

Cleveland Police Authority

Internal Audit Annual Report

Year ended 31 March 2009

Presented at the Audit and Internal Control Panel meeting of: 28th May 2009

Approved by: Ian Wallace as Head of Internal Audit

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This report has been prepared for Cleveland Police Authority and should not be disclosed to any third parties without written consent by both RSM Bentley Jennison and our client. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the Board and senior management of Cleveland Police Authority. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of Cleveland Police Authority's assurance cycle and if used properly can be inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Authority and the Audit and Internal Control Panel.



Exhibit A: The Assurance Cycle. © RSM Bentley Jennison

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Governance Statement

Under Regulation 4[2] of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit [Amendment] [England] Regulations 2006, authorities are required to publish a statement on internal control. From 2007/08, authorities have had to publish an annual governance statement in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement.

As your internal audit provider, the assignment opinions that RSM Bentley Jennison provides the organisation during the year are part of the framework or assurances that assist the Authority prepare an informed governance statement.

2 Internal Audit Assurance for 2008/2009

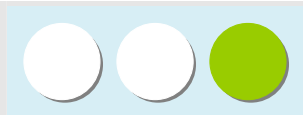
2.1 Context

As the provider of the internal audit service to Cleveland Police Authority we provide the Authority through the Audit and Internal Control Panel with an opinion on the adequacy and effectiveness of the organisation’s governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Authority is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

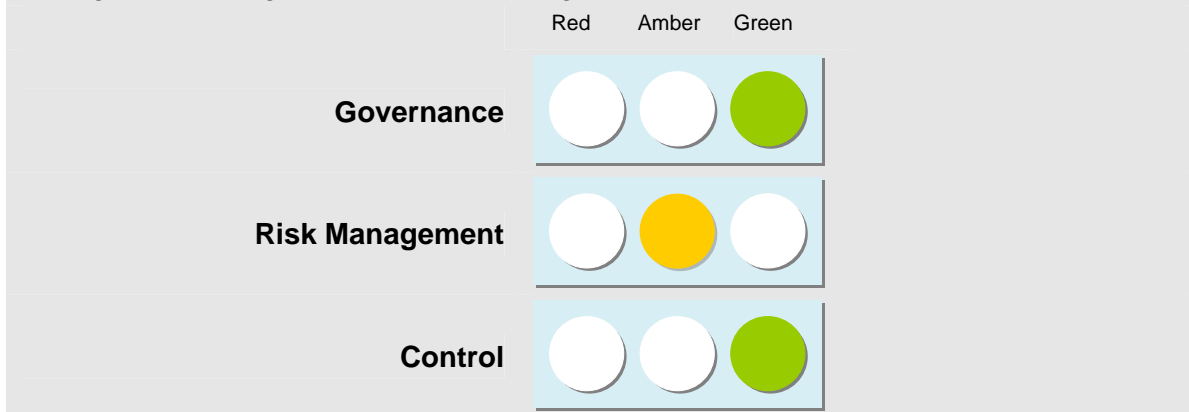
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2.2 Internal Audit Assurance Statement

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Cleveland Police Authority’s arrangements.



For the 12 months ended 31 March 2009, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of Cleveland Police Authority’s arrangements for governance, risk management and control is as follows:



2.3 Scope of the Internal Audit Opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2009 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation’s objectives or activities;

- Matters arising from previous reports or other assurance providers to the Audit and Internal Control Panel and Cleveland Police Authority;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation;
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

Governance

As part of our Governance work for 2007/08 we were involved in the Annual Governance Statement Working Group. This has included input into the process and commenting upon the evidence provided. We have performed the following reviews in which aspects of Governance were examined:

- Corporate Governance
- Districts and Sub Units – Middlesbrough District

In 2008/09 we continued our input into the PURE / Annual Governance Statement Working Group.

Risk Management

In 2007/08 we noted that the formation of a dedicated Risk Team was ongoing. During 2008/09 a Risk Manager was appointed with responsibility for developing the risk management framework and embedding risk management within the Force and the Authority.

Risk management is reported through the Monthly Performance Reviews that are completed at Service Team level and through the Audit and Internal Control Panel.

During 2008/09 we used the days allocated to risk management in the audit plan to provide training to members and to managers across the Force.

