Director of Audit,
Risk and Assurance

Annual Report
2009/10

*Met Forward: the MPA mission statement for London’s police*
Annual Assurance

Introduction

This Annual Report contains my opinion as Director of Audit, Risk and Assurance for the Metropolitan Police Authority (MPA) on the effectiveness of the internal control environment within the Metropolitan Police Service (MPS) and the MPA. It also summarises the activities of the Directorate of Audit, Risk and Assurance (DARA) for the period April 2009 to March 2010.

I am required to give an opinion at least annually and this is based on an assessment of the systems of governance, including risk management and the adequacy of the internal control framework. The evaluation of the adequacy of control noted from our systems audits, advisory work and the results of our investigations carried out during the year informs that opinion. I also take account of relevant HMIC reports, Audit Commission reports and the work of internal review agencies within the MPS.

The financial year 2009/10 has been a time of significant change for the MPA, MPS and MPA Internal Audit. The MPA published its mission statement, Met Forward in April 2009 setting out three strategic outcomes; to fight crime and reduce criminality, increase confidence in policing and give better value for money. This was followed by a restructuring of the MPA and my appointment as the new head of audit. Membership of the MPS Management Board has changed significantly during the year with several key appointments including a new Deputy Commissioner and Assistant Commissioner Territorial Policing. A major change programme under the banner Service Improvement has also continued to be developed responding to the challenge of delivering effective frontline services within a reduced budget.

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There continues to be an increased emphasis on good governance both in the MPA and MPS. Risk management is not fully embedded and operating effectively throughout the organisation but a clear plan driven by senior management is in place to take the MPS to the next stage in its development. This year has also seen an improvement in the assurance score for internal control in the MPS, 2.61 from 2.8 in 2008/09. My overall opinion for 2009/10 is as follows.

The internal control environment has improved and there is a positive direction of travel with clearly defined plans in place to address areas identified for further improvement but overall the control environment is not yet fully effective

1 On a scale of 1 to 5 where a score of 2 reflects a system with adequate control and 3 to 5 reflects increasing degrees of the need to improve. Appendix 1 contains the definition of assurance scores.
Governance Framework

Police Authority Inspection

This year saw the first series of Police Authority Inspections conducted by Her Majesty’s Inspectorate of Constabulary (HMIC) and the Audit Commission. The MPA was one of the first authorities to be inspected and was assessed as ‘performing adequately’. In summarising the outcome of the review the joint team concluded ‘The Authority is performing adequately and has made significant improvements in its governance of the MPS in the past three years, it is well placed to improve further. The Authority is self aware. It recognises strengths and areas of improvement and it has strong political and official leadership to drive change. The Authority is strengthening systems, processes and governance. It has recently restructured the executive office to focus its activities to deliver priorities.’ The MPA SMT monitor the areas identified for improvement as part of its strategic quarterly reviews and performance monitoring framework.

MPA Corporate Governance Committee

The co-opted member for audit and risk management conducted a review of the effectiveness of the MPA Corporate Governance Committee reported in December 2009. The overall conclusion was that the Committee is dealing with the key areas expected of it and in compliance with its terms of reference and CIPFA Guidance. A number of suggestions for increasing effectiveness of the committee were made including; gaining a clearer picture or map of inherent risks across the organisation and assurance activity, receiving and reviewing briefings on key emerging strategic and financial risks and more concise reporting. Initiatives were taken to address these issues in the latter part of the year and further progress is planned for 2010/11.

MPS Corporate Governance Framework

The MPS has developed a corporate governance work programme managed and monitored by the MPS Governance Board. Progress is also regularly reported to the MPA Corporate Governance Committee. Developing resource management is a key part of the programme aiming to improve effective governance and reduce control failures within the MPS. Stage 1 has delivered an increased level of compliance with the corporate purchase to pay system, identified all key contracts and streamlined the corporate decision making processes. A framework to support the scheme of delegation is also being developed and rolled out across the MPS and the finance modernisation programme is about to enter stage 2 of its development.
Governance Framework

Risk Management Framework

The effectiveness of the framework for assessing and managing risk within the MPA and MPS continues to develop. Key improvements have taken place in the year including; increased oversight by the MPA Corporate Governance Committee, MPA Business Management Group and MPS Governance Board; continued development of the MPA and MPS corporate risk registers and the introduction of a risk maturity model in the MPS which during 2009/10 was applied to Specialist Operations, Specialist Crime Directorate and Directorate of Resources. There is also a greater transparency around the risk management process and a clear plan to support its improvement. The MPS initial assessment against a recognised risk maturity model places it at the upper end of level 2\(^2\) (with some pockets of the organisation such as SCD and SO operating at the higher level of 3). The evidence gathered as a result of our review and advisory work supports this assessment, which in summary shows that the MPS has established an effective framework for taking risk management forward but it is not yet embedded and operating consistently across the organisation.

