



Devon & Cornwall Police Authority

Report to Corporate Governance Committee – 17th November 2009

Internal Audit Half Year Report – 2009/10

1 Introduction

1.1 This report provides an overview for Members of progress on internal audit work for the half year to date. It continues from the interim internal audit report presented to the Committee on 8th September 2009.

1.2 It may be helpful to Members, particularly those new to the Committee to re-state the role and responsibilities of internal audit in helping the organisation to accomplish its objectives and improve governance standards. This role is embodied in the definition of internal auditing which is:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

IIA-UK & Ireland

1.3 Internal Audit has a professional duty, on an annual basis to review the maturity and effectiveness of risk management arrangements and the control mechanisms that underpin them. Improving the overall governance of risk, and the alignment of audit and assurance activity to it, have been given high priority during the first half of the year. Delivery of a fully risk-based audit plan is dependent on the quality of risk information provided.. Reliable, timely, and well-articulated information about risk and the control environment are pre-requisites to directing assurance activities toward the highest risk exposures.

2 Executive Summary

2.1 Audit consultancy to the Risk Task and Finish Group of this Committee, as well as to the Force Risk Review Group has intensified over the last quarter. In a period of massive change for both organisations and renewed focus on the 2012 vision and beyond, there is no better time to advise and consult on development of risk management.

2.2 The Force and Authority have developed separate risk management arrangements to a reasonably proficient standard. However, the Risk Task & Finish Group of this Committee is committed to attaining a higher level of maturity for the Authority than currently exists. Committee Chairs and all Members and Officers of this Committee, will have been invited by the Chair to participate in a scored self-assessment of risk maturity for the Authority. It will be necessary to analyse and moderate the results to better inform the work of the Risk Task & Finish Group and as a first step, to close the perception gap for Members and Officers. This Committee should determine where it currently sits on the maturity continuum, and where it aspires to be on the Risk Management Maturity Model. High level organisational maturity characteristics for risk management fall into four categories as summarised as follows:-

| Attribute | NOVICE | COMPETENT | PROFICIENT | EXPERT |
|--------------------|--|---|---|---|
| Culture | Risk averse, lacking risk awareness, lacking strategy & commitment | Patchy, inconsistent, some understanding and awareness, cautious approach, reactive | Prepared to take appropriate risks good understanding of benefits across most of organisation | Proactive Intuitive understanding, belief and commitment to lead in the field |
| Process | If present, tends to be inefficient, informal or ad-hoc | Inconsistent, no learning from experience, standard approach, generic | Consistent approach, scalable, tailored to meet specific needs | Adaptive, proactively developed, fit for purpose, best of breed |
| Experience | None or irrelevant experience | Basic competence | Proficient, formal qualifications | Extensive experience, leading qualifications, externally recognised high competence |
| Application | Not used | Inconsistent, process driven, inadequately resourced | Consistently applied, adequately resourced | Proactively resourced, encompasses entire organisation, flexible, measured for improvement. |

3. Summary Activity Report

3.1 Core Delivery Programme

3.1.1 A series of meetings have been held with the Authority's independent advisor on Business Change to discuss progress across the core delivery programme. The role of internal audit and the need for close scrutiny by the PA during the life of the programme and beyond was well received and understood. The importance of Police Authority oversight was particularly stressed. It is a characteristic of risk mature organisations that they are prepared, and have demonstrated an appetite, to take controlled risks in order to achieve a defined vision and set of goals. The programme demonstrates this maturity in its attitude to risk in the Force and Authority.

3.1.2 The programme is well underway and making good progress. Its implementation is vastly complex and will stretch resources, both human and financial, for the foreseeable future. It will be a challenge for Members of the Corporate Governance Committee, to obtain assurance that progress against objectives, key deliverables and milestones is sustained and sustainable in the mid to long term.

