

MERSEYSIDE POLICE AUTHORITY

To: The Chairperson and Members
of the Finance and Audit Committee

Meeting: 28th July 2011

Report of the Treasurer

Internal Audit Activity 2010/11

1. Purpose of Report

To inform members of the Internal Audit activity undertaken in relation to the 2010/11 Annual Internal Audit Plan.

2. Recommendation

That Members note this report.

3. Background to the Report

3.1 As Members will be aware part of this Committee's Terms of Reference is to consider the Internal Audit annual report and opinion and the level of assurance it can give regarding the Authority's corporate governance arrangements. In addition, the Authority's Financial Regulation 7.3.1 (c) (iv), states the Authority should oversee the process of Internal Audit and receive and consider activity reports.

3.2 Members will recall that they approved the 2010/11 Annual Audit Plan at their meeting on 8th April 2010. The progress of the plan is closely monitored by the Assistant Treasurer, including regular meetings with the Chief Executive/Treasurer to discuss performance issues.

3.3 In addition, regular update reports have been provided on performance against the audit plan during the year, the last being on the 7th April 2011.

4. Audit Activity 2010/11

4.1 The majority of planned audits for 2010/11 have been completed, with some awaiting finalisation and a number have been rephased into 2011/12 (**Appendix 1**).

4.2 Many of the reviews undertaken during the year, whilst identifying a number of weaknesses and making recommendations for possible improvement, have not identified any areas of major concern. Some areas reviewed were found to be particularly well controlled, with only minor recommendations being required to further enhance the control environment. The audits that have been completed have either been given an overall substantial or high assurance classification, with the exception of the audit of system and procedures for the disposal of firearms which was given an overall low assurance classification.

4.3 On the basis of all the systems reviewed and reported on by Internal Audit during the year, it is the Treasurer's opinion that;-

“the overall adequacy and effectiveness of the Authority's and Force's control environment is operating satisfactorily”

4.4 The Chief Constable has accepted the audit recommendations made and has identified officers responsible for ensuring that the recommendations are implemented within the agreed timescales. It is noted that the audit recommendations agreed during 2010/11 will be followed up as part of the 2011/12 Annual Internal Audit plan. **Appendix 2** provides examples of the main audit recommendations from a sample of the audits undertaken during the year.

4.5 The recommendations made during 2009/10 were also reviewed as part of the 2010/11 audit plan to ensure that the agreed recommendations had been implemented in a timely manner. It is noted that all audits are revisited three months after finalisation to determine the status of the recommendations and a regular tracker report is produced for this Committee. A further tracker report is elsewhere on this agenda.

4.6 No major financial irregularities were identified during 2010/11. However, Internal Audit did undertake a special investigation at Belle Vale Police Station. It was reported to Internal Audit that there had been a loss of detained person property, i.e. a large quantity of clothing, at Belle Vale Custody Suite. The clothing was not traced and following the review of the system and procedures at the Custody Suite by Internal Audit recommendations have been implemented to address the control weaknesses identified. It is noted that Internal Audit have not identified or been notified of any other suspected financial irregularities. Also in accordance with the agreed Memorandum of Understanding with the Forces Professional Standards Department Internal Audits findings were reported to PSD.

4.7 Internal Audit also provided general advice and assistance to the Force with regard to compliance with the Authority's Standing Orders and Financial Regulations and support in respect of the administration of controlled stationery, checking and approving of ex-gratia payments, tender opening procedures and imprest account end of year procedures.

- 4.8 The Treasurer would like to take the opportunity to thank the Chief Constable and his staff for the positive way in which they have co-operated with Internal Audit Officers during the year and for the speedy implementation of the audit recommendations.

