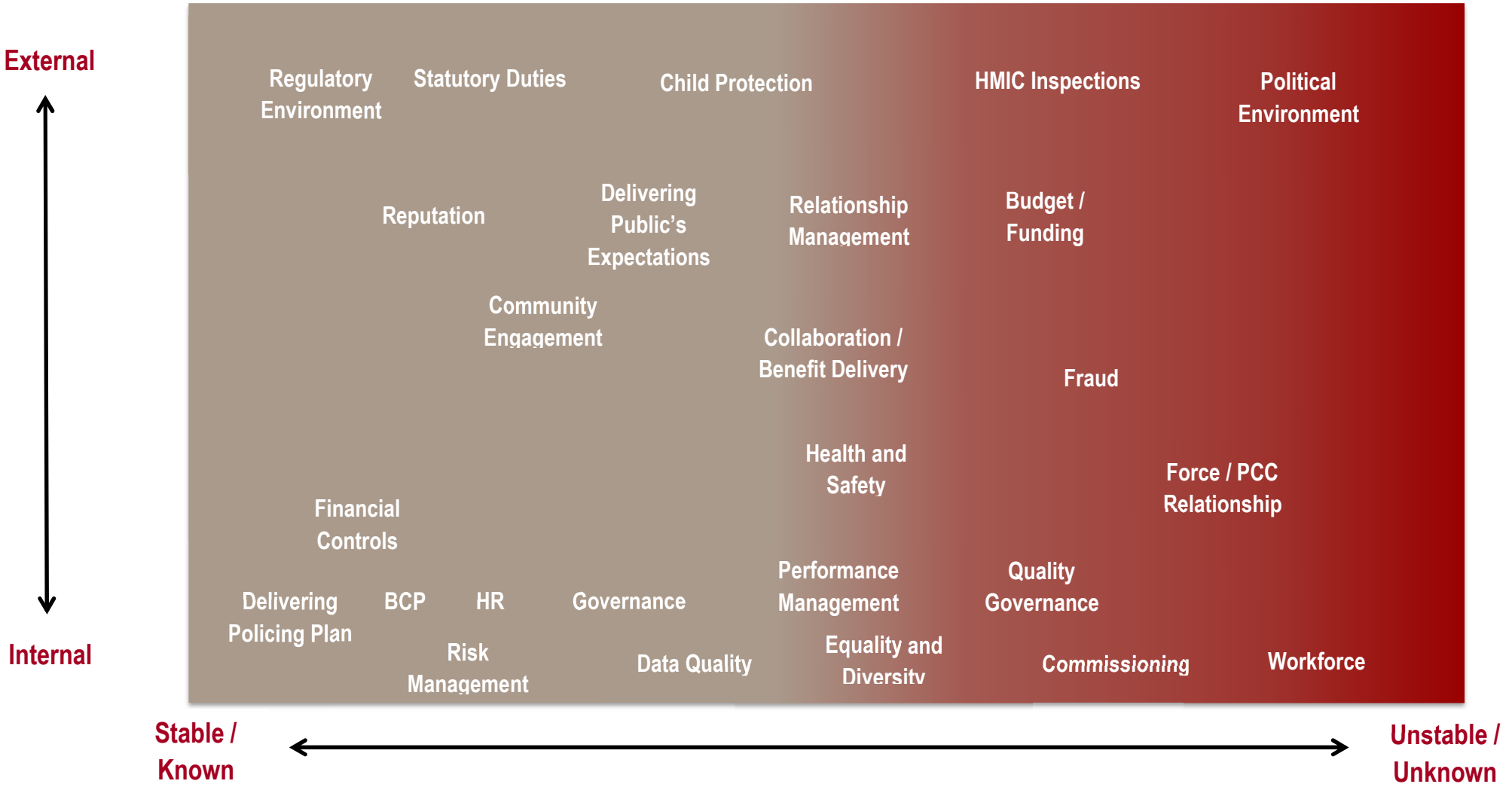
5.1 We liaise closely with your external auditors in preparing, and then delivering, a co-ordinated approach to the provision of assurance.

5.2 We speak regularly with the External Auditors to consult on audit plans; discuss matters of mutual interest; discuss common understanding of audit techniques; methods and terminology; and to seek opportunities for co-operation in the conduct of audit work. In particular, we will offer the External Auditors the opportunity to rely on our work where appropriate, provided this does not prejudice our independence.