3.1.3 In my opinion, the Force and Authority would benefit from a more sophisticated means of envisioning the progress of the programme and the risks that may threaten its delivery. There is no place for resource hungry, unproductive or disproportionate control mechanisms, therefore the programme aims to make more efficient, effective and economic use of resources (people, money, physical assets, natural resources) and to demonstrate a readiness to harness the advanced functionality of modern technologies and Enterprise Resource Planning (ERP) systems. Internal Audit will continue to monitor progress as a key priority.

3.2 Firearms Inventory

3.2.1 Following a full European tender process, a single supplier was selected to supply the software for the control of firearms inventories and armoury access. A number of issues, including some concerns about the financial viability of the supplier, have been resolved. This contract has been awarded on the understanding that all neighbouring regional Forces will use this supplier as and when they migrate existing arrangements to an integrated firearms inventory and armoury access control system.

3.2.2 New racking has been installed in all the armouries in readiness for the implementation of the firearms tracking and control system. An audit visit to the Exeter operational armoury to inspect the racking system confirmed a great improvement on the storage arrangements that were there before. Each weapon now has a dedicated position in the racking which makes it immediately obvious when a weapon has been issued. This racking conforms to MOD standards.

3.2.3 The implementation of the system is reported to be on schedule and on budget. The Head of Audit has agreed with the Head of the Tactical Firearms Unit to conduct a Post Implementation Review (PIR) audit during 2010/11 to ensure that the expected business benefits have been delivered.

3.2.4 In the meantime, continuous audit of firearms data is being conducted by Internal Audit providing a robust audit trail for all acquisitions and disposals.

3.3 Anti-Fraud & Anti-Corruption

3.3.1 A meeting with the acting Head of Professional Standards Department to re-affirm the Memorandum of Understanding between Internal Audit and Professional Standard presented an opportunity to review the terms of the agreement and some minor amendments were made.

3.3.2 From 2009/10, it was agreed that a joint annual report summarising anti-fraud and anti-corruption activity for the preceding year will be prepared and presented to the March meetings of this Committee. This report will underpin the evidence required to support the Annual Governance Statement, the Annual Assurance Statement and PURE in relation to the counter fraud & corruption arrangements for the Force & Authority.

3.4 National Fraud Initiative (NFI)

3.4.1 Work on the NFI is now complete with results reported to the Audit Commission by the October deadline. No issues of concern were raised following the examination approx 950 matches from payroll, pension and creditors data. A more detailed report has been provided to the Treasurer, Director of Finance & Resources and the Head of Professional Standards for their information.

3.5 Seized Cash Audit

3.5.1 An audit of the controls in place over seized monies was completed during July and the draft report is in consultation with key stakeholders. Plymouth BCU was found to be out of step with corporate standards and weak controls in the management of seized monies were identified at Charles Cross.

3.5.2 The audit of seized monies raises further concerns about property management in general. As a general comment, control and audit trail mechanisms are severely hampered by the absence of a suitable property management system. The Business Manager, Finance Department has now been tasked with initiating a project to develop an electronic in-house system based on an existing document tracking product. Internal Audit will be closely monitoring this development.

3.6 Enterprise Risk Management (ERM)

3.6.1 An informal survey by Bentley-Jennison at the Police Audit Group annual conference in June assessed the level of maturity of risk management in the 32 Forces represented. This exercise provided a strong indication that the Authority is a well placed both regionally and nationally in the quality of its ERM arrangements.

3.6.2 The reputation of the Authority will be reflected in the level of public confidence in the governance of the organisation. Confidence in it will depend on how it manages risk. Therefore, considerable thought has been given by the Risk Task and Finish Group of this Committee to the further development of the processes by which risks are identified, articulated, evaluated and reported to Members.

3.7 Environmental Management

3.7.1 Development of a Corporate Social Responsibility (CSR) strategy/policy encompassing the Authority's arrangements for community engagement, financial, ethical and environmental stewardship has been approved in principle. Clear statement of purpose embedded in such a policy can enhance reputation as a responsible organisation and galvanise employees into a common sense of purpose.

