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RSM Tenon

Cleveland Police Authority

Strategy for Internal Audit

2009/10 – 2013/14 (Draft)

For presentation at the Audit and Internal Control Panel meeting
of 25th March 2010

Approved by Ian Wallace as Head of Internal Audit

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1 INTRODUCTION

1.1 THE PURPOSE OF INTERNAL AUDIT

The purpose of internal audit is to provide the Authority, through the Audit and Internal Control Panel, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the organisation's agreed objectives. This opinion forms part of the framework of assurances that the Authority receives and should be used to help inform the Annual Governance Statement, which includes a review of internal control. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our strategy for 2009/2014 was approved by the Audit and Internal Control Panel in May 2009. The purpose of this document is to update that strategy and to provide a more detailed internal audit plan for 2010/11.

1.2 OUR RESPONSIBILITIES

Our professional responsibilities as internal auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA).

As such, our approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, in particular to how those elements contribute to how the organisation will achieve its objectives. These are articulated in the Policing Plan and latterly in the CPA Business Plan.

2 THE UPDATED INTERNAL AUDIT PLAN

2.1 HOW THE STRATEGY WAS DEVELOPED

The plan has been updated following consultation with the Chief Executive, the Chair and Vice Chair of the Audit and Internal Control Panel and the Authority Accountant,. Due to unforeseen circumstances a planned meeting with the Deputy Chief Constable and the ACO Finance and Commissioning did not proceed; though the draft plan has been shared with both members of the Force. This draft plan reflects changes in the organisations risk profile.

In 2009/10 we undertook a review of the organisation's risk maturity and concluded that Cleveland Police Authority is a risk defined organisation. Therefore we are able to place reliance on your risk registers / assurance framework to inform the update of the internal audit strategy (see the Risk Maturity Matrix at Appendix A). In 2010/11 we will follow up the recommendations from the risk maturity report. In addition, we will complete an Assurance Stocktake Thematic Review which will include selecting a sample of risks to review the assurances that are available, those that are used and how the information available informs the risk profile.

The changes made to the internal audit plan for 2010/11 are as follows:

- In view of the need to make efficiency savings in 2010/11 we have deferred the Consultation audit and brought forward the Efficiency Savings Monitoring and Reporting review.
- A decision has yet to be taken on the relocation of the Headquarters building therefore we have deferred the planned review in this area.
- We have deferred the planned audit of Purchasing and Payments. This area was audited in 2009/10 using IDEA interrogation software and was assessed as "substantial assurance".
- The planned Procurement audit will be subsumed within the Compliance with Contract Standing Orders review.
- The number of days for Audit Management has been increased from 15 to 18 days to reflect additional meetings for example with the Authority and external auditors.

Members will observe that there is no specific provision in respect of Project I in this audit plan. We are aware of the initiative being explored by the Authority and some of the potential impacts that this may have on the scope and nature of the audit. When the Authority makes the decision on the award of the contract, and the governance arrangements for its implementation and operation it will be possible to make more definitive assessments of changes needed to the audit plan. These will necessarily be brought to the Audit and Internal Control Panel for its consideration.

3 INTERNAL AUDIT RESOURCES

3.1 YOUR INTERNAL AUDIT TEAM

Your internal audit team is led by Ian Wallace.

Your Client Manager is Sue Turner.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

3.2 INTERNAL AUDIT FEES

In line with our tender and subsequent engagement letter, the fee for your internal audit service for 2010/11 is £44,400. A breakdown of days input and a fee for each assignment is provided at Appendix B as part of the detailed internal audit plan for 2009/10. The fee for each assignment is based upon the days required and the skill mix utilised.

We have been reviewing our internal audit planning mechanism to ensure we provide sufficient information to support our clients' risk management processes. A key aspect is the relationship between risk and the cost of providing assurance. Therefore our plan for 2010/11 details the total cost of each review to enable management and the Audit and Internal Control Panel to make an informed judgement on that risk vs. assurance cost.

4 CONSIDERATIONS REQUIRED OF THE AUDIT AND INTERNAL CONTROL PANEL

- Does the detailed internal audit plan for the coming financial year (see Appendix B) reflect the areas that the Audit and Internal Control Panel believe should be covered as priority?
- Does the updated Strategy for Internal Audit (as set out at Appendix C) cover the organisation's key risks as they are recognised by the Audit and Internal Control Panel?
- Does the audit strategy include all those areas that the Audit and Internal Control Panel would expect to be subject to internal audit coverage, both in terms of our professional responsibilities as well as covering areas of concern flagged by management?
- Is the level of audit resource accepted by the Panel and agreed as appropriate, given the level of assurance required?