Assurance Framework

The MPS has a significant number of internal inspection and review functions and although a number of these functions have a clearly defined role and operate to defined standards, there is a need to develop a corporate assurance framework. A review is currently underway led by the MPS which will assist in mapping the assurance functions. It aims to eliminate any duplication, develop and set standards and ensure appropriate management action is taken to address issues identified through internal review activity.

Local Control Environment

Our reviews of boroughs and specialist command units have shown some improvement, in particular in the control framework now being developed for crime property, but in general there remain issues with applying controls consistently at a

\(^2\) On a scale of 1 to 5 where level 1 is engaging risk management and level 5 risk management is driving the business.
Governance Framework

local level. Finance modernisation and Transforming HR will impact on the local control environment, however, the former is in the early stages of implementation and the latter will not now be introduced until later this year. Our B/OCU review activity in the coming year will evaluate the effectiveness of these developments in improving the internal control framework.

Procurement and Contract Compliance

Work continued during the year to strengthen the control environment around procurement, a key risk area for the MPA and MPS. Significant progress has been made in identifying and recording MPA contracts with the MPS central Procurement Services team noting that they have now captured 95% of current MPA contracts on the corporate database. The staff vacancy rate within Procurement Services has reduced from 40% to 15% and the monitoring of single tenders has improved. Further progress has also been made in implementing the MPA/MPS Procurement Strategy, including developing strategic procurement plans to identify and deliver savings. In compiling the database the MPS identified significant issues regarding contract compliance and monitoring. The MPA Monitoring Officer subsequently issued a report under Section 5 of the Local Government and Housing Act to the Full Authority in January 2010. The MPA Resources and Productivity Sub Committee has monitored progress on the steps being taken to improve contract compliance and at the year end good progress had been made.

Our review activity during the year has raised a number of issues around contract management. This included, in particular, the need to conduct post implementation reviews for major contracts and to ensure good value for money is being achieved. There also continues to be examples of ineffective planning which on occasion has limited the Authority’s ability to tender for goods and services competitively. During the latter part of the year steps were taken to strengthen the contract management framework. It will, however, take time for these processes to become fully embedded and this is an area that we will focus on in 2010/11.
Internal Control Framework

Annual Assurance Score

We finalised 29 system audit reviews during the year and 35 follow ups. Appendix 2 contains the opinion for each systems audit (leading to the assurance score), areas of effective control and areas for improvement. The follow up summary shows progress made since the original audit and highlights any further areas for improvement. Details of our systems advisory work and counter fraud activity are also included.

The overall assurance score for 2009/10 is 2.6, an improvement on last year’s score of 2.8 (and the highest since the assurance score was introduced in 2001/2). In particular, first time system audit reviews have improved from a score of 3.1 to 2.9 and follow up reviews from 2.5 to 2.4. This shows that although the internal control framework has not yet reached an adequate score of 2, improvements to the governance framework are now having a greater impact on the control environment.

Systems Reviews

The improved assurance score for this area of work is to be welcomed and in the majority of systems we reviewed an adequate control framework was in place. There remains, however, a lack of consistency in the application of controls which is impacting on the adequacy and effectiveness of the control framework. Key systems audits included:

- Environmental Policy and Procedures (assurance score 2)
- Corporate Data Warehousing (assurance score 2)
- SCD Business Support (assurance score 2.5)
- Management of Outsourced Financial Services (assurance score 2.5)
- Police Officer and Staff Pensions (assurance score 2.5)
- Capital Budget, Preparation, Approval and Monitoring (assurance score 3)
- Hounslow BOCU (assurance score 3)
- SO15 Counter Terrorism Command (assurance score 3)
- Vehicle Fleet Management (assurance score 3)
- Management of Outsourced Property Services (assurance score 4)
- Review of the Management of Anti-Social Behaviour Orders (assurance score 4)
Internal Control Framework

