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**RSM** Tenon

Cheshire Police Authority

Strategy for Internal Audit

Updated for 2010/11 – 2012/13

For presentation at the Audit Committee meeting of 23 March 2010

Approved by Lisa Randall 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 Committee, 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 Statement on Internal Control. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

The purpose of this document is to provide the Authority with a Strategy for Internal Audit, based upon our understanding of your organisation's risk profile and therefore where assurances are required.

## 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.



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## 2 DEVELOPING YOUR STRATEGY FOR INTERNAL AUDIT

### 2.1 HOW THE STRATEGY WAS DEVELOPED

Cheshire Police Authority's objectives are the starting point in the development of the strategy for internal audit for the organisation. It is also key that we understand the risks to the achievement of those objectives. Wherever possible, we aim to place reliance on your own understanding of your risk profile and to map our assurances to your objectives and risks.

In 2009/10 we undertook a review of the organisation's risk maturity and concluded that Cheshire Police Authority is risk defined with some characteristics of a risk managed organisation. Therefore we are able to place reliance on the Authority's risk register to inform the internal audit strategy (see the Risk Maturity Matrix at Appendix A).

To develop your strategy for internal audit, we have considered the following:

- The core objectives of the organisation (as agreed by the Authority) and the specific risks associated with those objectives;
- The content of risk registers to understand the risks faced, and the controls that the organisation places reliance on to manage those risks, in particular the Authority and Constabulary's High Level Risk Registers;
- Areas of concern or requests for coverage from management and the Audit Committee;
- Areas where external audit will wish to place reliance on the testing performed by internal audit;
- Other sources of assurance available to the organisation;
- Any recent significant changes within the organisation and its operations;
- Regulatory requirements for internal audit coverage;
- Emerging issues, including any additional risks that do not appear on your risk profile but may merit internal audit coverage;
- The timing for each internal audit review to maximise the benefit of assurance provided; and
- Results of previous internal audit coverage.

We met with the Chief Executive and Treasurer of the Authority, and the Director of Performance Development from the Constabulary to further understand the risk areas where internal audit assurance is appropriate.

### 2.2 CONTENT OF THE STRATEGY

The detailed plan for 2010/11 is included at Appendix B and a Strategy for Internal Audit for 2010/11 - 2012/13 is set out at Appendix C.

As well as assignments designed to provide assurance on specific controls, the strategy includes:

- a contingency allocation which will only be utilised should the need arise, for example, for unplanned and ad-hoc work and will be subject to prior approval by the Treasurer;
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior year and will serve to inform the adequacy of the organisation's own recommendation tracking process; and
- an audit management allocation, used at Director, Associate Director and Manager level for annual planning, quality control, client and External Audit liaison and for preparation for and attendance at Audit Committee.

## 3 INTERNAL AUDIT RESOURCES

### 3.1 PLANNING INTERNAL AUDIT RESOURCES

RSM Tenon (formerly RSM Bentley Jennison) was appointed to provide internal audit services to Cheshire Police Authority for a period of three years from 2008/09 with two one year extension options. As 2010/11 is the last year of the formal three year appointment this document provides:

- a detailed internal audit plan at Appendix B for the coming year, 2010/11; and
- high level indicative coverage included at Appendix C for 2011/12 and 2012/13.

Our professional judgement has been applied in assessing the level of resource required to deliver the strategy. The level of resource applied is a product of:

- the complexity of the areas to be reviewed;
- the specific controls that the organisation places reliance on in order to mitigate its risks;
- factors such as number of locations, number and frequency of transactions; and
- the assurance which can be brought forward from previous audits.

### 3.2 YOUR INTERNAL AUDIT TEAM

Your internal audit team is led by Lisa Randall, Director, Internal Audit & Risk Management.

Your Associate Director is Rachel Bowden and your Client Manager for 2009/10 is Parmy Kaur.

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.

### 3.3 INTERNAL AUDIT FEES

The fee for your internal audit service for 2010/11 is £54,595, providing a total of 158 days internal audit input. Of this, five days are carried forward from 2009/10 and therefore the actual fee incurred for 2010/11 will be £52,868. A breakdown of days input and fees for each assignment is provided at Appendix B as part of the detailed internal audit plan for 2010/11.

We have reviewed 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 Committee to make an informed judgement on each risk versus assurance cost.

## 4 CONSIDERATIONS REQUIRED OF THE AUDIT COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix C) cover the organisation's key risks as they are recognised by the Audit Committee?
- Does the audit strategy include all those areas that the Audit Committee 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 Committee and agreed as appropriate, given the level of assurance required?
- Does the detailed internal audit plan for the coming financial year (see Appendix B) reflect the areas that the Audit Committee believe should be covered as priority?