APPENDIX A: RISK MATURITY MATRIX

Risk Maturity	Characteristics of your risk management arrangements	RSM Tenon’s Internal Audit Approach
Risk Naïve	No formal approach developed for risk management	<p>Promote risk management, advisory work to help put the risk management framework in place.</p> <p>Rely on internal audit’s assessment of risk to drive the internal audit plan.</p>
Risk Aware	Scattered silo based approach to risk management	<p>Promote embedded and joined up risk management activities.</p> <p>Rely on internal audit’s assessment of risk to drive the internal audit plan.</p>
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	<p>Facilitate risk management/liaise with risk management. Review of risk management processes already in place.</p> <p>Internal Audit rely on your assessment of risk, but will also identify other risk areas for internal audit coverage.</p>
Risk Managed	<p>Enterprise wide approach to risk management developed and communicated.</p> <p>Risk management is considered at the highest level of the business, but could be further developed to inform decision making.</p>	<p>Depending on the business’s attitude to risk management, provide advice and support to move to a risk enabled organisation. Audit existing risk management processes to confirm effectiveness.</p> <p>Management’s assessment of risk drives the audit plan, although internal audit will continue to challenge whether there are other risks that require internal audit coverage.</p>
Risk Enabled	<p>Risk management and internal control fully embedded into the operations.</p> <p>Risk management is used to help manage the business; consequently the business is able to take risks on an informed basis to achieve its objectives.</p>	<p>Audit risk management processes to confirm effectiveness.</p> <p>Management’s assessment of risk drives the audit plan, although internal audit will continue challenge whether there are other risks that require internal audit coverage.</p>

Source: Based on Risk Maturity Matrix, Institute of Internal Auditors, Risk Based Auditing Position Statement

APPENDIX B: DETAILED INTERNAL AUDIT PLAN 2010/2011

RISK BASED COVERAGE

Audit Title	Risk	Mitigating Controls to be considered in IA review	Days	Fee per assignment	Provisional Timing
VFM Arrangements	Risk of failure to provide effectiveness and value for money in policing services and to achieve the efficiency saving necessary to enable core services to be protected and enhanced against a backdrop of tight funding settlements.	<ul style="list-style-type: none"> ▪ Long term financial planning process. ▪ Efficiency planning and implementation processes. ▪ Annual use of resources assessment. ▪ Current initiatives to outsource, collaborate, process reengineer and improve the procurement processes. ▪ Benchmarking data and HMIC & Audit Commission Value for Money Profiles 	13	£5,777	
Corporate Governance	Risk of failure to comply with the provisions of the Code of Corporate Governance and the relevant Acts/Orders/Regulations.	<ul style="list-style-type: none"> ▪ Annual Governance Statement and use of resources assessment process undertaken annually and reported to members. <p>In this audit we will include testing of the evidence to support the completed SUM/BCU questionnaires.</p>	7	£1,791	
HR Policies and Procedures	Risk of increased cost and possible litigation in relation to current workforce policies and the potential failure to apply effective employment law practices.	<p>Current HR policies and procedures, with associated training.</p> <p>The policies and procedures to be reviewed will be agreed in year.</p>	8	£2,051	
Data Quality / Data Accuracy	Inaccuracy of information held on the Force or National systems. Quality of data shared by partners.	<p>Cleveland Police are currently monitoring, auditing and reviewing work around data quality.</p> <p>Data Sharing protocols.</p>	10	£2,616	
Total			38	£12,235	

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Audit Title	High Level Controls to be considered in IA review	Scope	Days	Fee per assignment	Provisional Timing
Key Financial Controls	<ul style="list-style-type: none"> ▪ Access Controls. ▪ Journals and input to the nominal ledger. ▪ Bank reconciliation. ▪ Management of suspense accounts. ▪ Month end closedown and reconciliation process. ▪ Production of trial balance. ▪ Production of management information. 	To enable external audit to place reliance on the work completed.	6	£1,509	
Income and Debtors	<ul style="list-style-type: none"> ▪ Debt recognition. ▪ Debt collection. ▪ Recording of income. ▪ Arrears management / debt enforcement. 	To enable external audit to place reliance on the work completed.	5	£1,231	
Budgetary Control	<ul style="list-style-type: none"> ▪ Reporting to budget holders. ▪ Virements. ▪ Variance analysis. ▪ Reporting to the Executive Team. 	To enable external audit to place reliance on the work completed.	8	£1,942	
Total			19	£4,682	