Follow Up Reviews

The annual assurance score for follow up audits reflects that for 43% of reviews we conducted a significant improvement was made since our original review. This included the high risk areas of Treasury Management, Police Officer and PCSO Recruitment and the Use of Covert Resources in DPS. There has been, however, a lack of progress in addressing the issues we previously raised on the adequacy of the security and vetting control framework. The planned amalgamation of the units responsible for vetting has not taken place and as a result the majority of our recommendations, including two categorised as high risk, have not been implemented. Key follow ups included:

- PCSO Recruitment (assurance score 2)
- Police Officer Recruitment (assurance score 2)
- Missing Persons Linked Indices System (assurance score 2)
- Treasury Management (assurance score 2)
- Kensington and Chelsea BOCU (assurance score 2.5)
- Strategic and Budgetary Planning and Performance (assurance score 2.5)
- Croydon BOCU (assurance score 3)
- SO17 Palace of Westminster (assurance score 3)
- Security Clearance and Vetting (assurance score 4)

Systems Development and Control Advice

Key areas of advice included:

- Contract Compliance
- Suppliers and Tenderers Risk Assessment Group
- Risk Assessment and Management
- Covert Control Environment
- Language Programme Board
- Corporate Charge Card System
- Property Services Contract Payment Process
- Risk and Control Awareness Training
- Developing Resource Management work strands
Internal Control Framework

Counter Fraud

Fraud Prevention
Working in liaison with the MPS our drive on fraud prevention continues. We have jointly responded to the Audit Commission Raising Fraud Awareness Report issued following the completion of the first series of fraud awareness workshops. The outcome of this report and our updated fraud risk assessment are being used to inform a joint fraud and corruption prevention strategy going forward. We also continued to develop our analytical analysis of key systems supporting our fraud prevention and investigation activity.

Investigation
A total of 114 investigations were conducted by the counter fraud team during the year (66 last year). The increase on last year is due to the activity generated by the National Fraud Initiative (NFI) an exercise conducted every two years that resulted in 57 cases for investigation. Injury benefit pensions and Companies House data was also reviewed for the first time as part of this exercise. Other key areas of investigation included:

- Examining the award of a number of contracts
- Over claiming fees, allowances and expenses
- Theft of funds and/or property
- Supporting MPS Directorate of Professional Standards in a number of areas including a six person conspiracy to defraud case involving a corporate charge card.

Implementing DARA Recommendations
Detailed analysis of the recommendations made and accepted for the last two calendar years is shown at Appendix 3. The MPS have implemented 436 recommendations for reports issued in the 2009 calendar year, 74% of those accepted by management (and a 10% rate of increase on last year). An additional 172 recommendations have also been implemented for those recommendations that were outstanding for 2008. There is now more effective oversight of the implementation of recommendations both by the MPA Corporate Governance Committee and the MPS Performance Board. However, ten high risk recommendations remain outstanding that have passed their original target date for implementation. This will be an area for additional focus for the MPA and MPS in 2010/11.
Internal Control Framework

Underlying Control Issues

DARA and the MPS Quality Assurance Team are developing the process for analysing the underlying control issues that lead to audit recommendations. Analysis conducted for those reviews completed in the second half of the year shows that 32% relate to control issues around supervision and review, 17% ineffective reconciliation and 14% guidance and training. Our analysis also shows that 30% of recommendations were made as a consequence of a control being absent and 70% refer to controls that were not operating effectively or not being consistently applied.

MPS Internal Review Activity

In reaching my overall opinion I have taken account of internal review activity conducted by the Human Resources Evaluation Team, Health and Safety Inspections and the DoI Quality Assurance Teams that was concluded in 2009/10.
DARA Performance

Independent Review

Police Authority Inspection
In conducting the Police Authority inspection the HMIC and the Audit Commission concluded the MPA has a highly effective audit function with an audit programme designed to provide assurance on the adequacy of the Authority’s and MPS internal control framework.

Audit Commission
The Audit Commission review of MPA Internal Audit was presented to Corporate Governance Committee on 15 September 2009. They concluded that MPA Internal Audit is an effective audit service that meets the required professional standards. The Audit Commission have continued to place reliance on the work of the Directorate in reviewing key financial systems in 2009/10.

Planning and Delivery

We completed 88% of the systems audit plan to report stage against a target of 90%. The table below shows that time has been spent broadly as planned. There is a slight variance in systems development time due to increased requests for assistance and less time was spent on B/OCUs than planned (one review was postponed as it was covered in the scope of our TPHQ review and another is now due for completion in 2010/11). Overall fewer days were available for audit work due to long term staff illness and carrying a vacant post for the period of the restructuring of the Directorate.