## 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	Promote risk management, advisory work to help put the risk management framework in place. Rely on internal audit's assessment of risk to drive the internal audit plan.
Risk Aware	Scattered silo based approach to risk management	Promote embedded and joined up risk management activities. Rely on internal audit's assessment of risk to drive the internal audit plan.
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	Facilitate risk management/liaise with risk management. Review of risk management processes already in place. Internal Audit rely on your assessment of risk, but will also identify other risk areas for internal audit coverage.
Risk Managed	Enterprise wide approach to risk management developed and communicated. Risk management is considered at the highest level of the business, but could be further developed to inform decision making.	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. 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.
Risk Enabled	Risk management and internal control fully embedded into the operations. 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.	Audit risk management processes to confirm effectiveness. 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.

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
Risk Management	Need for improved risk management processes by the Authority. ( <i>Authority Risk Register</i> )	<ul style="list-style-type: none"> <li>▪ Statutory officers advise on risk. Audit Committee have had a session on risk management and consider Constabulary's and the Authority's risk register quarterly; and</li> <li>▪ Scrutinies based on Risk Register informs Business Plan.</li> </ul> <p>In particular we will review how the Authority and Constabulary have progressed with risk management since the appointment of the Risk Manager.</p>	5	£1,802	Quarter 4
Stocktake of assurances over financial areas	Management request for mapping of management and external assurances over key financial controls	<ul style="list-style-type: none"> <li>▪ Existing procedures and policies.</li> <li>▪ Management checks.</li> <li>▪ Management reporting and monitoring.</li> <li>▪ Use of feedback from external assurances.</li> </ul> <p>One of the outputs from this review will be to revisit the level and nature of internal audit coverage of financial systems. The Audit Committee will be kept informed of any subsequent changes to the internal audit plan.</p>	15	£4,766	Early Quarter 2

Audit Title	Risk	Mitigating Controls to be considered in IA review	Days	Fee per assignment	Provisional Timing
Approval and of signing Contracts	Management request	<ul style="list-style-type: none"> <li>▪ Responsibility is assigned for signing and sealing contracts.</li> <li>▪ Compliance with the Financial Regulations in terms of contract values and delegated limits.</li> <li>▪ Records are maintained of contracts approved and signed so that the Authority and Constabulary have a complete record of all contracts agreed with third parties.</li> </ul>	8	£2,191	Quarter 2
Compliance with Financial Regulations relating to Procurement	Management request	<ul style="list-style-type: none"> <li>▪ Compliance testing of existing regulations relating to procurement (quotes, tenders etc).</li> <li>▪ Area / department for testing to be agreed with the Treasurer.</li> </ul>	4	£1,426	Quarter 2
Human Resources – Policies and Procedures	Management request for input to provide advice on the policies and procedures in place that will support the significant change process that the Constabulary has commenced.	Specific coverage to be agreed in year, but could include review of HR related policies and consideration of whether fit for purpose to support the Constabulary through a time of organisational change.	10	£3,312	Quarter 2
Supplier and Contractor Financial Viability	Issue raised by internal audit based on issues seen at other public sector organisations regarding ongoing financial viability of key suppliers.	<ul style="list-style-type: none"> <li>▪ Constabulary's ongoing checking of suppliers and contractors.</li> </ul>	7	£1,819	Quarter 1

Audit Title	Risk	Mitigating Controls to be considered in IA review	Days	Fee per assignment	Provisional Timing
Overtime Payments	Does the Constabulary meet the best practices set out in the recent Home Office research report on Police overtime? <i>(Management request)</i>	<ul style="list-style-type: none"> <li>▪ Managerial controls; and</li> <li>▪ Reporting to the Chief Officers Group.</li> </ul> <p>We will also consider 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>	12	£3,206	Quarter 2 (August 2010)
Information Security	The Force is subject to a security breach resulting from a failure of its information security. <i>(Constabulary Risk Register)</i>	<ul style="list-style-type: none"> <li>▪ Policy and communication.</li> <li>▪ Monitoring by Information Management.</li> <li>▪ IT Security Controls.</li> </ul>	10	£3,800	Quarter 3
<b>Total</b>			<b>71</b>	<b>£22,322</b>	

