

<b>Committee:</b>	<b>Date:</b>
Police Performance and Resources Sub-Committee	28 <sup>th</sup> May 2014
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>

### Summary

This report provides an update on the internal audit reviews undertaken between February and April 2014 as well as further information on the progress being made on the completion of the 2013/14 Internal Audit Plan (Appendix 1). It also includes a schedule of planned work for 2014/15 (Appendix 2).

All 2013/14 planned work has either been completed or is currently in progress. One planned review has been completed since the February 2014 update report. The Police Third Party Payments (Full Review) Final Report has been agreed. The draft reports have been issued on the City Police Assurance Mapping Exercise) and Police Fees and Charges (Full Review). Fieldwork on the following reviews is in progress: Compensation Claims; Fleet Management VFM; and the Project Office. All of these projects are scheduled for completion by 30th June 2014, except Compensations Claims, which due to the complexity of the area reviewed is unlikely to be completed until later in the Summer period. The fieldwork on the Performance Measures and Police Procurement Card spot check reviews has started, and work on one remaining spot check review of Seized Goods will be completed by 30<sup>th</sup> May 2014.

It had been intended to complete all 2013/14 Internal Audit planned work to fieldwork stage by 31<sup>st</sup> March 2014, however this has been put back at the request of Force staff.

Internal audit work undertaken between February and April 2014 has established that satisfactory controls are in place for the areas that have been examined, although improvements have been recommended for clarifying the classification of expenditure posted to Third Party Payments.

Police Third Party Payments: The majority of Management Accountants, Managers and Officers understand the distinction between Third Party Payments and Supplies and Service however they would benefit from the CIPFA definition, instructions and guidance being communicated to them. The lack of full understanding of what constitutes a Third Party Payment is supported by the increase in misallocated expenditure from 2% of total expenditure in 2011-12 to 9% at present and the previous year 2012-13. Satisfactory monitoring and control of budgets and expenditure is performed. Nevertheless there is an absence of monthly budget reporting of Third Party Payments separately, including it under the heading of

Other in the monthly Budget Exception and Budget Control reports. An awareness and understanding of this distinct type of expenditure is not being demonstrated. There is evidence from the sample taken by Audit that Third Party Payment expenditure complies with the City's procurement policy and that value for money is being achieved.

Implementation dates for the recommendations arising from all full reviews and spot check reviews completed earlier in the year have been obtained from the Director of Corporate Services. All recommendations (GREEN priority) either have been implemented or will be by 31<sup>st</sup> October 2014.

### **Recommendation**

Members are asked to note the work that Internal Audit has undertaken, and offer any observations..

## **Main Report**

### **Background**

1. This report includes a summary of the status of all 2013/14 reviews (Appendix 1) and a schedule of planned Internal Audit work 2014/15 (Appendix 2). It also includes an update on the progress made in implementing Internal Audit recommendations resulting from 2013/14 work completed by 30<sup>th</sup> April 2014.

### **Internal Audit Plan 2013/14 – Progression to date**

2. There were seven full reviews and ten spot check reviews scheduled for completion by 31<sup>st</sup> March 2014. Seven spot checks were completed in the first six months of the year. In addition, two full reviews of the City First Project and Third Party Payments have now been completed to final report stage. Two full audit reviews: Assurance Mapping; and Fees and Charges have been completed to Draft Report stage. Fieldwork is progressing on the remaining three full reviews: Compensation Claims; Fleet Maintenance VFM; and the Project Office. The three remaining spot check reviews: Performance Measures; Police Procurement Cards; and Seized Goods will be completed by 30<sup>th</sup> May 2014. (72 audit days to date). Details of the work completed since 1<sup>st</sup> February 2014 is included below.
3. It had been intended to complete all 2013/14 planned work to fieldwork stage by 31<sup>st</sup> March 2014, but there have been a number of factors which have affected the progress of each remaining project.

Police Project Office (Full Review) - Delay in starting fieldwork requested until the conclusion of the recruitment exercise for the Head of Projects Office. Work is now underway with a planned completion date of 30<sup>th</sup> June 2014.

Police Compensation Claims (Full Review) Police Fees and Charges (Full Review), Police Seized Goods, Police Performance Measures, & Police Use of Procurement Cards (Spot Check Reviews) – A delay was requested by the Head of Finance, who is relatively new in post and wanted to familiarise himself with the system and procedures before the audit fieldwork started. Work on these areas will be completed by the end of June 2014. The fieldwork for Compensation Claims will re-commence after the completion of Year End Accounts, and is expected to complete by the end of the Summer. As a consequence, the Auditors assigned to the other reviews listed above have been working on other non-Police projects.

Police Vehicle Maintenance VFM (Full Review) – Progress was delayed due to the involvement of the temporary Senior Auditor undertaking other review work. This VFM review will be completed by the 30<sup>th</sup> June 2014.