5. Review of the System of Internal Audit

- 5.1 In addition, in accordance with the Accounts and Audit Regulations 2011 the Authority once again conducted a review of the effectiveness of its system of Internal Audit. Consequently, the Authority's Internal Audit Service undertook a self assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, using the recommended self assessment checklist within the Code of Practice to form the basis of the judgment. The Assistant Treasurer and the Internal Audit Manager have completed the self assessment, which in turn has been reviewed by the Treasurer and his conclusion is that the Internal Audit Service has complied with Internal Audit Standards contained within the Code of Practice. If Members wish to review the completed self assessment checklist please contact the Assistant Treasurer who will arrange for a copy to be made available.
- 5.2 A protocol for liaison exists between Internal and External Audit, the objective of which is to provide a framework which optimises the benefits of audit to the Authority from the audit resources available, while enabling Internal Audit and the Audit Commission to deliver their respective responsibilities. Specifically it clarifies the respective roles of External and Internal Audit, highlights areas where External Audit places reliance on the work of Internal Audit and establishes a framework for co-operation in the planning, conduct and reporting of audit, with the Audit Commission placing greater reliance on the work of Internal Audit in order to facilitate the provision of the most effective audit of the Authority.
- 5.3 During 2010/11 the Audit Commission placed reliance on the work of Internal Audit in respect of their reviews of the creditor payments system, payroll, pensions, general ledger and sundry debtor systems. The District Auditor has reviewed this work to assess the quality of the Internal Audit work and to determine the extent to which it complies with the CIPFA Code of Practice for Internal Audit. Their conclusion was that the work of Internal Audit did comply with the code of practice.

6. Performance Management

6.1 Members will recall that in recent years the Internal Audit Service has developed a performance management framework, which includes a suite of performance indicators and client questionnaires which is reported to this Committee. A report detailing the Internal Audit Service performance against these indicators and the results of the client questionnaires will be submitted to the next meeting of this Committee following the finalisation of all the audits for 2010/11.

6.2 A review of the performance management framework has been undertaken and in order to enhance the framework and improve performance against the Internal Audit performance indicators, the Treasurer and the Chief Constable have agreed to produce a memorandum of understanding between the Force and the Authority's Internal Audit Service for conducting, reporting and finalising an internal audit review. The memorandum of understanding is currently being finalised and will be formally introduced for the 2011/12 audit work. This memorandum of understanding will improve the understanding of each others' responsibilities in dealing with internal audit reviews, so that both parties fulfill their responsibilities effectively and efficiently and that any systems weaknesses identified are reported to the appropriate officer and that action is taken to address these weaknesses in a timely manner.

7. Financial and Staffing Implications

There are no direct financial or staffing implications associated with this report.

8. Risk Assessment

8.1 Internal Audit is a key aspect of the Authority's risk management strategy and offers independent support and reassurance to the Authority, Force and outside inspection and audit bodies. Failure to report on the outcome of the audit activity would contravene the Authority's Financial Regulations 7.3.1 (c) (iv).

8.2 In addition, any failure by the Force to implement the agreed recommendations would lead to a weakening of the internal control environment.

9. Equality & Diversity Impact Assessment

There are no Equality and Diversity issues associated with this report.

10. Environmental Impact Assessment

There are no environmental issues associated with this report.

11. Conclusion

The audit work contained within the Annual Audit Plan for 2010/11 has been completed. It can be seen from **Appendix 1** that a number of audit reports are in the final stages of completion. On the basis of all the systems reviewed and reported on by Internal Audit during the year, it is the Treasurer's opinion that the overall adequacy and effectiveness of the Authority's and Force's control environment is operating satisfactorily. However, areas were identified where improvements could be made to strengthen the existing internal controls. In these instances the relevant recommendations have been made and appropriate corrective actions have been agreed.

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Chief Executive/Treasurer to the Authority

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Background Papers: Internal Audit reports 2010/11.

Appendix 1

Progress against the Merseyside Police Authority Annual Internal Audit Plan 2010/11 as at 20th July 2011

Main Financial Systems

	Status of Audit
Creditor Payments System	Completed
General Ledger	Draft Report issued awaiting response
Payroll	Completed
Pensions	Completed
Procurement Strategy	Draft Report issued awaiting response
Payroll Client Monitoring Unit	Draft Report issued awaiting response
Sundry Debtors System	Completed

Subsidiary Financial Systems

Asset Register	Commenced Completion rephased into 2011/12
Covert Operations (Financial Arrangements)	Commenced Completion rephased into 2011/12
Essential Users Allowance	Completed
Equalisation Allowances	Completed
Time Recording	Completed

Information Technology and Information Systems

Data Security	Draft Report Being Finalised
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Estate and Vehicle Management Systems

Estate Management	Completed
Vehicle Fleet Stores	Draft Report issued awaiting response