#### COVERAGE FOR CYCLICAL ASSURANCE OF FINANCIAL SYSTEMS OR OF EXTERNAL AUDIT RELIANCE

Audit Title	High Level Controls to be considered in IA review	Scope	Days	Fee per assignment	Provisional Timing
Financial Audits	<ul style="list-style-type: none"> <li>▪ Controls to be determined following the completion of the Financial Assurance Stocktake.</li> </ul>	Scope to be determined following the completion of the Financial Assurance Stocktake.	14	£2,883	To be agreed
Payroll	<ul style="list-style-type: none"> <li>▪ Starters;</li> <li>▪ Leavers;</li> <li>▪ Amendments to permanent information;</li> <li>▪ Payment authorisation; and</li> <li>▪ Reconciliations.</li> </ul>	Given that Payroll accounts for a high level of the Constabulary's expenditure, compliance testing will be undertaken in relation to the Constabulary's procedures.	10	£2,749	To be agreed

Audit Title	High Level Controls to be considered in IA review	Scope	Days	Fee per assignment	Provisional Timing
Area Review – Cash Handling	Cash handling.	To test compliance with cash handling requirements in the Financial Regulations. The focus of the review will be on the Northern Area.	3	£1,036	Quarter 1
<b>Total</b>			<b>27</b>	<b>£6,668</b>	

**OTHER INTERNAL AUDIT WORK**

Topic	High Level Scope	Days	Fee per assignment	Provisional Timing
Annual Governance Statement	To undertake a review and comment on the Annual Governance Statement which will include a review of the assurances and evidence collated as part of the preparation of this document.	5	£1,561	May 2011
Members Expenses and Code of Conduct	As public scrutiny of expenses claimed by those in public officer remains high, we have built in a short review which will help the Authority's transparency of payments to Authority Members. The Standards Committee has reviewed the allowance rates for Members for the financial year and that payments have been paid in accordance with the Authority's policies. Compliance testing will also be undertaken to ensure that the Code of Conduct is agreed by Members including gifts and hospitality,	4	£1,491	Quarter 3
Proceeds of Crime Act (POCA)	This has been an area of interest across our police clients, particularly in relation to the recording of information and budgeting for POCA income.	9	£2,604	End of Quarter 2
Contingency	To be used in agreement with the Treasurer.	5	£1,979	As and when / To be Agreed
Transforming Projects – specific contingency item	Specific scoping to be agreed during the year with the Authority and Constabulary. It is anticipated that we will consider the results of a number of the restructuring projects being undertaken.	10	£3,592	To be agreed

Topic	High Level Scope	Days	Fee per assignment	Provisional Timing
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	7	£1,646	Quarter 4
Audit Management	This will include: <ul style="list-style-type: none"> <li>▪ Annual planning</li> <li>▪ Preparation for, and attendance at, Audit Committee meetings</li> <li>▪ Regular liaison and progress updates</li> <li>▪ Liaison with external audit</li> <li>▪ Preparation of the annual internal audit opinion</li> </ul>	20	£12,732	Ongoing
<b>Total</b>		<b>60</b>	<b>£25,605</b>	
<b>TOTAL FOR 2010/11 Internal Audit Plan</b>		<b>158</b>	<b>£54,595</b>	

## APPENDIX C: STRATEGY FOR INTERNAL AUDIT 2010/11 – 2012/13

### RISK BASED COVERAGE

Risks	Mitigating Controls for Internal Audit Coverage	Source	2010/11	2011/12	2012/13
Risk Management	<ul style="list-style-type: none"> <li>▪ Statutory Officers advise on risk; and</li> <li>▪ Audit Committee members have had a session on risk management and consider the Constabulary's and the Authority's risk register.</li> </ul>	Authority Risk Register	✓	✓	✓
Strategic Planning and Budget Setting	<ul style="list-style-type: none"> <li>▪ Integrated framework developed and launched.</li> </ul>	Authority Risk Register		✓	✓
Business Continuity Planning	<ul style="list-style-type: none"> <li>▪ Effective Business Continuity Plans and Scenario testing.</li> </ul>	Authority Risk Register		✓	✓
Financial Assurance Stocktake	<ul style="list-style-type: none"> <li>▪ An exercise will be undertaken to map the controls and review processes in place internally and also the coverage of Internal and External Audit in terms of the financial areas that are reviewed.</li> </ul>	Discussions with management	✓		
Approval and signing of Contracts	<ul style="list-style-type: none"> <li>▪ Responsibility is assigned for signing and sealing contracts, including compliance with the Financial Regulations in terms of contract values and delegated limits.</li> <li>▪ Register of contracts that have been signed and sealed is maintained appropriately.</li> </ul>	Discussions with management	✓		
Value for Money Reviews	Significant efficiencies, benefits and cash savings are not captured / delivered from current initiatives.	Authority Risk Register		✓	✓

