

**Hertfordshire Constabulary**

**Internal Audit**

**Annual Report 2006/07**

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INVESTOR IN PEOPLE

**Hertfordshire Constabulary**

**INTERNAL AUDIT  
ANNUAL REPORT**

**2006/07**

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## **INTRODUCTION**

In 2006/07, Hertfordshire County Council's Internal Audit Section again undertook the internal audit work required by the Accounts and Audit Regulations 2003 (as amended in 2006) on behalf of the Hertfordshire Police Authority.

The work was undertaken in accordance with a three-year strategy that forms the basis of an annual plan. Senior management in the Constabulary, the Treasurer, the Executive Director of the Police Authority and the Audit Commission were given the opportunity to comment on the plan before it was put before the Audit Working Group for their approval in March 2006.

The audit work that we undertook for the Constabulary may be divided into three main categories:

- Financial Audits
- Contract Audits
- Computer Audits.

In accordance with the Accounts and Audit Regulations, we also assisted the Police Authority in undertaking an overall review of internal control, to enable a Statement on Internal Control to be included in the Statement of Accounts for 2006/07. This is also being reported to the June 2007 Audit Committee.

All the audit work undertaken was selected on the basis of a risk assessment that was informed by senior members of staff, as well as by research and analytical review. In addition, we followed up our work wherever there were high-level recommendations, to ensure that they had been implemented. The majority of these recommendations have been fully implemented and those isolated instances where we are not satisfied with the progress to date we have noted at page 10.

This Annual Report brings together the main issues we have raised in the course of our 2006/07 audit work. Wherever possible, it also outlines management's responses and actions taken to address our recommendations. We do not anticipate that there are any significant costs associated with this year's recommendations. All of the audits summarised here have been formally reported to the relevant managers. The reports are all available for Members in the Police Authority library.

We are grateful to the many members of staff in all parts of the Constabulary and Authority who have given us their time and co-operation, and who have received our reports in the constructive spirit in which we hoped to give them.

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## **KEY MESSAGES**

### **System of internal control**

The Authority is required, under the Accounts and Audit Regulations, to undertake an annual review of the effectiveness of its system of internal control. The authority must also include a Statement on Internal Control with its financial statements at the year-end. The Regulations define the system of internal control as one which “facilitates the effective exercise of the Authority’s functions and which includes arrangements for the management of risk”.

This year the Constabulary has undertaken a greater proportion of this review and has been responsible for obtaining assurance statements from Area Commanders and Departmental Heads, to cover both their departmental and organisational responsibilities. We have reviewed these statements and the other evidence available, and have consulted with the Monitoring Officer, Treasurer, the Constabulary’s Director of Resources, and other key staff. The Statement on Internal Control is considered as a separate agenda item by the Audit Committee and is then included within the 2006/07 Statement of Accounts.

We found that, in all key respects, the Authority’s system of internal control was sound. Last year we had concerns around the contract register and the letting and administration of framework and consultancy contracts. The Constabulary worked hard to address all those issues and by the year end the bulk of the work had been completed.

This Internal Audit Annual Report also provides an independent opinion on the adequacy and effectiveness of the Constabulary’s system of financial control, including, in particular:

- the key controls operating within and around the core financial systems
- overall financial management arrangements
- risk management.

In the Chief Internal Auditor’s opinion, the above arrangements were adequate and effective in 2006/07, with sound controls in all key areas.

This assurance is based on a programme of audit work that was delivered:

- in accordance with the Audit Plan, which in turn resulted from the systematic risk assessment of all auditable areas
- by suitably experienced and qualified auditors
- to standards that have been reviewed and approved by the Audit Commission acting as external auditors.

In March 2007, the Audit Committee undertook a review of Internal Audit, as required under the Accounts and Audit Regulations (as amended in 2006), and found that Internal Audit complied in all significant respects with the CIPFA Code of Practice for

Internal Audit in Local Government. This is referred to in more detail under Performance Information on page 13 below.