5.3 Internal audit forms a significant part of the organisation's governance arrangements and it is therefore also important that Internal and External Audit have an effective working relationship. To facilitate this relationship we agree a protocol which sets out an agreed framework showing how we work together with your officers, including External Audit, to meet the responsibilities under the Code of Audit Practice. The key principles behind this agreement are:

- a willingness and commitment to working together;
- clear and open lines of communication;
- avoidance of duplication of work where possible.

Appendix A – Assessment of the Current Risk Environment



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Appendix B – Annual Audit Plan 2015-16

AUDITABLE AREA	PROPOSED TIMING	JARAP	PLAN DAYS	Commentary on Coverage
Core Assurance				
Compliance with the Joint Code of Corporate Governance	Jan 2016	March 2016	7	To provide assurance with regards compliance with the Joint Code of Corporate Governance. In particular, it will review the process for compiling the Annual Governance Statement and will provide a challenge with regards the evidence collected to support the declaration.
Risk Management	Jan 2016	March 2016	8	To provide assurance that the Force and OPCC have effective risk management policies and procedures in place. The audit will review the strategic risk registers for adequacy and reasonableness of risk scoring, documented mitigation and action plans. We will select a sample of risks and provide a critical challenge with regards the documented mitigation.
Core Financial Systems Assurance: • General Ledger • Payroll (including Pensions and Expenses) • Payment & Creditors • Income & Debtors	Sept – Dec 2015	Dec 2015 & March 2016	17	To provide assurance with regards the adequacy and effectiveness of the systems of internal control in operation to manage the core financial systems. The scope of the work will include, but not be limited to: • Policies and procedures • Access controls • Amendments to standing data • Reconciliations • Authorisation routines • Reporting

AUDITABLE AREA	PROPOSED TIMING	JARAP	PLAN DAYS	Commentary on Coverage
Key Financial Controls Walkthrough • Budgetary Control • Cash & Banking • Asset Management	Nov 2015	December 2015	3	Utilising the systems narrative / documentation compiled by the previous internal auditors, we will carry out walkthrough testing of following processes: • Budgetary Control • Cash & Banking • Asset Management The objective will be to confirm that the control framework has not changed and to inform any future audit activity.
Payroll Provider Review	Jan 2016	March 2016	5	To provide assurance that the payroll provider, Mouchel, has effective controls in place for delivering the collaborative service with Derbyshire. The scope of the work will include, but will not be limited to, access controls, payroll reporting and approval / sign-off routines, and will involve on-site coverage at Mouchel. The audit will also provide assurance with regards the monitoring routines within the Force to ensure that the service is being effectively provided.
ICT Review	July 2015	Sept 2015	14	As with all Forces, a fundamental element of an effective Police Force is the adequacy and effectiveness of its ICT arrangements. Whilst the details of the scope will be agreed with management, consideration will be given to providing assurance with regards a number of the risks highlighted in the Risk Register paper to the February meeting of the JARAP, namely: • Unauthorised use / misuse of IT systems and / or loss of information. • Accreditation for the use of the PSN. • RMADS management for information security. • Impact of loss of IT and / or communications infrastructure. • IT strategy at risk if each department requirement is not captured.

AUDITABLE AREA	PROPOSED TIMING	JARAP	PLAN DAYS	Commentary on Coverage
Strategic & Operational Risk Assurance				
Change Programme	Oct 2015	Dec 2015	13	Whilst the details of the scope will be agreed with management, the over-arching objective of the audit would be to provide assurance that changes brought about by the need to address the £20 million budget deficit by 2017 are being effectively managed and that the anticipated savings are being realised.
Partnerships / Engagement	Sept 2015	Dec 2015	12	The audit will provide assurance with regards how the Force and OPCC work with their key strategic partners, in particular, two of the risks highlighted in the Risk Register paper to the February meeting of the JARAP, namely: • Ineffective governance partnership working arrangements; and • Failure to maintain relationships with key partners. The audit will focus on, for a sample of strategic partnerships, the governance arrangements underpinning the partnership, including the rationale / aims of the partnership, decision-making, objectives, budget implications, performance and risk management.
Human Resources	Jan 2016	March 2016	7	With many Forces, a response to the need to identify savings to address the budget deficit has been to look for new ways of working. As a consequence, there will inevitably be a human aspect to the changes that will require careful management. Whilst the details of the scope will be agreed with management, consideration will be given to providing assurance with regards a number of the risks highlighted in the Risk Register paper to the February meeting of the JARAP, namely: • Ability to meet mandatory training requirements. • Potential for industrial action affecting our services. • Loss / absence / churn of key personnel. • Ineffective workforce planning / shift patterns.