Non Financial Systems

Cash Handling Procedures	Completed
Crime Police Officer Self Recording	Completed
Detained Persons Property	Completed
Disposal of Drugs	Completed
Disposal of Firearms	Completed
Operation Tango	Draft Report issued awaiting response
Regional Crime Unit	Completed
Retention of Documents	Draft Report issued awaiting response

Corporate Governance

Code of Corporate Governance / Annual Governance Statement	Completed
Fixed Penalty Notices	Completed
Partnership Arrangements	Rephased into 2011/12
Proceeds of Crime Act (POCA) Monies	Completed
Review of System of Internal Audit	Completed

Value For Money

Overtime	Completed
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Special Investigations

Belle Vale Missing Cash	Completed
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Examples of Main Audit Recommendations made in 2010/11 and Audit Rationale behind them

This is a cross-section of audit work undertaken and is not meant to be a comprehensive list. All internal audit reports are available from the Assistant Treasurer if required.

Risk	Recommendations	Priority	Audit Rationale
Detained Persons Property			
Officers may be exposed to the potential risk of having to account for any property that may be disputed or contested by the detainee at any given time. Incomplete Niche recording only weakens the Audit trail.	Following a detainee search where no property has been retrieved, Niche should be updated to record this fact and the detainee should also sign as confirmation. If the detainee is unable to sign, then the Niche 'unable to sign' field tab should be activated.	Significant	<ul style="list-style-type: none"> ▪ To strengthen the audit trail. ▪ To safeguard the Officers within the Force. ▪ To ensure a consistent and correct approach is adopted across the Force.
Officers may be exposed to the potential risk of having to account for any property that may be disputed or contested by the detainee at any given time. Incomplete Niche recording only weakens the Audit trail.	That in accordance with the requirements of the Custody Working Practices Manual 2010, if for any reason that a detainee is unable to confirm cash taken into the possession of the Authority, then Niche should be noted to this effect and countersigned by another member of Custody staff.	Significant	<ul style="list-style-type: none"> ▪ To strengthen the audit trail. ▪ To safeguard the Officers within the Force. ▪ To ensure a consistent and correct approach is adopted across the Force.

Risk	Recommendations	Priority	Audit Rationale
Sundry Debtors System			
<p>Users could have access to modules of the sundry debtor system that do not relate to their post.</p> <p>Unauthorised data entry may give rise to fraud or error.</p>	<p>The following changes should be actioned by the system administrator of the sundry debtor system: -</p> <ul style="list-style-type: none"> (i) user group 'Creditors and Debtors General' should have access to the raising of invoices removed; (ii) user group 'Debtors Income' should have access to the receipting of income removed; (iii) the names of these two groups should be amended to reflect their actual roles within the system; (iv) XXXXX and XXXXX should be detached from the Exchequer Services section and re-attached under the correct Department; (v) XXXXX should be attached to the Exchequer Services Department; (vi) XXXXX (temporary user access) should be disabled immediately from the system; and (vii) XXXXX should have his access disabled immediately from the system. 	Significant	<ul style="list-style-type: none"> ▪ To reduce the risk of intentional manipulation or error. ▪ To strengthen the internal control process. ▪ To safeguard the Officers within the Force. ▪ To ensure that only appropriate payments are made.

Risk	Recommendations	Priority	Audit Rationale
Crime Police Officer Self Recording			
That crimes recorded in excess of the time permitted through Home Office Counting Rules (HOCR) Section A, page 3 of 6 may be reported incorrectly as 'passed' by the Force Crime Registrar (FCR).	Clarification be sought from the Home Office on the application of HOCR Section A 'When to Record', page 3 of 6. Specifically this clarification should confirm the application of the timescale of 3 x 24 hour periods for recording a crime from the time the incident is first logged rather than the end of the 3 rd day which is currently being applied by the Force. Based on this response the FCR should assess all future crimes based on this approach and ensure that this is communicated to all relevant personnel.	Fundamental	<ul style="list-style-type: none"> ▪ To ensure a consistent and correct approach is adopted across the Force. ▪ To ensure compliance with Statutory Requirements. ▪ To reduce the risk of error.
That Force performance on crime recording is not provided to the Authority in a year to date context.	Information provided quarterly on Forcewide crime recording performance to the Authority's Performance Team and Members should include summary results from the last 12 months and a 12 monthly rolling average to provide a better context for each quarter's results.	Significant	<ul style="list-style-type: none"> ▪ To strengthen the internal control process. ▪ To provide a clear audit trail. ▪ To provide evidence and reassurance that agreed standards are being met.