### **Core financial systems**

We undertook our planned audits of the budgetary control system, the financial ledger, the payroll, the pensions system and the creditors system, and confirm that the fundamental controls in these continued to be fit for their purpose and operating effectively.

The Constabulary used SERCO for both their **payroll** and **pensions** processing in 2006/07. We are generally satisfied with the controls in the **payroll and pension** systems operating within SERCO and the Constabulary. Our main concern in the payroll audit was around the process for ensuring the accuracy of the pay increment tables and of miscellaneous payments.

This year's audit of the **financial ledger** included a review of the integrity and accuracy of the transactions within the system and the security of the system. We are satisfied with the key control objectives we tested within the system, which is generally being managed in an efficient and effective manner. However, our review identified some minor weaknesses that the Constabulary has now agreed to address.

This year we undertook a full review of the **budgetary control** procedures. There were significant pressures on the budget, and in the middle of the year, the Constabulary faced a small overspend. However, the major high risk areas were very closely monitored with monthly reviews of all other areas. As a result, we were pleased to note that the Constabulary came in within budget at the year end with a small underspend (£0.5m, 0.3%). The only concerns we had were around the authorisation of virements and our recommendation has been accepted.

We were generally satisfied with the controls in operation in the **creditors** system. Our main concern was that separation of duties was not automatically enforced as a part of the new purchase order requisition system: the finance department has agreed to monitor the situation, and seek budget holder clarification/assurance where the purchase is over £10,000.

### **Financial management of Specific Budget Areas**

During the year, we reviewed the controls in operation in the following areas:

- Eastern Area
- Western Area
- Central Area
- Stock and Stores
- Interpreters
- The Police Authority Office
- Collaborative Working

We visited each of the three police **Areas** and undertook a full audit. We were broadly satisfied with the financial controls in operation. We noted that the new computerised property system was in operation in each of the Areas. There were some recommendations made to help strengthen processes, and the Constabulary has agreed to act on these.

In our audit of **Stock and Stores** we were satisfied with the controls in operation in the Garage and SOCO stores and we were particularly impressed with the recording and issues system which has been developed in the Armoury. We had concerns over the operation of the Uniform Store, as the Constabulary's contractor was unable to supply items within the required timescales, resulting in the Constabulary holding emergency additional stocks at Headquarters, with limited effective stock management systems in place. The Constabulary has already developed plans to address weaknesses by initiating preparations to bring uniform stock management in house, with a view to delivering increased stock control and cost savings. This area for improvement has been included in the Statement on Internal Control being considered elsewhere on the agenda.

Our review of **Interpreters** found that there were good controls to ensure that payment was only made for the hours that the interpreter had attended, but that there was scope for reducing the costs, as Interpreters could be asked to wait and were often paid for lengthy journeys. The Constabulary has agreed to action the recommendations, subject to ensuring that an appropriate balance can be achieved between operational need, administration and the cost savings deliverable. The Constabulary is currently reviewing the arrangements for obtaining interpreters, and plans to have new contractual arrangements in place during 2007/08.

The audit of the **Police Authority Office** served to inform the Statement on Internal Control. Financial Controls were generally sound, although these could be improved if procedures were more clearly documented. We also recommended that the Authority should produce its own risk register and anti fraud and corruption policy as soon as possible, both of which are included as proposed actions in the Statement on Internal Control.

During the year we kept a watching brief on the Constabulary's progress on working **collaboratively** with forces in the region.

### **Computer Audit**

Reviews were undertaken in the following areas:

- Home Office Large & Major Enquiries System (HOLMES2)
- National Management Information System (NMIS)
- Case Preparation System
- Overtime System (component of ProMis - Personnel Rostering Overtime Management Information System)

We are generally satisfied with the controls applied to the **HOLMES2** system. Areas we identified for attention included: software patching policy (which applies to systems in general), archiving, and control of laptops.

We are generally satisfied with the controls applied to **NMIS** and have raised no major concerns. Areas we identified for attention were the number of users with system administration rights and assuring that report builders correctly interpret data.