## Summary of Audit reviews

### Police Third Party Payments (20 days)

4. The five Directorates of the City of London Police make Third Party Payments. The CIPFA definition of a third party payment is: "a payment to an outside provider (or an internal delivery service unit of the authority defined as a trading operation) in return for the provision of a service". This is in contrast to the CIPFA definition for Supplies and Services which relates to: "the procurement of consumable items". The third party payments budgets and outturn for the current and two previous financial years are summarised below:

	2011/12			2012/13			2013/14	
	Annual Budget £'000	Year End Outturn £'000	Over Spend £'000	Annual Budget £'000	Year End Outturn £'000	Under Spend £'000	Annual Budget £'000	Outturn as at Nov 2013 £'000
Third party payments	1,708	1,821	-113	1,033	809	224	1,302	382

5. The purpose of this audit review was:-

- to ensure that the expenditure falls with the CIPFA definition
- to ensure that they comply with procurement policies
- evaluate if value for money is being achieved
- evaluate the procedures to ensure that budget and expenditure is monitored and controlled

6. The majority of Management Accountants, Managers and Officers understand the distinction between Third Party Payments and Supplies and Services. However, they would benefit from the CIPFA definition and instructions or guidance being communicated to them. The lack of full understanding of what construes a Third Party Payment is supported by the increase over the last three years of misallocated expenditure, from 2% of total expenditure in 2011-12 to 9% at present and in the previous year 2012-13. The Head of Finance has provided assurances that journal transfers to the correct budget codes will be carried out.
  
7. Satisfactory monitoring and control of budgets and expenditure is performed. Nevertheless, there is an absence of monthly budget reporting of Third Party Payments separately, including it under the heading of Other in the monthly Budget Exception and Budget Control reports. An awareness and understanding of this distinct type of expenditure is therefore not being demonstrated.
  
8. There is evidence from the sample taken by Audit that Third Party Payment expenditure complies with the City's procurement policy and that value for money is being achieved.

<b>Recommendations</b>	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
Number Made:	0	0	4	4
Number Accepted:	0	0	4	4

## Implementation of Audit Recommendations

9. Agreement has been obtained for all work undertaken up until 30<sup>th</sup> April 2014 and details are included within Table One below.

**Table One: Schedule of Implementation of Audit Recommendations 2013/14**

Audit Review	Recommendations				Agreed implementation dates
	Red	Amber	Green	Total	
City First Project	-	-	1	1	31 <sup>st</sup> Oct 14
Third Party Payments	-	-	4	4	30 <sup>th</sup> Sept 14
Property & Front Offices	-	-	2	2	Implemented
Procurement Processes	-	-	1	1	Implemented
Police Officers' Travel Expenses	-	-	2	2	Implemented
Recruitment CSA	-	-	1	1	Implemented
<b>Total Accepted</b>	-	-	11	11	

10. It has been confirmed that recommendations in respect of: Property and Front Offices consistent banking reconciliations at each police station and Bernard Morgan House; compliance with Police Travel Expenses recording requirements; and the consistent maintenance of Recruitment records are fully implemented. The City Police are now working with the City's Procurement Service (CLPS) in ensuring that quotes are obtained for all supplies and services in accordance with Financial Regulations. The recommendation in respect of the City First Project review will be implemented by October 2014, and the four recommendations in respect of Third Party Payments by 30<sup>th</sup> September 2014.

## Internal Audit Plan 2014/15

11. The five year Internal Audit Plan 2014/19 and the one year Operational Plan 2014/15 were approved by the City's Audit & Risk Management Committee in March 2014. Details of 2014/15 scheduled audit work for the City Police are included in Appendix 2 of this report. There are two full reviews of Police Overtime and Police Business Continuity and Disaster Recovery Arrangements. There are also four Mini-Assurance Reviews: HMIC Assurance Review; Informants Funds; Police Officer's Pensions; and Bank Accounts. In addition, three Spot Check Reviews: Cash Income; Property & Front Offices; and Seized Goods will be undertaken during the financial year.
12. Pen Pictures for the two Full Reviews and four Mini-Assurance Reviews are included below:

Police Overtime (Full Review) (20 days): This review will examine compliance with approved procedures. It will also consider any opportunities for

efficiencies, for example, changes to shift patterns to reduce the requirement for overtime.

Business Continuity Planning/Disaster Recovery (Full Review) (15 days):

The reviews key objective is to determine the assurance level of the system in dealing with a wide range of incidents. Both a comparative and benchmarking review will be performed; this will be an amalgam of standards tailored to the characteristics of the CoLP's objectives.

Mini-Assurance Reviews

HMIC Assurance Review (5 days): This review was requested by the Assistant Commissioner and forms part of the overall preparation of City Police benchmarking performance data for the Police Committee. Its purpose is to provide assurance over the reliability of the data submitted for benchmarking purposes.

Informants' Funds (10 days): This review will examine compliance with approved procedures and include sample testing of records in order to determine their accuracy.

Police Pensions (10 days): The purpose of this review is to test a sample of pensions' payments and calculations for compliance with the Police Pensions Scheme.

Police Bank Accounts (5 days): This review will examine the maintenance of bank accounts opened for prisoners and proceeds of crime.

## **Conclusion**

13. Whilst a number of recommendations have been made to date (eleven GREEN priority rated in total), no significant control weaknesses have been identified. The 2013/14 plan is expected to be fully completed by the 30<sup>th</sup> June 2014, with the exception of the Compensation Claims audit, with three full reviews in progress, two reviews at draft report stage, two spot check reviews underway, and one remaining spot check review to start.
14. The 2014/15 Operational Internal Audit Plan has been approved by the City's Audit & Risk Management Committee. All projects have been scheduled with an overall completion date of 31<sup>st</sup> March 2015.

## **Background Papers**

Appendix 1 Internal Audit Plan Schedule of Projects 2013/14

Appendix 2 Internal Audit Plan Schedule of Projects 2014/15

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