AUDITABLE AREA	PROPOSED TIMING	JARAP	PLAN DAYS	Commentary on Coverage
Firearms Licensing	July 2015	Sept 2015	6	To provide assurance that the Force has effective controls in place for the management / issue of licences and the holding of firearms.
Seized / Found Property – Follow-up	Aug 2015	Sept 2015	4	To follow-up on the recommendations made within the 2014/15 audit of Seized and Found Property which was provided with a Red (negative) opinion. The review will include further testing to ensure that the key controls are being applied consistently.
Collaboration				
Collaboration	Nov 2015	March 2016	20	Following agreement at the Regional CFO meeting, resources will be allocated across each OPCC / Force in order to provide assurance with regards the systems and controls in place to deliver specific elements of regional collaboration. Consideration will be given to assessing whether the area of collaboration is delivering against its original objectives and what arrangements are in place, from an OPCC / Force perspective, for monitoring and managing the service.
Contingency				
Contingency			5	To allow for additional / unforeseen audits to be carried out in agreement with management.
Other				
Audit Management	Ongoing		14	This includes audit planning, production of progress and annual reports, and attendance at progress and JARAP meetings.
Follow Up of Recommendations	Ongoing	Sept 2015 & March 2016	5	To provide assurance that management have implemented audit recommendations.
TOTAL			**140**	

Appendix C – Strategic Audit Plan 2015-19

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Core Assurance					
Key Financial Controls	✓	✓	✓	✓	To provide assurance with regards the key financial controls in respect of the following key financial systems: • General Ledger • Payroll (including Pensions and Expenses) • Payment & Creditors • Income & Debtors
Payroll Provider Review	✓	✓	✓	✓	To provide assurance that the payroll provider, Mouchel, has effective controls in place for delivering the collaborative service with Derbyshire. The scope of the work will include, but will not be limited to, access controls, payroll reporting and approval / sign-off routines, and will involve on-site coverage at Mouchel. The audit will also provide assurance with regards the monitoring routines within the Force to ensure that the service is being effectively provided.
Governance	✓	✓	✓	✓	To provide assurance with regards compliance with the Joint Code of Corporate Governance. In particular, it will review the process for compiling the Annual Governance Statement and will provide a challenge with regards the evidence collected to support the declaration.

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Risk Management	✓	✓	✓	✓	To provide assurance that risk management arrangements are in place and contribute to the effective management of risk.
Information Technology	✓	✓	✓	✓	Using computer specialist resource, the objective will be to provide assurance with regards key IT risks, such as those relating to data security, IT policies and procedures, network infrastructure and application controls.
Strategic & Operational Risk					
Human Resources	✓	✓	✓	✓	To provide assurance over the planning period with regards the various 'HR-related' processes; this would include, but not be limited to, Recruitment, Training, Absence Management and Workforce Planning.
Complaints Management		✓			To ensure that the Force has a robust process in place to deal with complaints.
Change Programme	✓	✓	✓	✓	Whilst the details of the scope will be agreed with management, the over-arching objective of the audit would be to provide assurance that changes brought about by the need to address the £20 million budget deficit by 2017 are being effectively managed and that the anticipated savings are being realised.
Programme / Project Management		✓		✓	To review the overall programme management arrangements and / or to deep dive into specific projects.

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Seizure and Management of Property	✓		✓		To ensure that effective policies and procedures are in place for the seizure and management of property.
Code of Practice for Victims of Crime		✓		✓	To provide assurance that the Victim Code is being effectively and consistently implemented.
Overtime and Time Recording			✓		Management and control of working hours and overtime.
Data Security		✓			To review Data Protection Act compliance and, in particular, the unauthorised use / misuse of IT systems / loss of information.
Critical Incidents			✓		To provide assurance with regards the process for recognition and response to critical incidents and lessons learnt.
Data Quality		✓		✓	To provide assurance with regards the accuracy and completeness of recorded data.
Commissioning		✓		✓	The provide assurance with regards the delivery of an effective commissioning framework.
Firearms Licensing	✓			✓	To provide assurance that the Force has effective controls in place for the management / issue of licences and the holding of firearms.