We were generally satisfied with the controls applied to the **Case Preparation system** in the context of its current 'stand-alone' status; it was not possible to assess how it will operate as a component of the envisioned end-to-end Criminal Justice suite of systems. The Constabulary has now decided upon its preferred course of action with regard to how to proceed with meeting its Custody system requirements, so we anticipate commensurate reductions in replicated keying in of data through an effective interface with Case Preparation. Improvements in the present use of Case Preparation are expected when it is able to interface with the new Magistrates Court system, Libra, but progress on this is outside of the Constabulary's remit and depends upon a national initiative.

We carried out a short review of the Constabulary's new **Overtime System** and were satisfied that the overtime module facilitates the secure input of shift details, which should lead to commensurate overtime payment or accrual of hours.

### **Contracts Audit**

The original Internal Audit Plan included the following contract audits:

- Amalgamation Contract Arrangements
- Cleaning Contract
- Amalgamation Property arrangements
- Contract Register follow up

In July 2006 the Home Office announced that the proposed merger of Police Forces would not be going ahead. The planned 2006/07 internal audit reviews of how amalgamation would impact on the Contract Management and Estates P.A.V. Strategy activities were no longer applicable.

In September 2006 the Audit Committee agreed that additional time should be spent following up the progress and development of the actions regarding high risk contractual issues, identified in the 2005/06 internal audit and referred to in the Statement on Internal Control.

The new structure and format of the **Contract Register** went live on the 31 August 2006. Since that date, all new contracts valued at over £20k have been included in the register. Additionally, considerable work has been undertaken in attempting to ensure that all live contracts let before this date are also included, although this is subject to final control check work being carried out by the Constabulary. The Contract Register has auxiliary functions and benefits that will enable the Contract department to maintain tighter control and accuracy of contracts and management

information.

The Contract Regulations and Procurement Principles outlining the procurement processes and procedures regarding the letting of contracts, including the maintenance of the Contract Register, were approved by the Police Authority in May 2007.

There are two **cleaning contracts** in operation in the Constabulary. The Ridgecrest cleaning contract for Police Headquarters and Watford Police Station is under control and properly managed. However, Facilities Management is not entirely satisfied with the service delivered and provided by the other Contractor. We have made recommendations that the Constabulary have agreed to act upon to improve controls.

### **Performance Indicators**

We drew up a protocol that would pass responsibility for the integrity of the data to the Authority for 2006/07. However, due to staff changes at the Constabulary, we co-ordinated, audited and agreed the accuracy of the data in the performance indicators that the Constabulary forwarded to HMIC. We have now agreed that we will no longer participate in this work, so performance indicators have been removed from the audit plan for 2007/08.

### **Risk management**

We undertook a separate audit of risk management and insurance within the Constabulary. We are satisfied that the risk management process is operating satisfactorily at the top of the organisation. There is a Risk Management Forum that meets quarterly to review the major risks facing the Constabulary and the action taken to mitigate them and update the Risk Register accordingly. The Risk Register is also taken to the Audit Committee every six months. Whilst Area and Departmental local risk registers are in place, the Constabulary Organisational Intelligence and Development Department is currently reviewing these for consistency and quality control.

### **Anti-fraud and corruption work**

As in previous years, we undertook work designed to detect or minimise the risk of fraud or corruption. This work was integrated into our systems audits. We did not identify any cases that needed to be followed up. In addition, we participated in the review of the Constabulary's Anti-fraud and Corruption Policy.

### **Business continuity planning**

We followed up the weakness noted in last year's Statement of Internal Control. We were satisfied that the Constabulary now had a corporate business continuity plan, which was tested in April 2007.

