

To: Joint Audit Committee
Date: 22nd June 2015
By: Daniel Harris, Baker Tilly
Title: Annual Internal Audit Report

Purpose of Report/Issue:

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.

The work of internal audit, culminating in our annual opinion, forms a part of the OPCC's overall assurance framework and should be used to help inform the annual assurance statement.

The accompanying report summarises the work undertaken by Internal Audit over the 2014/15 financial year and includes our overall opinion on the Authority's governance, risk management and internal control arrangements.

Recommendation

The Committee is asked to consider and comment on the Annual Report for 2014/15.

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Surrey Police Force and Office of the Police and Crime Commissioner for Surrey

Annual Internal Audit Report - Year ended 31 March 2015

Presented at the Audit Committee meeting of: 22 June 2015

Baker Tilly Risk Advisory Services LLP

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As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review 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. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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1 Introduction

As the provider of the internal audit service to Surrey Police Force and the OPCC for Surrey we are required to provide the Section 151 Officers and the Joint Audit Committee, with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements.

In line with the Financial Management Code of Practice published by the Home Office, both the Office of the Police and Crime Commissioner (OPCC) and the Office of the Chief Constable (OCC) must have an internal audit service, and there must be an Audit Committee in place (which can be a joint committee). This annual report is therefore addressed to both the PCC and the Chief Constable, and summarises the work undertaken during 2014/15.

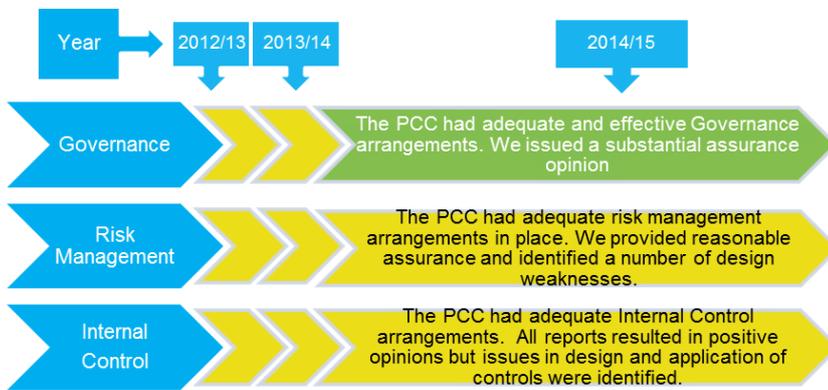
As your internal audit provider, the assurance and advisory reviews that Baker Tilly Risk Advisory Services LLP (Baker Tilly) provides during the year are part of the framework of assurances that assist the PCC and Chief Constable prepare informed annual governance statements.

In giving our opinion it should be noted that assurance can never be absolute. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

2 The Head of Internal Audit Opinions

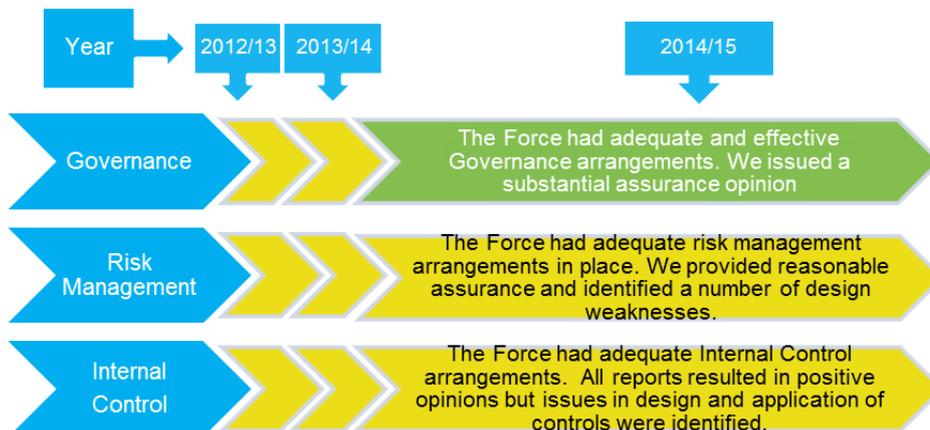
Police and Crime Commissioner for Surrey

For the 12 months ended 31 March 2015, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation’s assurance framework, risk management, internal control and governance. We also show below the direction of travel of our opinions.



Chief Constable for Surrey

For the 12 months ended 31 March 2015, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation’s assurance framework, risk management, internal control and governance. We also show below the direction of travel of our opinions.



2.1 The basis of our opinion

The commentary below provides the context for our opinions and together with the opinions should be read in its entirety.

Governance

Our Governance review in 2014/15 focussed on the Stage Two Transfer process. We provided a substantial assurance (Green) audit opinion and made no recommendations.



Risk Management

Our Risk Management review sought to examine evidence that:

- There is a clearly defined risk management process which is communicated to staff / officers;
- There is adherence to the risk management process including documentation of a risk register;
- Risk reporting is sufficient and timely;
- Processes are in place to provide assurance on the effectiveness of controls;
- Risk is embedded throughout the organisation.



We provided a reasonable assurance (Amber/Green) audit opinion and made three medium and two low priority recommendations.

Internal Control

We undertook eleven audits of the control environment, all of which resulted in positive assurance opinions (seven substantial assurance, two reasonable assurance and two some assurance opinions). We have also completed two advisory audits, relating to the DAAT and procurement; both these audits identified a number of areas for improvement, including a number of high priority recommendations.