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Health & Safety			✓		To provide assurance that the Force has effective processes in place in respect of health and safety and these are being consistently applied.
Estates Management			✓		Following the implementation of the estates rationalisation strategy, to ensure that the estate is effectively managed and contributes to the overall strategic objectives.
Records Management		✓			To provide assurance that the Records Management System supports the objective of ensuring that there is a common approach to records management across the Force.
Integrity and Standards		✓			To follow-up on any issues coming out of the recent HMIC review and to review the effectiveness of the Ethics Committee.
Vehicle Fleet Management			✓		To review the systems and controls in place to manage the vehicle fleet.
Procurement		✓			To provide assurance that sound controls are in place and value for money is being sought in respect of the procurement of goods and services.

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Collaboration					
Collaboration	✓	✓	✓	✓	Following agreement at the Regional CFO meeting, resources will be allocated across each OPCC / Force in order to provide assurance with regards the systems and controls in place to deliver specific elements of regional collaboration. Consideration will be given to assessing whether the area of collaboration is delivering against its original objectives and what arrangements are in place, from an OPCC / Force perspective, for monitoring and managing the service.
Partnerships	✓		✓		To provide assurance with regards the overall governance arrangements underpinning a sample of key strategic partnerships the Force is a part of.
Contingency					
Contingency	✓	✓	✓	✓	To allow for additional / unforeseen audits to be carried out in agreement with the JARAP and management.

Audit Assignment	2015/2016	2016/2017	2017/2018	2018/2019	Commentary on Coverage
Other					
Audit Management	✓	✓	✓	✓	This includes audit planning, production of progress and annual reports, and attendance at progress and JARAP meetings.
Follow Up of Recommendations	✓	✓	✓	✓	To provide assurance that management have implemented audit recommendations.

Appendix D – Audit Charter and Performance Measures

The Audit Charter sets out the terms of reference and serves as a basis for the governance of the Office of the Police & Crime Commissioner for Leicestershire and Leicestershire Police (the OPCC and Force) Internal Audit function. It sets out the purpose, authority and responsibility of the function in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the JARAP for final approval.

Nature and Purpose

The OPCC and Force have developed a risk management framework, overseen by the Police & Crime Commissioner and Chief Constable, which includes:

- Identification of the significant risks in the operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Regular reviews by the Corporate Management Team and the Joint Audit, Risk & Assurance Panel (JARAP) of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the risk profile.

A system of internal control is one of the primary means of managing risk and consequently the evaluation of its effectiveness is central to Internal Audit's responsibilities.

The OPCC and Force's system of internal control comprises the policies, procedures and practices, as well as organisational culture that collectively support the OPCC and Force's effective operation in the pursuit of its objectives. The risk management, control and governance processes enable the OPCC and Force to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the Corporate Management Team.

The OPCC and Force needs assurance over the significant business risks set out in the risk management framework. In addition, there are many other stakeholders, both internal and external, requiring assurance on the management of risk and other aspects of the OPCC and Force's business - these including members, regulators etc. There are also many assurance providers. The OPCC and Force have, therefore, developed an assurance framework which sets out the sources of assurance to meet the assurance needs of its stakeholders.

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Internal Audit carries out assurance and consulting activities across all aspects of the OPCC and Force's business, based on a programme agreed with the JARAP, and coordinates these activities via the assurance framework. In doing so, Internal Audit works closely with risk owners, service line risk teams and the Corporate Management Team.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the OPCC and Force's existing processes and procedures can be developed to improve the extent with which risks in these areas are managed; and public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the Corporate Management Team and management in the service lines (including risk teams).

The independent assurance provided by Internal Audit also assists the OPCC and Force to report annually on the effectiveness of the system of internal control included in the Annual Governance Statement.

Authority and Access to Records, Assets and Personnel

Internal Audit has unrestricted right of access to all OPCC and Force records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the OPCC and Force should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the JARAP.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit would need to discharge their responsibilities.