Risks	Mitigating Controls for Internal Audit Coverage	Source	2010/11	2011/12	2012/13
Supplier and Contractor Financial Viability	The Constabulary's on-going checking process ensures that significant suppliers and contractors are not in danger of going into liquidation.	Discussions with management	✓		
Enterprise Resource Planning (ERP) System	Reviews designed to provide assurance during and after implementation of the ERP (as part of the TBS).	Discussions with management		✓	✓
Collaborations	How the Authority and Constabulary manage and participate in collaborative working to ensure that maximum benefit is received from such joint working.	Authority Risk Register Also an issue flagged in the recent Authority Inspection report.		✓	
Overtime Payments	Consideration of how the Constabulary meets the best practice set out in the recent Home Office report on Overtime in the Police Service.	Discussions with management	✓		
Human Resources	<ul style="list-style-type: none"> <li>▪ Anti Fraud &amp; Corruption Procedures;</li> <li>▪ Professional Standards Dept and reporting ;</li> <li>▪ Complaints Monitoring / Root Cause;</li> <li>▪ Audit &amp; Monitoring;</li> <li>▪ Critical Incident Procedures;</li> <li>▪ Gold Group Response Team;</li> <li>▪ HR Managing Performance Procedures;</li> <li>▪ Professional Standards for Police Staff; and</li> <li>▪ Professional Standards Meetings (attended by HR, FSO, Prof Standards).</li> </ul>	Authority Risk Register	✓	✓	✓
Use of Resources	<ul style="list-style-type: none"> <li>▪ Lack of preparedness for CAA and UoR;</li> <li>▪ Environmental, HR and Sustainability agendas not tackled; and</li> </ul>	Emerging Issue identified by Management		✓	

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Risks	Mitigating Controls for Internal Audit Coverage	Source	2010/11	2011/12	2012/13
	<ul style="list-style-type: none"><li>UoR scores reduce.</li></ul>				

**COVERAGE FOR CYCLICAL ASSURANCE OF FINANCIAL SYSTEMS OR OF EXTERNAL AUDIT RELIANCE**

Note: Financial coverage will be updated for the 2010/11 plan and subsequent years following the outcome of the financial controls “assurance stocktake” within the internal audit plan for 2010/11.

Systems	Source of Requirement	2010/11	2011/12	2012/13
Financial Audits	Financial coverage to be determined following the completion of the Financial Assurance Stocktake.	✓	✓	✓
Payroll	For Audit Commission reliance on a cyclical basis. This audit provides assurance on procedural documentation and training; starters; leavers; amendments; deductions; additional payments and expenses; checking and payment authorisation; statutory documentation; and reconciliations.	✓	✓	✓
PAYE	For Audit Commission reliance on a cyclical basis.		✓	
Governance	Without appropriate and effective governance structure in place the Authority will not thrive in the increasingly challenging external environment within which it will be required to operate. Strategic leadership and innovative governance will be required from the Authority to ensure that it is best placed to meet the needs of its existing and future stakeholders.	✓	✓	✓
Area and Level 2 Policing Review relating to local compliance with Financial Regulations / Procedures.	We will agree with management a programme to review a number of operational areas to test for compliance with Financial Regulations.	✓	✓	✓

**ADVISORY INPUT AND OTHER INTERNAL AUDIT COVERAGE**

Internal Audit Coverage	Source / Rationale	2010/11	2011/12	2012/13
Information Technology	A complex organisation such as the Authority and Constabulary are reliant on robust IT systems to help them to deliver their objectives and to meet targets and the Policing Pledge, therefore our Audit Plan contains annual input from our IT Specialists.	✓	✓	✓
Members Expenses and Code of Conduct	To ensure that the Standards Committee has reviewed the allowance rates for Members for the financial year, and that payments have been paid in accordance with agreed rates. Compliance testing will also be undertaken to ensure that the Code of Conduct is agreed by Members including gifts and hospitality.	✓		
Proceeds of Crime Act (POCA)	This has been an area of interest across our police clients, particularly in relation to the recording of information and budgeting for POCA income.	✓		
Contingency	To be used in agreement with the Treasurer.	✓	✓	✓
Transforming Projects – specific contingency item	The specific scope of this review is to be agreed by Members and the Constabulary. It is anticipated that we will consider the results of a number of the restructuring projects being undertaken.	✓	✓	
Follow Up	To provide management with ongoing assurance regarding implementation of recommendations and robustness of the Constabulary's recommendation tracking as reported to Audit Committee.	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> <li>▪ Annual planning</li> <li>▪ Preparation for, and attendance at, Audit Committee meetings</li> <li>▪ Regular liaison and progress updates</li> <li>▪ Liaison with external audit</li> <li>▪ Preparation of the annual internal audit opinion</li> </ul>	✓	✓	✓