

Hertfordshire Police
Internal Audit
Annual Report 2007/08

Chris Kay
Internal Audit
Hertfordshire County Council
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INVESTOR IN PEOPLE

Hertfordshire Police

**INTERNAL AUDIT
ANNUAL REPORT**

2007/08

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INTRODUCTION

In 2007/08, Hertfordshire County Council's Internal Audit Section again undertook the internal audit work required by the Accounts and Audit Regulations 2003 (amended 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 Chief Executive of the Police Authority and the Audit Commission were given the opportunity to comment on the plan before it was put before the Audit Committee for their approval in March 2007.

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 preparing the Authority's first Annual Governance Statement, to be included in the Statement of Accounts for 2007/08. This replaces the Statement on Internal Control, and is also being reported to the June 2008 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 that the Constabulary is still progressing are noted at page 12.

This Annual Report brings together the main issues we have raised in the course of our 2007/08 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.

Chris Kay
Chief Internal Auditor, Hertfordshire County Council
Tel. (01992) 555320
email <chris.kay@hertsc.gov.uk>

KEY MESSAGES

System of internal control

The Authority is required, under the Accounts and Audit Regulations 2003 (amended 2006), to undertake an annual review of the effectiveness of its system of internal control. The Authority must also include a Governance Statement 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 part of this review and has been responsible for obtaining assurance statements from Senior Managers 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 Governance Statement incorporates the outcome of this review, and is considered as a separate agenda item by the Audit Committee for inclusion within the 2007/08 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. In the current year whilst core elements of the new HR/Payroll system were successfully implemented during the second half of 2007/08 it will be necessary for the Constabulary to ensure new procedures and controls are embedded during 2008/09.

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 2007/08, 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 2008, the Audit Committee refreshed their review of Internal Audit, as required under the Accounts and Audit Regulations 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 14 below.

Core financial systems

We undertook our planned audits of the budgetary control system, the financial ledger, the payroll, and the debtors system, and confirm that the fundamental controls in these continued to be fit for their purpose and operating effectively apart from the exceptions noted below.

The Constabulary used SERCO for their **payroll** processing at the start of the year. In November the payroll processing transferred to Northgate HR plc. Our audit was divided into two halves: the first half was to provide advice on the controls required within the new system, while the second was to test the accuracy of the payroll processing with the new bureau. The migration appears to have proceeded smoothly and on time with 4,000 officers and staff now being paid on the new system. The Constabulary now has an integrated HR/Payroll system that will enable efficiencies and enhanced management information. However, we noted that there were some control weaknesses at the time of audit, which was shortly after the data migration.

We noted that the nominal roll exercise where line managers confirm the accuracy and completeness of payroll records for their staff, has not been carried out in 2007/08. Given that the payroll has transferred to a new provider it is essential that this check is undertaken as soon as possible. However, there was a period of parallel running with the old system that was undertaken to ensure successful migration of payroll and minimise the possibility of errors.

In addition, at the time of the audit there was no suite of exception monitoring reports available, and so it was time consuming to monitor exceptional payments, although we understand that the Constabulary plan to introduce this. Serco are still holding prime payroll documents from when they were the payroll provider and this needs to be addressed. Finally, HR has been unable to provide Internal Audit with revised procedures notes covering the new Service Provider. Management have agreed to address these issues.

We continued to investigate the **National Fraud Initiative (NFI) 2006 data matching exercise results**. There were 5518 matches identified and we considered that 4474 matches were poor quality creditor matches and so unlikely to reveal a fraud. We investigated 285 matches in detail and satisfactory explanations were obtained; the remainder were assessed as low risk (for example payments below £1).

We also reviewed NFI matches to Companies House data, representing possible conflicts of interest: no high risk conflicts were identified, but we recommended that three employees declare low-risk interests in other bodies.

This year's audit of the **financial ledger** confirmed that we are generally satisfied with the controls operating within the Finance Department to ensure that transactions in the ledger are processed accurately and on time. We noted that delays in the reconciliation of the payroll account occurred for a few months post introduction of the new payroll provider. Likewise creditor bank reconciliations were not always performed specifically as a part of month-end processes. We understand that both reconciliations are now done at the appropriate time.

This year we undertook a full review of the **budgetary control** procedures. We found that the controls were operating satisfactorily during the year. There were significant pressures on the budget, which were regularly reviewed. As a result, we were pleased to note that the Constabulary came in within budget at the year end with a small underspend.

We were satisfied with the controls operating within the **debtors** system. However, our review highlighted a few minor weaknesses that the Constabulary has agreed to act on.