Responsibility

The Chief Internal Auditor is required to provide an annual opinion to the OPCC and Force, through the Audit & Risk Panel, on the adequacy and the effectiveness of the OPCC and Force's risk management, control and governance processes. In order to achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors and HMIC) such that the assurance needs of the OPCC and Force, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the OPCC and Force's business based on a risk-based plan agreed with the JARAP.
- Provide the Police & Crime Commissioner, Chief Constable and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the JARAP and the Corporate Management Team summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the OPCC and Force to aid the prevention and detection of fraud;
- Assist in the investigation of allegations of fraud, bribery and corruption within the OPCC and Force and notifying management and the JARAP of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the JARAP. Responsibility for remedial action in response to audit findings rests with line management.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the OPCC and Force's policies and standards and will monitor whether such measures are implemented on a timely basis.

The JARAP is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

Scope of Activities

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit therefore provides the Police & Crime Commissioner, Chief Constable and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the OPCC and Force's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the OPCC and Force in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value adding activities includes evaluating risk exposures relating to the OPCC and Force's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Reporting

For each engagement, Internal Audit will issue a report to the appropriate senior management and business risk owner, and depending on the nature of the engagement and as agreed in the engagement's Terms of Reference, with a summary to the Corporate Management Team and the JARAP.

The UK Public Sector Internal Audit Standards require the Chief Internal Auditor to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Charter is reported to the Corporate Management Team and the JARAP. It is then presented to the Board annually for formal approval.
- The annual risk-based plan is compiled by the Chief Internal Auditor taking account of the OPCC and Force's risk management / assurance framework and after input from members of the Corporate Management Team. It is then presented to the Corporate Management Team and JARAP annually for noting and comment.
- The internal audit budget is reported to Board and the JARAP for approval annually as part of the overall budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Chief Internal Auditor) and the independence of internal audit will be reported annually to the JARAP.
- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the Corporate Management Team and JARAP on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the JARAP.
- Results from the Quality Assurance and Improvement Programme will be reported to both the Corporate Management Team and the JARAP.

- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the Corporate Management Team and the JARAP and will be included in the annual Chief Internal Auditor's report. If there is significant non-conformance, this may be included in the Annual Governance Statement.

Independence

The Chief Internal Auditor has free and unfettered access to the following:

- Police & Crime Commissioner
- Chief Constable;
- Head of Finance (or equivalent) at the OPCC and Force;
- Chair of the JARAP; and
- Any other member of the Corporate Management Team.

The independence of the contracted Chief Internal Auditor is further safeguarded as his annual appraisal is not inappropriately influenced by those subject to internal audit.

To ensure that auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declaration via the tailored 'My Compliance Responsibilities' portal which includes personal deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in Mazars must complete);
- Personal Connections (the system for recording the interests in securities and collective investment vehicles held by partners, directors and managers, and their immediate family members); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the JARAP. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

External Auditors

The external auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the external auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up the implementation of internal control issues raised by external audit.

Internal Audit and external audit meet periodically to:

- Plan the respective internal and external audits and discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All OPCC and Force Policies and Procedures; and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of CPD is maintained for all staff working on internal audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. Both the Chief Internal Auditor and the PSIA Engagement Manager are required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