In 2009/10 we intend to complete a risk maturity review to show how successfully we consider Cleveland Police Authority has used its risk management process to manage its business and objectives. We will also provide a report highlighting areas of best practice that we have identified and mapping where your organisation is in relation to risk maturity in comparison with our wider client base.

Internal Control

In forming our opinion we have taken into consideration the following:

- All of our assurance reports resulted in substantial or adequate assurance.
- We have made no fundamental recommendations.
- There were several changes to the audit plan during the year and some work has been delayed and carried forward to 2009/10. This has not impacted upon our ability to give an opinion for 2008/09.

Acceptance of Recommendations

All of the recommendations made during the year were accepted by management.

2.5 Governance Statement

The overall opinion may be used by the Authority in the preparation of the annual governance statement.

2.6 Conflicts of Interest

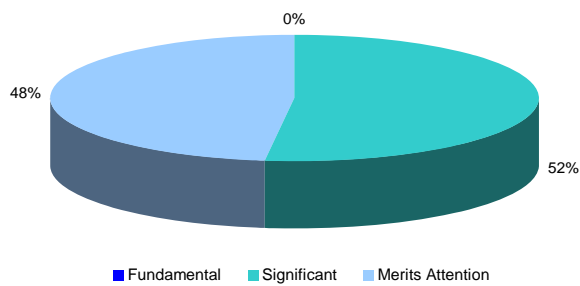
We have not undertaken any work or activity during 2008/09 that would lead us to declare any conflict of interests.

2.7 Benchmarking Data

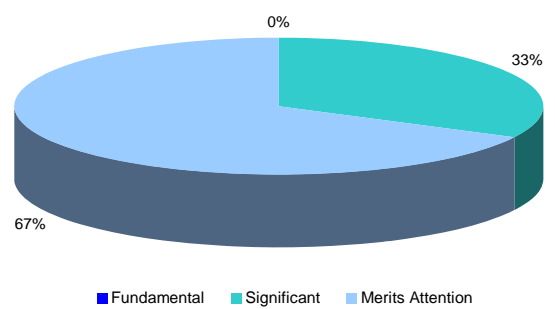
The tables below show the split of internal audit recommendations and opinions for Cleveland Police Authority in 2008/09 and those made in 2007/08.

Comparison of the categories of internal audit recommendations made 2008/09 and 2007/08

Recommendations 2008/09



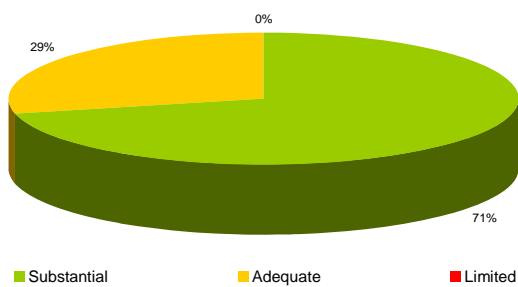
Recommendations 2007/08



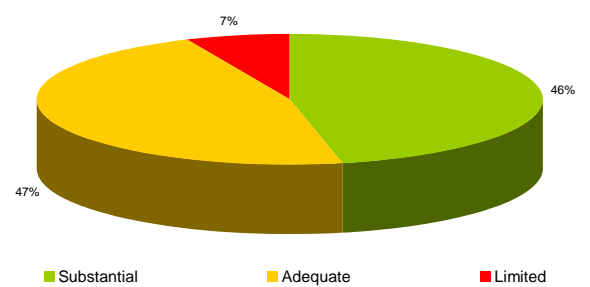
Comparison of assurance levels provided by internal audit in 2008/09 and 2007/08