OTHER INTERNAL AUDIT WORK

Topic	High Level Scope	Days	Fee per assignment	Provisional Timing
Assurance Stocktake Thematic Review	<p>This review will build upon the risk maturity work completed in 2009/10 and will include:</p> <ul style="list-style-type: none"> ▪ How the organisation understands and uses assurances, and ▪ For a small number of risks, review what assurances are available and which are used, and how the information available informs the risk profile. <p>The results of this review will feed into our risk</p>	8	£2,015	

Topic	High Level Scope	Days	Fee per assignment	Provisional Timing
	management opinion at year end.			
Contract Monitoring / Management	Ongoing monitoring of contractors including, <ul style="list-style-type: none"> ▪ Monitoring contract performance. ▪ Assessing quality. ▪ Financial viability. ▪ Reporting against objectives and targets. 	6	£1,531	
Compliance with Contract Standing Orders	The new Contract Standing Orders were implemented in 2009/10. This will include: <ul style="list-style-type: none"> ▪ Low value procurement. ▪ Procurement cards. ▪ The tendering process. ▪ Exceptional situations. ▪ Maintenance of an audit trail to support each contact. 	10	£2,462	
Capital Audit Contract	A review of the management of capital contracts. This will include: <ul style="list-style-type: none"> ▪ Approval. ▪ Tendering – compliance with legislation and CPA Standing Orders ▪ Monitoring. ▪ Authorisation of payments. ▪ Reporting against agreed objectives. 	8	£3,983	
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	5	£1,126	
AGS Group	Attendance at the AGS Group.	3	£1,700	
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Audit and Internal Control Panel meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	18	£14,666	
Total		58	£27,483	
TOTAL FOR 2010/11 Internal Audit Plan		115	£44,400	

RESERVE LIST FOR 2010/11

Following discussions with Authority we have included a reserve list of audits. This list will be used if any of the agreed audits for 2010/11 are deferred.

Topic	High Level Scope	Days	Fee per assignment	Provisional Timing
Register of Interests, Gifts and Hospitality	<p>To include:</p> <ul style="list-style-type: none"> ▪ Testing to determine whether the Register of Interests is up date. ▪ Testing of adherence to the Gifts and Hospitality Policy, including awareness, compliance and reporting. 	5	£1,197	
Senior Officers Expenses	<p>Review of a sample of expense claims to ensure that they are in line with corporate guidance. This will include testing for reasonableness, supporting evidence, and review and authorisation.</p>	8	£2,096	
Effectiveness of Consultation	<p>To include:</p> <ul style="list-style-type: none"> ▪ Approval of the Consultation Strategy. ▪ Hard to Reach Groups ▪ How consultation data is utilised. ▪ The extent to which the results of consultation can be linked to the Policing Plan and financial plans. ▪ Reporting delivery of the Strategy. 	6	£1,867	
Overtime	<p>To include managerial controls covering planning & authorisation of overtime and authorisation of payments.</p> <p>This will consider:</p> <p>The practices in place compared to the good practice set out in “Understanding overtime in the Police Service”, a research paper published by the Home Officer in February 2010.</p> <p>HMIC & Audit Commission value for Money Profiles</p>	10	£2,616	

APPENDIX C: UPDATED STRATEGY FOR INTERNAL AUDIT 2009/10 – 2013/14

RISK BASED COVERAGE

Risks	Mitigating Controls for Internal Audit Coverage	Objective Type ¹	Source	2009/10	2010/11	2011/12	2012/13	2013/14
Risk of failure to comply with legislative requirements for police authorities in relation to public consultation.	<ul style="list-style-type: none"> A joint Consultation Strategy, including a comprehensive Neighbourhood Survey that is properly scoped and funded. An established process for setting local policing priorities, starting with the Members’ briefing and culminating in the production of a Three Year Strategy and Annual Policing Plan. Contingency plan in the event of long term staff shortage within CPA. 	Compliance	Risk Register PA1			✓		
Risk of failure to provide effectiveness and value for money in policing services and to achieve the efficiency saving necessary to enable core services to be protected and enhanced against a backdrop of tight funding settlements. (VFM Arrangements)	<ul style="list-style-type: none"> Long term financial planning process. Efficiency planning and implementation processes. Annual use of resources assessment. Current initiatives to outsource, collaborate, process reengineer and improve the procurement processes. 	Strategic Reporting	Risk Register PA 2		✓			
Risk of failure to comply with legal requirements regarding the promotion of diversity and equality. (Equality and Diversity)	<ul style="list-style-type: none"> CPA Single Equality Scheme with details of action plan and equality impact assessments. Force Single Equality Scheme and work to implement new Equality Standard for Policing. This includes BME recruitment and retention considerations. Ongoing diversity, equality and human rights training for members and staff. Outline Schedule of reports covers Authority and Force diversity and equality requirements. 	Compliance	Risk Register PA 3	✓			✓	
Risk of failure to establish representation on	<ul style="list-style-type: none"> Maintenance of effective representation on statutory 	Operational	Risk Register	✓			✓	

