

Hertfordshire Police
Internal Audit
Annual Report 2008/09

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Hertfordshire County Council
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INVESTOR IN PEOPLE

Hertfordshire Police

**INTERNAL AUDIT
ANNUAL REPORT**

2008/09

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INTRODUCTION

In 2008/09, 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 2008.

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

- ◆ System of Internal Control
- ◆ Core Financial Systems
- ◆ Specific Budget Areas
- ◆ Computer Audit
- ◆ Contracts Audit
- ◆ Risk management
- ◆ Antifraud and Corruption
- ◆ Business Continuity Plan.

In accordance with the Accounts and Audit Regulations, we also assisted the Police Authority in preparing the Authority's Annual Governance Statement, to be included in the Statement of Accounts for 2008/09. This is also being reported to the June 2009 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 11.

This Annual Report brings together the main issues we have raised in the course of our 2008/09 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 have charged the Bedfordshire Police Authority for their share of the work that we undertook in the collaboration area of the Bedfordshire and Hertfordshire Major Crime Unit.

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 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 full Police Authority for inclusion within the 2008/09 Statement of Accounts.

We found that, in all key respects, the Authority’s system of internal control was sound. We noted however that the payroll arrangements with Northgate were not fully embedded and that further work was required to fully implement the controls required.

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 2008/09, 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 2009 the Audit Commission undertook a full review of Internal Audit. The review found that Internal Audit complied in all significant respects with the CIPFA Code of Practice for Internal Audit in Local Government.

Core financial systems

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

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 note that the year-end position of both the Constabulary and Authority is a small provisional underspend of £0.245m (0.14%) of the total budget.

This year's audit of the **financial ledger** confirmed that we are satisfied with the controls operating within the Finance Department to ensure that transactions in the ledger are processed accurately and on time.

This is the second year that the Constabulary has had an integrated **HR/Payroll** system. Last year there were some control weaknesses and we made recommendations accordingly. It would appear from the audit work undertaken this year that the Constabulary has not fully implemented these recommendations. This year when conducting the audit we could not always verify the pay as personnel files were not always readily accessible. In addition, there is not a comprehensive suite of exception reports, nor a procedures manual although we understand that work is in progress in this area.

This year's review of payroll included expenses payments as we had anticipated that they would be transferred to the payroll system for payment. At the time of the audit expenses were still being processed by the creditors system. Whilst we identified some improvements in process that could be made we did not find evidence of systemic weakness or abuse, and anticipate that transfer to the new system should eliminate many of the issues raised.

We found satisfactory controls over the payment of **creditors** in the Constabulary. At the time of the audit the Constabulary were still in the process of revising their financial procedures manual. This has now been completed.

At the time of the audit we noted some poor use of official orders, which means that commitments are not always recorded in the system. We note that the Constabulary have plans to identify the "worst offenders" and challenge them. In addition, we also noted that not all invoices in our sample were paid in a timely manner (within 30 days or the suppliers' settlement terms). In the current economic climate it is important to both log commitments and settle bills in a timely manner and we understand that payment of suppliers and collection of debt are considered important priorities for the Finance Department and the Head of Finance has identified the need to have increased focus on these issues and has recognised this in his plan for 2009/10.

Overall there were satisfactory controls operating within SERCO and the

Constabulary to ensure the smooth and efficient running of the **Police pensions payroll**. We do, however, consider that control could be improved by the creation of a single database to record serving officers and pensioners (rather than the current two databases and the inconsistency of certain records that results; this has been previously recommended. We are advised by SERCO that work has now commenced on this).

We recognise that for the majority of pensioners an assurance as to their continued entitlement to receive their pensions is derived from the biennial National Fraud Initiative (data-matching exercise) and that the concerns in respect of life certificates relate to a small minority of pensioners. However, we did recommend that there was a more rigorous follow-up of non-returned, or otherwise unsatisfactorily completed, 'life certificates', confirming continued entitlement to receive a pension and SERCO have agreed to action this.

Financial management of Specific Budget Areas

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

- **Bedfordshire and Hertfordshire Major Crime Unit (BHMCU) Collaboration**
- **Uniform Store**
- **Police Property Fund Act.**

There were satisfactory financial controls operating within the Crime Management department to ensure the smooth and efficient running of the **BHMCU** and consider that all staff involved should be commended for their part in the smooth running of this collaboration project. We would in part attribute the success to the meticulous planning that went into setting up the unit.