For assurance assignments only




Assurance Levels 2008/09







Assurance Levels 2007/08








Appendix A: Internal Audit Assurance Map 2008/09




Risk Based Coverage				
Area / Risk(s)	Source	Headline Findings	Assurance	
<p>Performance Management – MPR Process</p> <p>Failure to meet Executive targets and other performance deterioration.</p>	Strategic Risk Register	<p>We reviewed the MPR process as part of other audits completed during 2008/09. The following points were noted:</p> <p>MPR’s are completed on a monthly basis.</p> <p>There is a standard agenda and reporting format which includes HR / staffing issues, budget monitoring, reporting against agreed action plans including the implementation of audit recommendations, risk management and service specific issues.</p> <p>The MPR meetings provide a focused forum for discussing performance and any issues within a specific Department. Managers interviewed consider the process to be robust and comprehensive.</p>	Substantial	
<p>Estates Management</p> <p>Ineffective Estates planning resulting in failure to effectively maintain / utilise estates resources to support the development of the Force.</p>	Strategic Risk Register	<p>The departmental structure is mapped and shows clear lines of responsibility.</p> <p>The Estates Strategy is currently being rewritten and the following sources of information will dovetail into / inform the content of the document:</p> <p>Suitability Survey, Condition Surveys, Asbestos Survey, DDA considerations, H & S / Fire Risk Assessments, and Budget profile / financial plan.</p> <p>There are contact monitoring performance indicators in place for the three MTM contracts. These are analysed and reported on a monthly basis.</p>	Substantial	
<p>Budget Setting</p> <p>Inability to manage reductions in funding, resulting in the</p>	Strategic Risk Register	<p>The budget setting process is formally timetabled and involves consultation with various stakeholders within the Authority and the Force, Home Office and Local Councils.</p>	Substantial	

<p>Force being unable to meet its commitments to partners of its communities.</p>		<p>The 2008/09 budget and long-term financial plan 2009/12 was presented and approved by the Cleveland Police Authority Executive on 28th February 2008. Legislation requires that the Police Authority agrees its budget and associated precept for the forthcoming year before the 1st March 2008.</p> <p>Budget holders are required to sign to confirm acceptance and responsibility for their budget allocation.</p>		
<p>Succession Planning Insufficient succession plans in place resulting in failure to meet operational responsibilities in the event of a major reduction in staff.</p>	<p>Strategic Risk Register</p>	<p>Succession planning is recognised as a key strategic risk and an action plan is in place to move the process forward.</p> <p>There is a coaching and mentoring scheme in place which is available to all staff.</p> <p>A talent pool has been established for those individuals on the High Potential Development Scheme. This currently consists of seven members of staff below the rank of Chief Inspector and three senior ranking officers. Additional training is provided to enable individuals to achieve national accreditation and an annual review is conducted by the Head of P&OD.</p>	<p>Adequate</p>	
<p>Data Protection Act 1998 Non-compliance with Freedom of Information Act and Data Protection Act</p>	<p>Strategic Risk Register</p>	<p>Cleveland Police Force has a current notification under the Data Protection Act 1998; number Z4883256 which expires on 08 September 2009. The Information Compliance Unit Manager (ICUM) is the nominated Data Protection / PNC Officer and has responsibility for overseeing compliance with the requirements of the Data Protection Act 1998 on an operational basis. The ICUM is also responsible for the FOI Team, Vetting Team, Disclosure Team, delivery of CRB checks.</p> <p>Key findings were,</p> <p>A data audit has not been completed for at least two years. We recognise that a proposal has been put forward to reinstate this process on a cyclical basis.</p> <p>A staff information verification exercise has not been completed for at least two years.</p>	<p>Substantial</p>	

Other Coverage				
Area	Rationale for coverage	Headline Findings	Assurance	
High Level Financial Controls	To support the Authority in the production of its Annual Governance Statement.	<p>Access to the network and the accounting system is restricted by use of hierarchical passwords and overall access to Welcom is controlled by one systems administrator. There are 77 users who have varying levels of access to the system. These include staff from offsite service units, who are given access rights appropriate to their role in the organisation.</p> <p>The Authority's Management Accounts are produced to a monthly timetable. The deadline for their production is the eighth working day of the following month when all reports to management are complete and KPI's are available. The management accounts are reported to the Policies and Resources Committee.</p> <p>All control accounts are reconciled monthly as part of the management accounts production process and suspense accounts are monitored closely. There are only two suspense accounts used by the Accounts team for allocating unrecognised receipts and payments from/to debtors/creditors. At the time of audit there were no balances on these suspense accounts.</p>	Substantial	
Payroll	To support the Authority in the production of its Annual Governance Statement.	<p>The system used in payroll is Talent Pay and has been in use since 1999/2000. The payroll system is broken down into two different sections, police staff and police officers, and the procedures in place vary depending on the different categories. The payment system differs between staff and officers, with staff receiving 12 monthly payments per annum, whereas officers receive 13, four weekly payments per annum.</p> <p>Payroll procedures are in place however these are not dated and not always in electronic format.</p> <p>A report regarding monthly police numbers is produced from payroll data and sent to HR to test the numbers against the number of officers on the HR system. This reconciles the total number and also checks the starters and leavers in the month against what is expected from HR.</p> <p>The managers who are responsible for the budgets within each service unit are given access on a monthly basis to all of the employees charged against their budgets. This details names, collar numbers amount etc and this is available for them to review and feedback changes on a</p>	Substantial	