## **VARIATIONS FROM PLAN**

All audits were completed within or close to the original budgeted days, except as follows:

<b>Audit – reason for difference</b>	<b>Original Plan days</b>	<b>Actual days</b>	<b>Days over/ (under)</b>
<i>Stock and Stores</i> – there were more issues to review in the Uniform Store than had been envisaged.	10	13	3
<i>Performance indicators</i> – quality assurance undertaken by IA and this had not been included in the plan	5	15	10
<i>Audit Planning</i> - additional discussions were held re the cost of delivering the plan.	8	10	2
<i>Review of Internal Audit</i> – this had not been included in the audit plan, but became a statutory requirement in 2006	0	5	5
<i>In year follow up</i> – there were fewer audits in the year requiring follow up.	15	9	(6)
<i>Changes</i> – the original audit of amalgamation did not take place and work on collaboration was not sufficiently advanced to justify audit input.	10	2	(8)
<i>Amalgamation Property</i> – audit cancelled as amalgamation was cancelled, but some work had already been undertaken	10	2	(8)
Subtotal			(2)

Note: Following the Home Office's abandonment of its amalgamation programme in mid-2006, the Audit Working Group agreed at its meeting on 29 September 2006 to the cancellation of the remaining planned internal audit work relating to amalgamation. The Working Group also agreed that the time thereby released should be transferred to the follow-up of SIC issues and to additional work on Performance Indicators.

**High Priority Recommendation raised in 2004/05 still to be implemented**

<b>Audit / Recommendation</b>	<b>Agreed Action</b>	<b>Implementation</b>	<b>Comment</b>	<b>Further Action</b>
<b>Pensions</b>				
9.1 The Serco Pensions Manager should data match the Axise Live and Paylive databases and clear all variations before they are merged.	The recommendation was agreed by Serco in the final report.	The recommendation has not yet been implemented by Serco.	Serco have accepted that merging the databases would be beneficial, and are planning to deal with this later in 2007.	We will follow this up in January 2008.

**High Priority Recommendations raised in 2005/06 still to be implemented**

<b>Audit / Recommendation</b>	<b>Agreed Action</b>	<b>Implementation</b>	<b>Comment</b>	<b>Further Action</b>
<b>Statement on Internal Control</b>				
The anti-fraud and corruption policy should be reviewed.	Agreed.	The Constabulary has updated its anti-fraud and corruption policy. The Authority is to have a separate policy (for the Authority's members and its own officers) that is being worked upon.	When the recommendation was originally made, we envisaged that there would be one policy for the Authority and Constabulary.	This will be followed up in December 2007.
<b>ICT Strategy and Policies</b>				
7.14 We recommend that the Force produces a plan for CJX re-accreditation as soon as practicable. We would expect the existence of a credible plan, irrespective of whether it had been fully carried out, to carry significant weight in the accreditation process.	Agreed.	Re-accreditation had been planned to take place in December 2006. Professional Services Department has committed to obtaining re-accreditation as a matter of priority by the end of 2007.	The plan has changed against a backdrop of organisational change (the IT Security team is now part of Professional Services) and the departure of the IT Security Officer (replacement due July 2007).  There has been contact between the Constabulary and PITO (since superseded by NPIA) outlining plans and confirming that there is no risk of losing the CJX connection.	We will follow this up in January 2008.

<b>Police Informants Management System (PIMS)</b>				
<p>7.2 We recommend placing restrictions on where/how printing can be effected.</p>	<p>Comms &amp; IT Dept will be undertaking a physical audit of Source Management Units and will address this finding as part of the exercise.</p>	<p>The Information Security Officer is liaising with the Director of Intelligence about having the IT Security team look at the security of printers and use of external storage devices (see 7.5 below) and present to MIB recommendations for ratification.</p>	<p>Action is in hand.  The proposed audit that the IT Security team was to going to undertake was not progressed following the organisational change and the departure of the IT Security Officer.</p>	<p>We will follow this up in January 2008.</p>
<p>7.5 We recommend that the capability of extracting PIMS data and storing it on external devices should be disabled.  Ideally this would be achieved by preventing extraction from PIMS, but, for the time being this may only be achieved by not allowing PCs configured for PIMS use to have output devices enabled.</p>	<p>See 7.2 above.</p>	<p>See 7.2 above.</p>	<p>As 7.2 above.</p>	<p>We will follow this up in January 2008.</p>

## **INTERNAL AUDIT PERFORMANCE INFORMATION**

A full review of the system of Internal Audit was undertaken by the Audit Committee at its meeting of 14 March 2007. The review was in compliance with the new statutory requirement for such an annual review, introduced by the Accounts and Audit Regulations 2006. The approach to the review accorded with guidance from CIPFA.