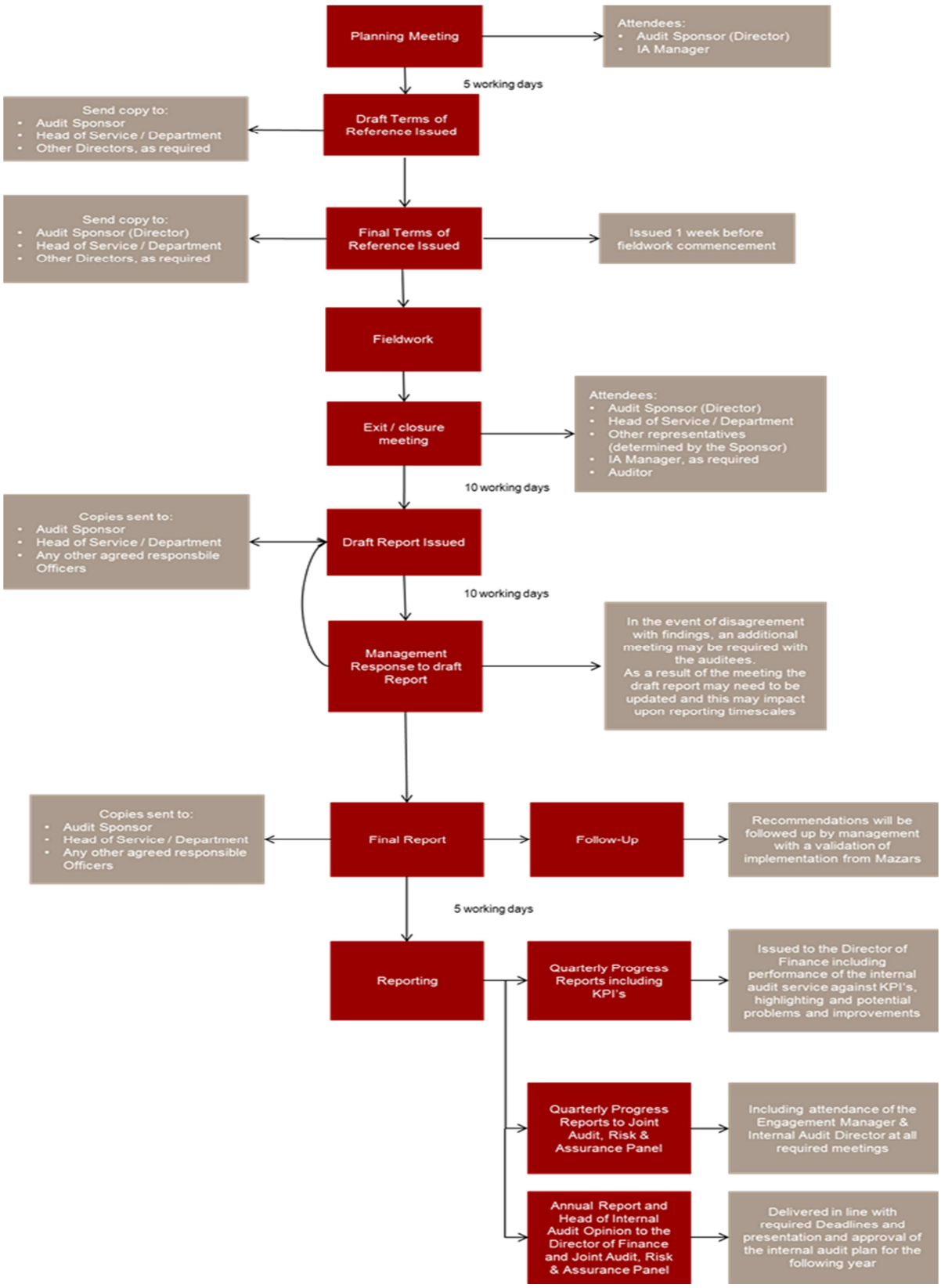
Performance Measures

In seeking to establish a service which is continually improving, we acknowledge it is essential that we agree measures by which Internal Audit should demonstrate both that it is meeting the OPCC and Force's requirements and that it is improving on an annual basis. This will be both through quantifiable factors within the Key Performance Indicators (KPI's) and additionally through a number of measures to further seek to establish the value derived from internal audit.

Below we provide example KPI's against which we regularly report our performance. Should you require additional performance measures, these will be incorporated within our regular reports to management and the JARAP.

STANDARD	TARGET
Annual report provided to the JARAP	As agreed with the Client Officer
Annual Operational and Strategic Plans to the JARAP	As agreed with the Client Officer
Progress report to the JARAP	7 working days prior to meeting.
Issue of draft report	Within 10 working days of completion of final exit meeting.
Issue of final report	Within 5 working days of agreement of responses.
Follow-up of priority one recommendations	90% within four months. 100% within six months.
Follow-up of other recommendations	100% within 12 months of date of final report.
Audit Brief to auditee	At least 10 working days prior to commencement of fieldwork.
Customer satisfaction (measured by survey)	85% average of 3 or less
Achievement of annual plan	100%
Proportion of planned days on site	95%
Availability for urgent meetings (maximum time taken)	6 hours.
Availability for non-urgent meetings (maximum time taken)	2 working days.
Response to telephone calls (maximum)	3 hours

Appendix E – Audit Approach



Appendix F – Levels of Assurance & Opinions

Audit Assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.

Appendix G – Contact Details

Contact Details

Mike Clarkson	07831 748135 Mike.Clarkson@mazars.co.uk
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Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars LLP

London

May 2015

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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