3.7.2 The Head of Audit has worked closely with ACC Sharon Taylor, Chair of the Force Environmental Strategy Group (ESG), and her team to commission an independent audit of waste management. Clear and extensive terms of reference were agreed by all stakeholders prior to the audit to be conducted by Groundwork South-West. 2 days of the 11 day audit is being financed via the internal audit budget. Results of this review will be reported initially to the ESG in December and a summary of findings brought to this Committee in March 2010.

3.7.3 Close liaison with the Force Energy Manager has ensured that the financial impact of the Carbon Reduction Commitment (CRC) is understood by the Authority. Approximately £100k will need to be set aside in 2010/11, the first year of the trading scheme. This estimate is based on a consumption of gas and electricity representing around 8000 tonnes of CO₂ per annum at a current rate, capped until 2012/13 at £12/tonne. The intricacies of the scheme mandated by Government and to be administered by the Environment Agency will be reported to the next Resources Committee.

3.7.4 The Head of Audit organised a presentation by the Met Office on the mid to long term effects of climate change and the potential impacts for the emergency services caused by more frequent, more severe weather events. This was given to the National Police Audit Group Conference in Birmingham in June. Key messages for the organisation are that resilience and adaptation to the effects of climate change should now be featuring in risk registers and mid to long term business continuity plans for all first responder services. The Met Office will be making a further presentation to the Environmental Strategy Group on 8th December prior to an environmental risk workshop led by ACC Taylor.

3.7.5 The need for focus on the new environmental KLOE's in PURE was identified. This issue was discussed at the Environmental Strategy Group meeting in early November. The Force Risk & Organisational Learning Manager has responsibility for the monitoring and evidence gathering for the new PURE Key Line of Enquiry (KLOE 3.1) which deals specifically with the management of natural resources and resilience to the impact of climate change. A visit was made to Devon County Council with the Energy Manager to learn from them how they prepared for the Audit Commission's examination of use of natural resources. (DCC scored a 3 first time) Valuable information and documentation shared with us has been passed on to key stakeholders in the Force.

3.8 Continuous Auditing

3.8.1 The continuous audit of payroll is firmly embedded into a monthly routine. The resultant dashboard indicates red and amber alerts where actual payments or deductions are outside the expected range.

3.8.2 The demand from business units and Finance Managers in the Force for payroll related data derived from IA's Continuous Auditing resource is increasing monthly. Recent additions include the tracking of weekend and night duty allowance claim based payments

3.8.3 Internal audit have committed to perform in-house analysis of purchasing data for potential duplicate or overpayment which should be a relatively simple routine for Internal Audit with the potential to be self financing or better where duplicate payment or unclaimed credit is identified.

3.9 IT Business Continuity Planning (BCP) Audit

3.9.1 This audit is now complete and the draft report fully debriefed with stakeholders. All recommendations made have been accepted by Management. The final report, shortly to be issued, gives good assurance on telephony and Airwave resilience. However, concerns were raised about the interoperability of ICT systems in the event of major disruption to either of the data centres at Middlemoor and Crownhill. A summary of the findings, and the response by management will be presented to the March meeting of this Committee. An interim briefing will be given to the Chair.

3.10 Implementation of Agresso Version 5.5

3.10.1 Close liaison has been maintained with the FIMS team during the parallel running of payroll in Agresso V5.5 with V5.4. Internal Audit can give high assurance that all transaction values, details and control totals are mirrored in both versions. Further assurance activity is due to take place in January when the new system goes live. The results of this testing will be reported to this Committee in March 2010.

4. Conclusion

4.1 Internal audit activity has followed the flexible risk based approach to audit planning agreed by this Committee in June. During the second half of the year, the managed audit of key financial systems will be conducted in liaison with the Audit Commission. If you would like further information on any of the items covered in this report, please contact:-

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