Before the joint unit was set up, the costs for running the major crime function were estimated for both forces. Data was collected by type of crime, with weightings applied to reflect the severity of the crime. Then both forces decided which crimes they wanted to be included in the new unit. The costs were apportioned on that basis (67:33). In years 1 and 2 Herts had included more types of crime than Beds. Some adjustments have been made to the major crime remit for 2009/10 and cost apportionments agreed by both Forces have been revised to 64:36 pending a more fundamental review of crime type weightings and means to apportion costs over coming months in preparation for 2010/11. In addition, as a result of the change in remit the size of the unit overall has reduced in 2009/10. The management of the BHMCU do not envisage that this will cause difficulties.

The unit finished the year with a provisional year end underspend of £0.8m or 9% of the total budget. The underspend in the year is in part attributed to the savings that can be achieved by joint working and adopting new working methods. There is also a part of the saving that is as a result of the unit carrying vacancies in the year and having fewer complex cases than in previous years.

The current stores computer system for the **uniform store** is still not all fully live. In general, we are satisfied with the controls over the stock and we consider that the Stores Manager has done an excellent job in writing the program to manage the store.

At the time of the audit there were discrepancies noted between the physical stock and the records. We recommended that any discrepancies that remained after the full end of year stocktake should be fully investigated. We understand that the results of the stocktake were satisfactory with the computerised records being substantiated.

We made some further recommendations to improve control and these were accepted by the Stores management.

We are satisfied with the controls in operation to ensure that all funds posted to the Constabulary's holding accounts are transferred to the **Police Property fund**. Our investigation into this has prompted us to review the Police Property management system as part of our follow up work for 2009/10.

Computer Audit

Reviews were undertaken in the following areas:

- **Mobile Data**
- **New HR system (ResourceLink).**

In response to our recommendations in both areas, the Constabulary has presented a comprehensive, well-considered set of actions with which we are very satisfied.

We looked at the Phase I implementation of **Mobile Data**, in effect, a loosely related set of separate functions, where personal digital assistants (PDAs) were not an integral part of normal policing business processes. This was all set to change in Phase II, where the devices would be key to some routine activities.

We were unable to identify evidence that risks related to the use of mobile data in the field had been formally assessed. Specific operational issues raised about the Phase I devices at the time of the audit included: restricting their use to designated functions, business continuity, replacement & disposal, audit trails and alleged threats to wireless technology reported in the press.

We were satisfied with the planned Phase I to Phase II transition and the way in which controls were being built into the system.

Good controls were being applied to the **ResourceLink** environment in support of **Human Resources** functions. Recommendations included ensuring that the Constabulary's requirements for auditability are defined and that access to data granted to Northgate did not exceed what they needed to know to run the payroll service.

Contracts Audit

The Internal Audit Plan included the following contract related audits:

- **PAV: Project management Stevenage and Hatfield Police Stations**
- **PAV: Disposal of Hertford Police Station**
- **Catering Contract Management.**

The Project Management of both the **Hatfield Police station** development and the **Stevenage Police station** re-development were well managed and controlled using improved procedures and monitoring processes learned from the OSB1 project. Both were completed within acceptable timeframes and budget tolerances. We had no recommendations to make to improve on the good practice in this area.

The disposal of the old **Hertford Police station** has been subject to a robust project management approach effectively minimising risk of an unsuccessful outcome. A clear disposal strategy was in place and subject to a properly maintained risk assessment process. The developer submitted a planning application for detailed planning permission in the joint names of the developer and Hertfordshire Police Authority (HPA); this was rejected and the developer is currently awaiting the outcome of the re-submitted planning application. Since the negotiations started the value of the site has reduced due to the economic downturn and is now subject to ongoing review.

At the time of the audit, details of the **catering contract** and the catering consultancy contract were not recorded on the Constabulary Contract Register, as there were lengthy negotiations on the TUPE arrangements to minimise the risk to the Constabulary.

There is a lack of documentary evidence for the monitoring of the catering contract. We made recommendations in this area which have been accepted by the Constabulary.

At the time of the audit the vending service was reported to be poor with high levels of waste creating losses for the contractor. We understand that the vending service has now been stopped.

Risk management

A sound risk management process is now operating 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. There are local risk registers in place and a

good process for reviewing these.

The Constabulary also participates in the Hertfordshire Community risk register that is owned by the County Council, to ensure that all risks that are flagged up as issues for Hertfordshire Police are being adequately addressed. In addition, the Constabulary has started work on a risk register that covers the specific issues that will be raised by the Olympics.