Our follow up work identified that little progress had been made in implementing recommendations from previous years.



A summary of internal audit work undertaken, and the resulting opinions, is provided at appendix A.

2.2 Acceptance of 2014/2015 Internal Audit recommendations

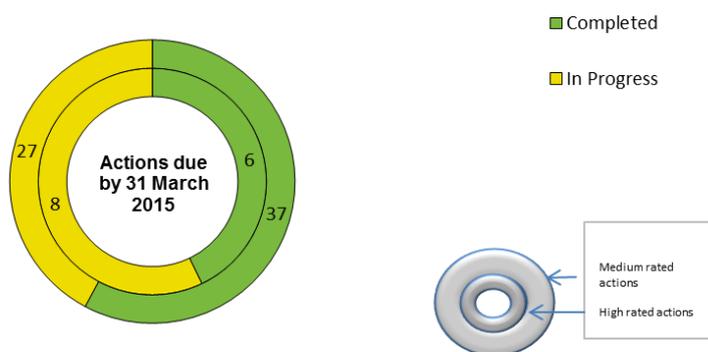
The vast majority of recommendations made during the year were accepted by management. Three recommendations were not agreed. These related to:

- Crime Recording – recording of requests for additional guidance (Low)
- Procurement – development of the web portal (Low)
- Procurement – recording of procurement risks (Medium)

Where recommendations were declined by management, this was not as a result of the factual accuracy of the report, but where management felt, on reflection, that the recommendation made by internal audit was not the best way to address the issue and consequently proposed alternative action. We are comfortable that in all instances appropriate action is being taken to address the issues identified during our audit work and these do not in any way affect the opinions provided.

2.2.1 Implementation of actions due by 31 March 2015

Our follow up of the recommendations from previous years and current audit assignments, showed that the organisation had made little progress in implementing the agreed actions.



As agreed with management and the Joint Audit Committee, we only follow up on those recommendations considered 'high' or 'medium' priority. The 'high' priority recommendations still in progress related to:

- Review of Business Interests of staff
- The update and management of ICT disaster recovery procedures
- The testing of ICT disaster recovery procedures
- A risk register for victim commissioning services
- Review of the tender specification for commissioning services
- Applying PRINCE2 to victim commissioning

2.3 Reliance placed upon work of other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

3 Our performance

3.1 Wider value-adding delivery

As part of our client service commitment, during 2014/15 we:

- Issued four client updates and general briefings during the year including an analysis of risk registers.
- Provided benchmarking within our reports on the number and category of recommendations and assurance opinions across organisations similar to yourselves.
- Undertaken both advisory and assurance reviews across both Corporations Sole. This included sharing best practice across the sector through our work.
- We have made suggestions throughout our audit reports based on our knowledge and experience in the public and private sector to provide areas for consideration.

3.2 Conflicts of interest

Baker Tilly has not undertaken any work or activity during 2014/15 that would lead us to declare any conflict of interests.

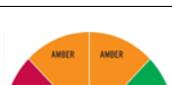
3.3 Conformance with internal auditing standards

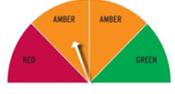
Baker Tilly affirms that our internal audit services to Surrey Police Force and OPCC are designed to conform with the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our Risk Advisory service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

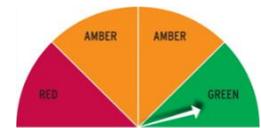
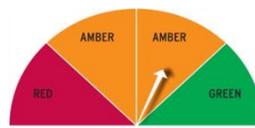
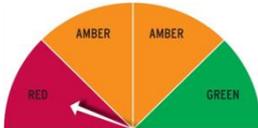
The external review concluded that *“the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”*.

Appendix A: Internal Audit Opinion and Recommendations Summary 2014/2015

Assignment	Audit sponsor	Opinion	Actions agreed		
			H	M	L
Forensic Medical Examiners	Custody Medical Services Advisor		1	0	0
Governance - Stage Two Transfer	Chief Executive, Office of the Police and Crime Commissioner		0	0	0
Drug and Alcohol Abuse Team (DAAT)	Treasurer, Office of the PCC	Advisory	2	2	0
Follow Up	Financial Accounting Manager	Little Progress	4	22	0
Covert Bank Account – SOCU Team 1	Treasurer, Office of the PCC		0	0	0
Covert Bank Account – SOCU Team 2	Treasurer, Office of the PCC		0	0	1
Covert Bank Accounts – Surveillance	Treasurer, Office of the PCC		0	0	0
Covert Bank Account – Negotiators	Treasurer, Office of the PCC		0	0	0
Covert Bank Account – SB DHSU	Treasurer, Office of the PCC		0	0	0

Assignment	Audit sponsor	Opinion	Actions agreed		
			H	M	L
Covert Bank Account - DHSU	Treasurer, Office of the PCC		0	0	1
Procurement	Head of Procurement and Contracts	Advisory	2	2	3
Crime Recording	Force Crime and Incident Registrar		1	0	2
Financial Controls	Financial Accounting Manager		1	7	5
Project Management	Project Assurance Consultant		0	1	0
Proceeds of Crime Seizures (Draft)	Financial Investigation Development Manager		0	3	4
Risk Management (Draft)	Chief Executive – Office of the Police Crime Commissioner		0	3	2

We use the following levels of opinion classification within our internal audit reports



Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.

Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

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