		<p>monthly basis.</p> <p>The Management Accountant’s team perform reconciliations between the GL batch audit report and the payroll produced data, this is reconciled before the upload to the ledger takes place. We did not identify any issues around completion of the reconciliations however; as a minor point the reconciliations performed by the management accounts team were not signed.</p>		
Income & Debtors	To support the Authority in the production of its Annual Governance Statement	<p>At the time of audit there had been a reduction in levels of debtors and an improvement in the aged profile illustrating the improvements made in this area since the last audit was completed.</p> <p>Key findings included:</p> <p>Invoices and requisitions had been signed by individuals not on authorised signatory lists.</p> <p>Staff in Treasury have access to raise sales invoices and credit notes, as well as to allocate cash.</p>	Adequate	
Treasury Management	To support the Authority in the production of its Annual Governance Statement	<p>In light of recent economic uncertainties the Authority transferred the majority of the invested money during October 2008 to Banks and Building Societies considered low risk, such as the now nationalised Northern Rock and the partly nationalised NatWest Bank.</p> <p>The Authority does not invest money in foreign currencies or securities and does not leave deposits tied up for long periods of time. Comprehensive procedural documents are in place to specify approved investments and investing methods.</p> <p>On occasion the Authority authorises Middlesbrough Council to act as an agent on their behalf when making investments. This is only done, under instruction from the Authority, when a better rate can be obtained by Middlesbrough Council than would have been by the Authority contacting the bank themselves.</p>	Substantial	
Purchasing & Payments	To support the Authority in the production of its Annual Governance Statement	<p>Robust controls have been introduced to ensure that the supplier master-file has been maintained on a regular basis. A standard pro-forma is used to inform the Management Accounts department of any new suppliers to add to the E-Procurement system. These are signed by the Commissioning and Management Accounts departments and filed alphabetically providing a comprehensive audit trail. For amending</p>	Substantial	

		<p>supplier details, the same form is used and will not be processed unless supported by relevant proof.</p> <p>There is segregation of duties throughout the purchasing and payments process, ensuring that expenditure is appropriately monitored and authorised.</p> <p>Exception reporting is undertaken on a regular basis by the Finance department to ensure that the organisation is progressing towards a reduction in "fast" invoices. In support of this, the Head of Corporate Finance reviews KPIs on a monthly basis.</p>		
Fixed Assets	To support the Authority in the production of its Annual Governance Statement	<p>The Authority has recently introduced a more formal procedure for monitoring vehicle disposals and this is due to be implemented fully in 2008/09.</p> <p>Additions are reconciled to the general ledger quarterly and disposals are monitored monthly via a disposal spreadsheet, which is also reconciled to the general ledger.</p> <p>Annually, asset holders are requested to confirm that assets are still in use and will continue to be in use; they are also asked to estimate the remaining useful life of each asset.</p> <p>A revaluation of assets is performed every five years. There have been no revaluations since moving to the CIPFA IPF system with the next one being due at the end of 2008/09. Additionally, an annual impairment review of land and buildings is performed. Testing identified that all buildings on the asset register were covered by the impairment review.</p>	Substantial	
Capital Expenditure	Cyclical	<p>The 2008/09 Capital and Long-Term Capital plan 2009/12 was presented and approved by the Cleveland Police Authority Executive on 28th February 2008. A number of recommendations were made to optimise the capital resources available to the Authority to refresh and develop the asset base of policing in the 21st Century in line with the vision of "Putting People First".</p> <p>To ensure compliance with the CIPFA Prudential Code of Practice a number of Prudential Indicators for the financial year have been set by the Authority.</p> <p>All Capital bids in 2008/09 had completed a Project Bidding Form which</p>	Substantial	