The components of the review were:

- assessment of compliance with CIPFA's "Code of Practice for Internal Audit in Local Government in the United Kingdom"
- external audit opinion of Internal Audit's work
- benchmarking
- evidence of delivery of planned audit work
- feedback from managers in the Constabulary

### **Compliance with the CIPFA Code**

The review found that there were no instances of non compliance with the Code. There were a small number of areas of partial compliance; actions were agreed which would address these, to involve the following:

- updating Internal Audit's terms of reference and "Working Arrangements" document
- consideration of further rotating auditors when assigning audits to them
- updating the audit strategy document
- review of the audit manual

All audit work was undertaken in compliance with the processes set out in the Code, including planning resourcing recording, reviewing and reporting of audits and other reviews. All Internal Audit staff had performance development and review meetings with their managers, with agreements as to their performance and development needs, in compliance with the Corporate Services' department of Hertfordshire County Council's PDRP scheme. (The scheme has been accredited by CIPFA for Continuing Professional Development purposes.)

### **External audit opinion of Internal Audit**

The Audit Commission have stated that they are able to place reliance on the work of Internal Audit.

### **Benchmarking data**

Every year in March, the Internal Audit Section supplies benchmarking data to the Constabulary as part of the independent benchmarking exercise undertaken by IPF Ltd. (CIPFA's commercial arm). The results of this show how the

Constabulary's Internal Audit service compares with other forces.

The outcome of the 2005/06 exercise was reported to the Audit Committee in March 2007. In summary this showed:

- Internal Audit's cost per day were slightly below average
- Internal Audit's cost per £m were slightly above average
- Internal Audit's days per £m were slightly above average
- Internal Audit coverage of auditable areas was around the average apart from BCUs, which was below average and "other" that was above average.

### **Delivery of planned audit work**

Internal Audit completed the audit plan subject to the changes agreed by the Audit Working Group in September 2006.

### **Feedback from Auditees**

User feedback has not routinely been sought for each individual audit, although it is being sought periodically for the overall audit service. Feedback showed that the service is generally seen as "good" or excellent".

## GLOSSARY

The following definitions cover some of the audit terms and abbreviations used most frequently in this Annual Report.

<b><i>Core financial system</i></b>	<i>A computerised or other process fundamental to the operation of the authority's financial affairs</i>
<b><i>Corporate governance</i></b>	<i>The arrangements by which organisations direct and control their functions, and (in local government) relate to their communities</i>
<b><i>Corruption</i></b>	<i>The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions of the Authority, its members or its officers</i>
<b><i>Data matching</i></b>	<i>Comparison using computer techniques of different sets of information, from within the Authority or from other bodies, designed to detect possible fraud</i>
<b><i>Fraud</i></b>	<i>The intentional distortion of financial records, carried out to conceal the misappropriation of assets or otherwise for gain</i>
<b><i>Internal control</i></b>	<i>A procedure which ensures that management objectives are properly and efficiently carried out</i>
<b><i>Irregularity</i></b>	<i>An improper or erroneous use of the Authority's resources</i>
<b><i>Key controls</i></b>	<i>Those processes most likely to prevent or detect material errors or other irregularities</i>
<b><i>Risk assessment</i></b>	<i>A systematic process, preceding or following detailed audit, to assess the probability of material error, loss or irregularity in an activity</i>
<b><i>Systems audit</i></b>	<i>An audit approach involving the documentation, evaluation and testing of controls within a financial process</i>