¹ Ref: COSO ERM Framework

<p>the local area partnerships - CDRPs, LSPs, Children's Trust Boards and LCJB.</p>	<p>partnerships by members and officers.</p> <ul style="list-style-type: none"> ▪ District Commanders represent CPA strategies and policies at LSPs. 		<p>PA 4</p>					
<p>Risk of failure to comply with the provisions of the Code of Corporate Governance and the relevant Acts/Orders/Regulations. (Corporate Governance)</p>	<ul style="list-style-type: none"> ▪ Code regularly reviewed, updated and disseminated. ▪ Members signed for Code of Conduct 2007 Regulations and they sign off declarations of interests and gifts every year. ▪ Annual Governance Statement and use of resources assessment process undertaken annually and reported to members. 	<p>Compliance</p>	<p>Risk Register PA 5</p>	<p>✓</p>	<p>✓</p>		<p>✓</p>	
<p>Risk of increased cost and possible litigation in relation to current workforce policies and the failure to apply effective employment law practices. (Compliance with HR Policies and Procedures)</p>	<ul style="list-style-type: none"> ▪ Current HR policies and procedures, with associated training. ▪ Limited equal pay audit in 2008. ▪ Established grading panel. 	<p>Operational</p>	<p>Risk Register PA 6</p>		<p>✓</p>		<p>✓</p>	
<p>Risk of the current HQ becoming increasingly expensive and unfit for purpose.</p>	<ul style="list-style-type: none"> ▪ Police Authority Executive to oversee the sourcing of a new HQ. ▪ Processes in place to commence the sale and purchases required to provide a new police HQ. 	<p>Strategic</p>	<p>Risk Register PA 7</p>			<p>✓</p>	<p>✓</p>	<p>✓</p>
<p>Financial loss to the authority as a consequence of acts of commission or omission by Members, staff or contractors.</p>	<ul style="list-style-type: none"> ▪ Whistle-blowing Strategy. ▪ Counter Fraud and Corruption Strategy. ▪ Confidential e-mail system. ▪ Work of the Professional Standards Department. ▪ Work of the Internal Audit Services ▪ Codes of Practice ▪ Disciplinary codes. ▪ Police conduct regulations. ▪ Systems of management including Delegation Scheme ▪ Financial Standing Orders (including Contract Standing Orders) are in place. Any significant failure to apply is reported 	<p>Strategic</p>	<p>Risk Register PA 8</p>	<p>✓</p>			<p>✓</p>	

	<p>to the Audit Panel.</p> <ul style="list-style-type: none"> ▪ The Force has in place Standing Financial Instructions embodying formal arrangements covering a range of matters including separation of duties and these are supported by disciplinary codes of practice. ▪ Budgetary control system in operation, with monthly analysis and review. 							
Service continuity plans have not been developed and are not established.	The baseline assessment process will be completed by the end of March 2010. Training has been provided for Service Continuity champions by the Cabinet Office. Service Continuity plans will be drawn up for main operational risks first.	Strategic	Risk Register SR1	✓				
Non compliance with the Management Of Police Information (MOPI) code of practice, Freedom Of Information requests (FOI) and Data Protection legislation (DP).	A team of staff based within the Force Intelligence Management Unit (FIMU) are assigned to the task of ensuring Force compliance with MOPI/ FOI and DP. The Government Protective Marking Scheme (GPMS) which is now in place, establishes a process to formalise the appropriate security classification of sensitive documents. The Force has MOPI related E-learning packages which are mandatory for all staff to complete. The Forces data quality officer is addressing the quality of data held on the Force 'Integrated Records Information System' (IRIS).	Compliance	Risk Register SR2			✓		
Force staff succession planning for specialised roles.	The ongoing work being done with Risk Management and Service Continuity will highlight this and the areas most vulnerable.	Strategic	Risk Register SR3			✓		✓
Inaccuracy of information held on the Force or National systems. (Data Quality / Accuracy)	Cleveland Police are currently monitoring, auditing and reviewing work around data quality.	Reporting	Risk Register SR4		✓			