Risk	Recommendations	Priority	Audit Rationale
Cash Handling Procedures			
Income may not be properly accounted for.	An official income receipt book should be held at each police station. To comply with Force Financial Instructions 4.22, an official receipt should be issued immediately, by an authorised officer, in acknowledgement of every remittance or sum of money received.	Significant	<ul style="list-style-type: none"> ▪ To ensure compliance with Financial Instructions. ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.
Income may not be properly accounted for.	To comply with Force Financial Instruction 4.2.5, Income transferred between locations within the Force should be recorded on transmission of cash forms.	Significant	<ul style="list-style-type: none"> ▪ To ensure compliance with Financial Instructions. ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.
Income may be lost or misappropriated	Income received should be banked at least weekly in line with Force Financial Instructions 4.2.4.	Significant	<ul style="list-style-type: none"> ▪ To ensure compliance with Financial Instructions. ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.

Risk	Recommendations	Priority	Audit Rationale
Disposal of Firearms			
<p>The BCU Area responsible for seizing the firearm(s) may have no record of the items recovered and submitted to the Central Property Office (CPO).</p> <p>Crime Exhibit Firearms may not be traceable from the property cards used to the records on Niche.</p>	<p>That the Force considers the risks highlighted as part of the review and addresses these issues in the development of a new policy for the receipt, recording, storage and disposal of firearms. The draft policy should be reviewed and approved by the Business Management Group to ensure that it fully mitigates the risks. The approved policy should then be communicated to all relevant staff within the Force and made freely available on the Force's intranet.</p>	Fundamental	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail. ▪ To protect the reputation of the Force and the Police Authority.
<p>Health and Safety implications to officers responsible for handling firearms in transit</p>	<p>The Force should review the arrangements for transferring firearms and ammunition to the CPO and identify best practice. The new policy for the receipt, recording, storage and disposal of firearms should provide appropriate guidance to BCUs and Departments.</p>	Fundamental	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail. ▪ To protect the reputation of the Force and the Police Authority.
<p>Health and Safety implications to officers responsible for handling firearms in storage</p>	<p>Firearms should not be stored in the same room as ammunition at the CPO or at any other BCUs and Departments.</p>	Fundamental	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force.

Risk	Recommendations	Priority	Audit Rationale
Disposal of Drugs			
Staff are unaware of what is required in the policy which may lead to errors being made.	The policy should be updated in light of changes to be made and issued to all relevant staff who should sign to say they have read and understood it.	Fundamental	<ul style="list-style-type: none"> ▪ To provide a clear audit trail. ▪ To protect the reputation of the Force and the Police Authority.
Unauthorised access to the CPO.	All officers, staff and visitors using CPO should be reminded to ensure that the front and rear doors are properly secured behind them when they enter and leave the CPO. This could be achieved by placing notices on the walls on each side of the front and rear doors.	Fundamental	<ul style="list-style-type: none"> ▪ To reduce the potential risks of loss or theft. ▪ To protect the reputation of the Force and the Police Authority.
Payroll			
Variations to payroll may be incomplete in terms of the required detail and may not be properly authorised, which could lead to inappropriate variations to pay.	All officers preparing and authorising any payroll variation/ claim form should be reminded that they should clearly record their signatures and printed names on the appropriate form. This will demonstrate segregation of duties within the process and strengthen the audit trail within this area of payroll processing.	Significant	<ul style="list-style-type: none"> ▪ To ensure that only appropriate payments are made. ▪ To strengthen the internal control process.

Risk	Recommendations	Priority	Audit Rationale
Proceeds of Crime Act (POCA) Monies			
Cash seized is not properly evidenced / receipted potentially resulting in later disputes with the owner. In addition there is the potential that cash could be misappropriated.	Officers should be reminded that a receipt for seized monies must be provided in all circumstances, and that a copy of this receipt must be retained on the associated POCA CS file.	Fundamental	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.
Cash received at the CPO is not properly receipted resulting in disputes over the whereabouts of monies and / or misappropriation.	All cash taken in by the CPO must be formally receipted, whether via Niche or otherwise, and a copy of the receipt retained.	Significant	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.
Uncounted monies are returned to the owner resulting in later disputes about amounts or accusations of misappropriation.	Seized bagged and uncounted cash should never be handed back to the owner without it being counted and receipted.	Fundamental	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.
Officers present at the cash count do not always record their attendance resulting in later disputes if irregularities arise and risks to officers involved in the process.	Each cash count should be videoed and documented, with a copy of the video retained on file. In addition, all officers or staff present at a cash count must sign the count records to confirm their attendance.	Significant	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail. ▪ To reduce the potential risks of loss or theft.