The review of the **creditors** system concentrated on following up the data matches that arose from the NFI data matching exercise. There was only one minor duplicate payment of £250 identified and this was subsequently recovered. The results of this exercise confirmed that the Constabulary have robust procedures in place to prevent error within their creditors system.

Financial management of Specific Budget Areas

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

- Crime Management
- Vehicle Utilisation
- Rostering and Absence management.

We are satisfied with the financial controls operating within the **Crime Management** department and we were pleased to note that budgetary control was good.

We are pleased to report that, with the introduction of the Traka software, **Vehicle Utilisation** is managed more effectively, with real time data providing increased vehicle availability and access. A historic record is also created that may be reviewed to improve performance in this area.

We are generally satisfied with the arrangements for **Rostering and Absence management**. During the year we also 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:

- Infrastructure
- PROMIS.

We are generally satisfied with the **Infrastructure** controls in place for ensuring the physical security of computer facilities at the Constabulary's HQ site. We support the work that continues in respect of consolidating business continuity and disaster recovery matters including the provision of offsite facilities.

We made recommendations with regard to both the formalising of a Physical Access Policy, and ensuring that no more than 12 months should be allowed to pass between reviews of security policies in general.

The operational processes, and associated controls, that have been applied to **PROMIS** were satisfactory, although we made recommendations with regard to a review of system administration duties and clarification of escrow arrangements.

The Constabulary has agreed to act on our recommendations in both areas.

Contracts Audit

The Internal Audit Plan included the following contract related audits:

- Best Value Purchasing
- Energy Management
- Recovery of Vehicles
- Police Access and Visibility (PAV) Strategy Stevenage and Hatfield.

We were also asked by the Chief Executive of the Police Authority to carry out an investigation into the final account payment that was made to Banner Holdings Ltd (the main contractor for the Operational Support Building (OSB1)). This work was substituted for our work on the PAV strategy (Stevenage and Hatfield) which was deferred until 2008/09. This change to the plan was agreed by the Audit Committee.

The final OSB1 payment was made following an adjudication which was found largely in favour of the contractor. It was considered by the Police Authority that there was no merit in pursuing the adjudication process to resolve other outstanding claims and variation issues with the Contractor exposing the Constabulary to more risk as:

- the Constabulary was unable to provide supporting documentation to defend the claim at adjudication
- there had been ambiguity and delay in some of the project manager's instructions when variations and claims had been raised.

The lessons to be learned are broadly in line with the Constabulary's own assessment of the project and subsequent conclusions. We understand that since 2006 internal process and procedures including the PAVs strategy have been revised to incorporate these learning points.

Our audit of **Best Value Purchasing** was a follow up of our earlier work on contracting. In response to some high priority Internal Audit recommendations the Constabulary undertook a project to review and revise the methodologies and processes for properly managing, monitoring and controlling Constabulary contracts across all departments. We carried out a review of the systems relating to contracting and procurement activities in the three Areas and the HQ Departments.

We found that in general the devolved arrangements for contracting were satisfactory and that controls in this area had been strengthened in the year with the introduction of new contract regulations and a new contract register. However, we noted that there appears to be some risk of single negotiated justification forms being used to speed up process in respect to consultancy. In addition, some consultancy contracts were subject to the scope being extended so the contract increased in value. Strong contract monitoring is required here and this did not appear to be managed effectively.

Our audit established that Estates and Facilities have developed a clearly defined Draft **Energy** Conservation Strategy which was approved by Members in August 2007 and this led to a five year programme to improve energy efficiency. The campaign to implement, control and manage the Energy Conservation Strategy has been assigned to energy champions located throughout the Constabulary. All activities in respect to the Energy Conservation Strategy are monitored by estates and facilities with ownership assigned to the Energy Manager. We made recommendations concerning the project management that have been accepted by the Constabulary.

The Constabulary currently have a framework contract (**Vehicles Recovery Contract**) with the Automobile Association Development limited (AADL) and other contracts directly with vehicle removal firms to oversee the removal of vehicles. We recommended that the arrangements should be reviewed and new contracts let when the old ones expire. The review is in hand and new arrangements are yet to be negotiated. In addition, we recommended that the systems documentation and procedures should be improved and we understand that this is happening by making use of a new computer package, ELVIS.

Risk management

The risk management process is operating satisfactorily in the Constabulary. There is a Risk Management Board that meets quarterly to review the major risks facing the Constabulary, and the action taken to mitigate them, and updates the Risk Register accordingly. The Risk Register includes an assessment of the likelihood and impact of risks, mitigating actions and a nominated risk owner. The Risk

Register is also taken to the Audit Committee every six months for review. In addition to this process, the Constabulary has a risk management procedure for all projects, health and safety and information technology. Over 2007/08, the Constabulary has finalised work on local risk registers.