		<p>provided a summary of financial implications with regard to capital and revenue costs.</p> <p>The Monitoring of capital projects through its entire life cycle is comprehensive. Reports are presented to the Strategic Development Group, Policy and Resources/Corporate Development Panel and to Capital Scheme Managers on a monthly basis.</p>		
Inventories	Management Request	<p>There are different approaches to the maintenance of inventories across the organisation.</p> <p>Where high value items such as mobile phones and blackberries are loaned to members of staff, the officer must complete a standard request pro-forma. The monitoring of expenditure against the phone is undertaken by administrative staff from the relevant district.</p>	Adequate	
Follow Up	Annual assurance regarding the ongoing implementation of recommendations	From a total of 37 recommendations, 25 had been fully implemented, there was ongoing progress to implement a further 10 and 2 had yet to be implemented.	Reasonable Progress	
Risk Management	Annual Assurance Area	<p>In 2007/08 we noted that the formation of a dedicated Risk Team was ongoing. During 2008/09 a Risk Manager was appointed with responsibility for developing the risk management framework and embedding risk management within the Force and the Authority.</p> <p>Risk management is reported through the Monthly Performance Reviews that are completed at Service Team level and through the Audit and Internal Control Panel.</p>	Adequate	
VAT	Cyclical	Generally, Finance staff are fairly adept at dealing with the operation of VAT. However, as many of the staff are fairly new to the Force and less aware of the unique VAT regime under which the Force operates, there is considerable scope for VAT training.	Advisory	N/a

Appendix B: Internal Audit Opinions and Recommendations 2008/09

Auditable Area	Planned Work (Days)	Actual Work (Days)	Assurance Level Given	Number of Recommendations made				
				Fundamental	Significant	Merits Attention	In Total	Agreed
Performance Management	6	6	Substantial	0	0	0	0	N/a
Estates Planning	10	10	Substantial	0	0	0	0	N/a
Budget Setting	8	8	Substantial	0	0	2	2	2
Succession Planning	4	4.5	Adequate	0	2	2	4	4
DPA Compliance	8	10	Substantial	0	1	2	3	3
High Level Financial Controls	7	7	Substantial	0	0	4	4	4
Payroll	6	6	Substantial	0	1	3	4	4
Income & Debtors	5	5	Adequate	0	3	2	5	5
Treasury Management	5	5	Substantial	0	0	1	1	1
Purchasing & Payments	5	5	Substantial	0	1	2	3	3
Fixed Assets	5	5	Substantial	0	0	2	2	2
Capital Expenditure	5	5	Substantial	0	0	1	1	1
Inventories	0	10	Adequate	0	2	1	3	3
Carbon Footprint	0	6	N/a	-	-	-	-	N/a
VAT	7	7	N/a	0	10	2	12	12
Follow Up	7	9	Reasonable Progress	0	8	2	10	10
Risk Management Training	13	15	N/a	-	-	-	-	N/a
Contracts Monitoring including PFI	20	2	N/a	-	-	-	-	N/a
Business Continuity Planning	10	0	N/a	-	-	-	-	N/a

Auditable Area	Planned Work (Days)	Actual Work (Days)	Assurance Level Given	Number of Recommendations made				
				Fundamental	Significant	Merits Attention	In Total	Agreed
Disaster Recovery Planning	10	0	N/a	-	-	-	-	N/a
Strategic Planning	10	3	N/a	-	-	-	-	N/a
Vetting / Disclosure	0	1	N/a	-	-	-	-	N/a
Health & Safety	7	0.5	N/a	-	-	-	-	N/a
Pure and AGS Group	4	4	N/a	-	-	-	-	N/a
Management	15	21	-	-	-	-	-	N/a
TOTAL	177	155	-	0	28	26	54	54

The definitions for the level of assurance that can be given are:

	Level	Effectiveness	Control Adequacy	Control Application
positive opinions	Substantial Assurance	Targets have been met or exceeded.	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Targets have been closely missed or there are appropriate reasons as to why they have not been met	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Targets have not been met and no reasons are given as to why.	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Recommendations made during the year have been categorised as follows:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.