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Systems	Source of Requirement	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14
Key Financial Controls	To support the Authority in the production of its Annual Governance Statement and external audit reliance.	✓	✓	✓	✓	✓
Payroll and Expenses	As above.	✓		✓	✓	
Purchasing and Payments	As above.	✓			✓	✓
Income and Debtors	As above.		✓			✓
Treasury Management	As above.			✓		✓
Budgetary Control	As above.		✓		✓	
Procurement	As above.					
Capital Accounting and Asset Register	As above.			✓		✓
Register of Interests, Gifts and Hospitality	As above.			✓		
VAT	As above.				✓	

ADVISORY INPUT AND OTHER INTERNAL AUDIT COVERAGE

Internal Coverage	Audit	Source / Rationale	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14
Risk Maturity	Thematic Review	Our internal audit methodology is linked to your risk management processes, and therefore the more risk mature the organisation, the more closely the organisation will be able to map internal audit assurance to specific risks, and to use this assurance to inform its risk profile and associated decisions.	✓				
Risk Management		To provide ongoing assurance that risk management is embedded across the organisation. For 2010/11 our opinion on Risk Management will be informed by our follow up of recommendations from the Risk Maturity review and the Assurance Stocktake Thematic Review.				✓	
Assurance Stocktake	Thematic Review	Building upon the risk maturity work this review will assess how well the organisation maps assurances sources risks and how this information is used to inform the risk profile.		✓			
Senior Officers Expenses		Compliance with policies and procedures and value for money considerations.			✓		
Capital Contract Audit		Inadequate management of capital projects may result in inadequate/ delayed facilities being developed or capital budgets being exceeded.		✓			✓
Contract Monitoring / Management		The Force has over 100 contracts for works, goods and services in place with an activity level of over 4,000 purchase and building orders.		✓	✓		✓
Health and Safety		Cyclical coverage.	✓				✓
HR Management		Cyclical coverage of the following areas,	✓		✓	✓	

Internal Coverage	Audit	Source / Rationale	2009/10	2010/11	2011/12	2012/13	2013/14
		<ul style="list-style-type: none"> • Policies and Procedures • Management Information • Vetting / Disclosure • Sickness and Absence • Recruitment and Retention • Appraisal System and CPD 					
	Compliance with Contract Standing Orders	New contract standing orders have been documented and will be implemented from early 2009/10.		✓			
	Thematic Review – Counter Fraud Arrangements	With the publication in November 2008 of CIPFA’s updated Red Book 2, managing the risk of fraud, this review will be completed at our local government, police and fire clients. The purpose will be to undertake a high level review of each organisation against the guidance within the Red Book 2 and then to capture information to provide a thematic report on good practice across the sector regarding counter fraud arrangements.	✓				
	District and Sub Units	Will include a linkage to completion of the return for the Annual Governance Statement. For 2010/11 coverage see Corporate Governance above.			✓	✓	
	Seized / Lost Property	Sensitive Property in Police possession is lost, stolen or deteriorates.			✓		
	Uniform Stores	To ensure that adequate arrangements are in place for the management of stock and stores.					✓
	Covert Human Intelligence Source Payments	A review to ensure that adequate arrangements are in place for the requirement for source confidentiality, the potential for inadequate records and fraud.			✓		
	Firearms Licensing	Considered to be a risk to the Authority/Force due to the potential adverse public perception if license eligibility guidelines are not followed. Licensed firearms may be used to commit an offence				✓	
	Overtime	A material system with high levels of expenditure which may be prone to error or mistake.				✓	
	Network Security	Cyclical Coverage.	✓				
	Internet and E-mail	Cyclical Coverage.	✓				
	IT Audit	Cyclical Coverage.			✓	✓	✓
	Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	✓	✓	✓	✓	✓
	Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Audit and Internal Control Panel meetings ▪ Regular liaison and progress updates 	✓	✓	✓	✓	✓

Internal Coverage	Audit	Source / Rationale	2009/10	2010/11	2011/12	2012/13	2013/14
		<ul style="list-style-type: none">Liaison with external auditPreparation of the annual internal audit opinion					