Officers of the Police Authority are included in the Constabulary's Risk Management Board, and the Authority's own risk register was reviewed by the June 2007 meeting of the Audit Committee.

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. We followed up the matches that were identified by the Audit Commission's National Fraud Initiative (NFI) data matching exercise.

Business continuity planning

We followed up the weakness noted in last year's Statement of Internal Control: we are satisfied that the Constabulary now has a corporate business continuity plan, which was tested in April 2007. In addition, we note that the Constabulary has local business continuity plans in place.

VARIATIONS FROM PLAN

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

Audit – reason for difference	Plan days	Actual days	Days over/ (under)
Payroll There was a new payroll provider in the year and there were difficulties in obtaining the necessary information to allow the audit to be undertaken.	20	26	6
Creditors The audit was to follow up NFI matches and this took longer than had been anticipated. It was not possible to accurately plan for this	12	15	3
Rostering + Absence Management There was less work to do here than we had anticipated as the Constabulary had undertaken work in this area.	10	6	(4)
Follow up It is hard to estimate the time required for this and there were fewer high level recommendations to follow up than we had expected.	9	7	(2)
Ledger It was possible to place reliance on the debtors and payroll audits and so the work was completed in less time than had been budgeted for.	10	6	(4)
Budgetary Control The audit was completed in less time as we had additional assistance from the Constabulary and much of the information was provided electronically.	10	7	(3)
Collaboration Time was allowed in the plan, when it was uncertain how advanced collaborative arrangements would be. The first project went live in November; there was less need for the level of audit input that had been planned.	10	3	(7)

Audit – reason for difference	Plan days	Actual days	Days over/ (under)
NFI It took longer to investigate the payroll matches than had been planned for.	5	10	5
PAV – Stevenage + Hatfield This audit was postponed to 2008/09 to allow work to be undertaken on OBS1. This was agreed by the Chair of the Police Authority	15	3	(12)
OSB1 This audit was undertaken at the request of the Chief Executive of the Police Authority and the Treasurer and agreed by the Audit Committee	0	15	15
PROMIS We included overtime within this work and the audit took longer than had been anticipated.	20	22	2
Totals	121	120	(1)

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

Audit / Recommendation	Agreed Action	Comment	Further Action
Pensions			
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 in the final report.	The merger of the two databases was delayed. Data cleansing is now ongoing and the merger should take place towards the end of 2008.	We will follow this up in March 2009.

High Priority Recommendations raised in 2006/07 still to be fully implemented

Audit / Recommendation	Agreed Action	Comment	Further Action
Statement on Internal Control			
The Constabulary will produce and implement an action plan in order to address the Management of Police information (MoPI) requirements	Agreed	An action plan has been produced and is being managed by the Constabulary. Compliance with issues included in the Action Plan is required by December 2010.	We will follow this up as part of the 2008/09 work on the 2007/08 Governance Statement.
The Constabulary will implement its Protecting Vulnerable People Action Plan and agree actions resulting from the HMIC inspection carried out in April 2007	Agreed	The Police Authority has agreed additional funding for PVP as a part of the agreed February 2008/09 budget proposals and the Constabulary confirms good progress has been made, e.g. Harm Reduction Units are now in place, a centralised Rape Unit is scheduled for introduction over the next two months and work is progressing with the Health service to introduce the SARC/Sunflower concept across the three Areas.	We will follow this up as part of the 2008/09 work on the 2007/08 Governance Statement.

INTERNAL AUDIT PERFORMANCE INFORMATION

A full review of the system of Internal Audit was undertaken by the Audit Committee at its meeting of 12 March 2008. The review was in compliance with the statutory requirement for such an annual review, introduced by the Accounts and Audit Regulations 2003 (amended 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. A small number of areas of partial compliance had been identified in the previous year's review; actions were taken in 2007/08 to address these, involving the following:

- updating Internal Audit's terms of reference and "Working Arrangements" document and agreeing this with the Audit Committee
- consideration of further rotating auditors when assigning audits to them
- updating the audit strategy document and agreeing this with the Committee.

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, and 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 has indicated that they continue to be 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 2006/07 exercise was reported to the Audit Committee in March 2008. In summary this showed Internal Audit's costs as being very close to the average cost per audit day, cost per £million of gross revenue expenditure, and auditor days per £million.

Delivery of planned audit work

Internal Audit completed the audit plan with the exception of one audit, the review of the Police Access and Visibility property strategy, which was deferred to 2008/09 with the agreement of the Audit Committee. This allowed for an additional 2007/08 audit of the Operational Support Building project to be undertaken.

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 in this Annual Report.

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