Officers of the Police Authority are included in the Constabulary's Risk Management Board, and the Authority's own risk register is now reviewed at each meeting of the Audit Committee. We consider that the risk management process is embedded within the Authority.

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 2008/09 we facilitated the sending of the Constabulary's data to participate in the Audit Commission's National Fraud Initiative (NFI) data matching exercise.

Business continuity planning

We are satisfied that the Constabulary has a fully tested corporate business continuity plan. In addition, we note that the Constabulary has local business continuity plans in place.

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 was originally delayed until September 2007. Data cleansing is now complete and work has started on the merger. This should be completed by December 2009.	We will follow this up in December 2009.

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

Audit / Recommendation	Agreed Action	Comment	Further Action
SIC			
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 2009/10 work on the 2008/09 SIC/ Governance statement.

High Priority Recommendations raised in 2007/08 still to be implemented

Audit / Recommendation	Agreed Action	Comment	Further Action
Payroll			
7.2 The Head of Human Resources should release revised procedures as they are produced and copy them to Internal Audit	Revised procedures will be prepared as systems bed in and stabilise. The new Shared Service Centre Manager is responsible for this and will provide procedures to Audit as they become available.	To initiate this action processes have been produced to identify who is responsible for each transactional HR task. Most have now been completed and those not are close to completion. The next step is to map in the payroll tasks required to be undertaken in Resource Link as part of this process..	We will follow this up in six months to ensure that this has been completed.
7.3 The Head of Human Resources should ensure that the procedure manuals relating to Resourcelink manuals are revised.	As above	As above	As above
7.4 The Head of Resources should ensure that HR Managers and supervisors are provided training on the Resourcelink reporting screens to enable them to extract and analyse data.	Training on reporting screens is being provided in a phased way. Some standard reports are still being written. The Central Admin Team supervisor is able to obtain reports from colleagues if he does not have direct access.	As above	As above

Audit / Recommendation	Agreed Action	Comment	Further Action
AGS All recommendations raised in the AGS would be considered high level			
6.1 The Authority should develop a Whistle Blowing Policy and published it to Members and staff	Agreed		This was not completed in the year. The Authority is about to assess itself against the new Audit Commission HMIC performance framework and this will be considered as part of the review.
6.2 The Authority has drafted an Anti fraud and corruption policy that has been approved by the Authority, however there is scope to review this and produce a single concise document.	Agreed		This was not completed in the year. The Authority is about to assess itself against the new Audit Commission HMIC performance framework and this will be considered as part of the review.
6.4 The Constabulary changed Payroll provider during 2007/08 and in 2008/09 it will be necessary to ensure that the new controls are fully embedded.	Agreed	Whilst progress has been made we would not consider that controls are fully embedded.	The Constabulary needs to ensure that work on this is completed in the coming year.

INTERNAL AUDIT PERFORMANCE INFORMATION

In 2008/9, the Audit Commission undertook a full triennial review of the County Council's Internal Audit. As that review covered an assessment of Internal Audit's compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, it may be considered as fulfilling the requirement for the Police Authority to undertake such an annual review. Additional information relevant to the annual review is provided below, covering:

- benchmarking
- evidence of delivery of planned audit work
- feedback from managers in the Constabulary.

Compliance with the CIPFA Code

The Audit Commission's review found that Internal Audit met each of the 11 standards in CIPFA's Code, and that there were "no significant departures from the detailed requirements of the standards".

Benchmarking data

In March 2008, the Internal Audit Section supplied benchmarking data to the Constabulary as part of the independent benchmarking exercise undertaken by IPF Ltd. (CIPFA's commercial arm). The results of this showed how the Constabulary's Internal Audit service compares with other forces.

The outcome of the 2007/8 exercise was very similar to that for the previous year. In summary, it showed Internal Audit's costs as being just below the average cost per audit day (Herts £320 per day, average for all authorities £335), and a little below the average audit cost per £million of gross revenue expenditure audited (Herts £416, average £460). Internal Audit's coverage of each main area of activity was similar to the average.

Delivery of planned audit work

Internal Audit completed each of the audits set out in the 2008/9 Audit Plan.

Feedback from Auditees

As agreed with the Audit Committee, user feedback has not routinely been sought for each individual audit, but rather for the overall audit service. The feedback that we have had this year has once again been largely positive.

GLOSSARY

The following definitions cover some of the audit terms and abbreviations used most frequently 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 local government) 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 its officers</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>