



## Cumbria Shared Internal Audit Service

### Internal Audit Report for Cumbria Office of the Police & Crime Commissioner



## Code of Corporate Governance

Final Report Issued:

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## Audit Resources

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## Audit Report Distribution

For Action:	Ruth Hunter (Chief Finance Officer / Deputy Chief Executive)
For Information:	Stuart Edwards (Chief Executive – OPCC)
Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 15 <sup>th</sup> March 2017, will receive the report.

*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

### Cumbria Shared Internal Audit Service

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## 1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Office of the Police and Crime Commissioner's (COPCC) Code of Corporate Governance. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. The CIPFA / SOLACE Delivering Good Governance in Local Government Framework was revised to comply with international standards, with effect from April 2016. The Police and Crime Commissioner is required to set out his governance framework on an annual basis in a Code of Corporate Governance that reflects the seven principles outlined in the CIPFA Framework.
- 1.3. The Code of Corporate Governance is important to the organisation because it is a key element of the overall governance framework. A good governance framework establishes a high degree of transparency, fairness, standards and accountability to the public that contribute to efficient and successful achievement of strategic objectives.
- 1.4. The Police and Crime Commissioner has a statutory responsibility for holding the Chief Constable to account. This includes ensuring that adequate and effective governance arrangements are in place both within the Constabulary and his own office.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Chief Finance Officer / Deputy Chief Executive. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
  - Arrangements put in place to ensure compliance with the revised CIPFA Delivering Good Governance Framework introduced in April 2016. Testing will incorporate areas of notable change in the COPCC's Code of Corporate Governance.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the arrangements for developing and maintaining a Code of Corporate Governance provide **reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is 1 audit recommendation arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation's strategic objectives (see section 5.1.)	-	1	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2.)	-	-	-
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	-	-
4. <b>Security</b> - safeguarding of assets (see section 5.4)	-	-	-

5. Value - effectiveness and efficiency of operations and programmes (see section 5.5)	-	-	-
<b>Total Number of Recommendations</b>	-	<b>1</b>	-

4.2.1. Strengths: The following areas of good practice were identified during the course of the audit:

- Responsibility for developing and maintaining an up to date Code of Corporate Governance has been clearly defined and allocated to the Chief Finance Officer.
- A plan to update the Code of Corporate Governance to reflect the CIPFA Delivering Good Governance Framework introduced in April 2016 was prepared, communicated and delivered on a timely basis.
- Sufficient time was built into the plan for consultation, scrutiny, challenge and approval to ensure the Code of Corporate Governance addressed all aspects of the guidance and fully captured the new requirements.
- Staff with appropriate knowledge, skills and seniority were nominated to contribute to the update.
- Arrangements are in place to oversee ongoing compliance and ensure the seven principles of good governance are fully embedded.
- Documented arrangements are in place to support statements made in the Code of Corporate Governance for example plans, strategies, policies and procedures.
- Opportunities to improve the Code of Corporate Governance update process and fully demonstrate compliance are maximised through open communication channels with CIPFA.

**4.3 Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.3.1 *High priority issues:*

- No high priority issues were identified

4.3.2 *Medium priority issues:*

- Formal agendas and minutes are not prepared for Executive Team meetings to demonstrate the level of discussion, scrutiny and challenge in support of decisions taken.

4.3.3 *Advisory issues:*

- No advisory issues were identified.

**Comment from the Chief Executive:**

I am pleased to see the overall level of assurance and strengths within our process for this area of governance. Having considered arrangements for the Executive team a decision has been taken to formally record the items discussed and decisions taken in response to the audit recommendation.

Stuart Edwards

## 5 Matters Arising / Agreed Action Plan

5.1 Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p>(a) <b>Executive Team Meetings</b></p> <p>Executive Team meetings are the key platform for those tasked with updating the Code of Corporate Governance to share, discuss and challenge contributions and to make decisions.</p> <p>Formal agendas and minutes of Executive Team meetings are not prepared so the OPCC cannot effectively demonstrate the level and content of information communicated to the team, degree of scrutiny and challenge around preparation of the Code of Corporate Governance and decisions taken as part of good governance arrangements.</p>	<p>Agreed management action:</p> <p><i>The Executive Team has determined to formalise the arrangements for agenda and minutes of the Executive Team Meetings. This will be managed during the meeting utilising the new mobile device and share point arrangements that will enable all members of the Executive Team to access all papers.</i></p>
<p><b>Recommendation 1:</b></p> <p>The risks associated with the decision not to manage Executive team meetings through formal agendas and minutes should be assessed and actions taken to mitigate those risks if they are above the OPCC's acceptable risk tolerance level.</p>	
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>● Lack of accountability.</li> <li>● Reduced ability to respond to challenge.</li> <li>● Reputational Damage.</li> </ul>	<p><b>Responsible manager for implementing:</b>  <b>Stuart Edwards</b></p> <p><b>Date to be implemented:</b>  <b>From immediate effect</b></p>

## Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

## Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

### Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.