Risk	Recommendations	Priority	Audit Rationale
Overtime			
The lack of an articulated, one-place Police and Staff Overtime Policy could result in misunderstandings and a lack of consistency of approach leading to error, unequal treatment and poor value for money.	A formal document covering the Force overtime policy should be produced, publicised and presented on the Force Intranet. The policy should be underpinned by appropriate process and procedure guides. <i>In addition, MPA Internal Audit should be involved in the quality assurance of the draft policy.</i>	Fundamental	<ul style="list-style-type: none"> ▪ To increase transparency and openness. ▪ To ensure a consistent and correct approach is adopted across the Force.
Delays in the submission of overtime claim forms are preventing BCUs and Departments from gaining timely and complete information around real overtime spend.	A Force wide reminder should be issued to all staff reminding them of their obligation to submit overtime application forms promptly.	Significant	<ul style="list-style-type: none"> ▪ To ensure that only appropriate payments are made.
The causes of planned and unplanned overtime are not fully understood, resulting in ineffective management actions aimed at reducing spend.	The Force needs to introduce a standard list of overtime codes to enable it to identify the main drivers of planned and unplanned overtime and thereby inform and support management activities to reduce the spend and to ensure it is effectively targeted.	Fundamental	<ul style="list-style-type: none"> ▪ To enhance the overall management controls exercised by the Force. ▪ To increase transparency and openness.

<p>Special Investigations:- Belle Vale Missing Cash</p>			
<p>Detained persons property may be lost if they are not tracked using a log of what is held in the bulk storage room. This could lead to a financial and reputational loss to the Force.</p>	<p>If a separate room for bulky items of property is required, the controls in place for storing and recording detained persons property should be applied, namely:-</p> <ul style="list-style-type: none"> • Property should be tagged and entered onto Niche; and • A log should be maintained of what is held in the separate room. <p>The bulk storage room should have the same security controls as with other property storage rooms.</p>	<p>Fundamental</p>	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail. ▪ To protect the reputation of the Force and the Police Authority.
<p>If Niche does not provide a clear record of detained person's property, errors could be made in handling property and could lead to a financial and reputational loss to the Force.</p>	<p>All Custody Officers at Belle Vale should be reminded that Niche should be fully updated to record an accurate description of all property held for a detained person.</p>	<p>Fundamental</p>	<ul style="list-style-type: none"> ▪ To safeguard the Officers within the Force. ▪ To provide a clear audit trail.

<p>Fixed Penalty Notices</p>			
<p>There are key risks in this area. There is an absence of control in the Vehicle Procedures/Fixed Penalty Office (VP/FPO) module which may allow notices to be cancelled in error or fraudulently.</p> <p>As cancellations are not reported back to the relevant BCU, training requirements may not be identified leading to further errors.</p>	<p>Management should revise the process for cancelling Fixed Penalty Notices (FPNs) in VP/FPO to ensure adequate separation of duties. Specifically the revised arrangements should cover the following:-</p> <ul style="list-style-type: none"> • Central Ticket Office (CTO) managers should authorise cancellations of FPNs and in so doing provide a clear audit trail to the request for cancellation approved by BCU line managers; • System profiles should be amended to remove the ability of junior staff to action cancellations on VP/FPO; • CTO managers should action cancellations of FPNs themselves but where cancellations are contentious or require the exercise of judgement, a second signatory to the authorisation should be sought and the details documented on the system; • Staff should not action the cancellations of FPNs they have previously input; and • Deputies should be nominated to action cancellations in the absence of the Manager/Team Leader in order to prevent the build up of a backlog of un-actioned cancellations. 	<p>Fundamental</p>	<ul style="list-style-type: none"> ▪ To protect the reputation of the Force and the Police Authority. ▪ To enhance the overall management controls exercised by the Force. ▪ To ensure a division of duties within the process.