<table>
<thead>
<tr>
<th>Audit Activity</th>
<th>Planned Days</th>
<th>% of Total</th>
<th>Actual Days</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systems Audits</td>
<td>2,287</td>
<td>46%</td>
<td>2,170</td>
<td>45%</td>
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<tr>
<td>Investigations</td>
<td>1,766</td>
<td>35%</td>
<td>1,668</td>
<td>34%</td>
</tr>
<tr>
<td>System Advice</td>
<td>514</td>
<td>10%</td>
<td>560</td>
<td>14%</td>
</tr>
<tr>
<td>BOCUs</td>
<td>448</td>
<td>9%</td>
<td>53</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>5,015</td>
<td>100%</td>
<td>4,851</td>
<td>100%</td>
</tr>
</tbody>
</table>
DARA Performance

Productivity
We achieved 80% productivity over the year exceeding the planned target of 75% and our performance in the previous year.

Timeliness of Reporting
We issued 96% of our discussion draft reports within three weeks of completing the fieldwork and 84% of draft reports were within a week of discussion, both areas exceeding the 80% target. One area of improvement for us during 2010/11 will be to issue our final reports more promptly, on average we are taking two weeks against a target of one week from receipt of a response. We will also be working with the MPS to improve their response times, currently running at 11 weeks against a target of four weeks.

Acceptance and Implementation of DARA Recommendations
We continue to achieve a high acceptance of recommendations of 95% against a target of 90%. The level of implementation has increased to 74%.

Customer Feedback
We issue customer satisfaction questionnaires following each audit review. In 2009/10 we met our overall target of 80% satisfaction in all aspects of our work. Our most effective area of performance was judged to be in the conduct of reviews where 90% satisfaction was achieved, consultation and reporting achieved 80% overall.
DARA Performance

Positive comments on our work during the year included:

‘May I take this opportunity to thank you and your team, and Rob Davies, in particular, for the work that has gone into producing an informative and balanced report.’

‘Can I thank you for the way the audit was conducted and in particular how you put my staff at ease when dealing with them in what is always a challenging time.’

Less favourable comments included:

‘Fairness of findings – 18 items of the control assessment are corporate issues, but criticise the BOCU. The assurance rating system is not generous and will be misread by partners.’

‘This was a helpful audit that was professionally conducted and extremely thorough. It did take much longer than envisaged, but that was the only minor issue which distracted from the quality of the overall product. It could also be more useful to update management more frequently during the course of a long audit.’

We will be looking to increase consultation during the coming year and I have appointed leads in my Directorate for each of the business units in the MPS. This will help in progressing audits and the subsequent implementation of audit recommendations.

Equalities and Diversity

Auditors and investigators receive appropriate training in equality and diversity issues and their performance within the MPS is monitored. Our work is designed to provide as wide a range of coverage of MPS staff and systems as is possible and practicable. The MPA commitment in relation to equality and diversity is also considered in all audits and investigations.

External Liaison

External Review Agencies

We have continued our close working relationship with the Audit Commission, meeting monthly to exchange audit findings and co-ordinate our review activity. We
DARA Performance

also meet on a regular basis with HMIC to co-ordinate our work programmes and discuss any emerging issues.

Audit Groups
We influence the development of audit in the policing environment and in the wider audit world by attending regional and national groups. I now chair the National Police Audit Group. The annual conference for the National Group was attended by internal auditors and contractors representing two-thirds of the police authorities in England and Wales. We also attend the London Audit Group and a sub group set up to review particular issues around auditing procurement and major contracts.

Counter Fraud Groups
We also work with other public sector bodies in London to influence the development of counter fraud activity. We are represented on the steering group of the London Public Sector Counter Fraud Partnership, which brings together over 120 local authority, central government and NHS bodies to promote counter fraud activity and share good practice. The Head of Counter Fraud or our Fraud Prevention Manager chair the crime prevention working group of the Partnership. We are also a member of the joint public and private sector London Fraud Forum.

Our Fraud Prevention Manager represents the Directorate on a Chartered Institute of Public Finance pilot group examining the opportunities for benchmarking counter fraud activity across public sector bodies nationally.
Key Objectives for DARA in 2010/11

The Directorate of Audit, Risk and Assurance has been through a period of significant change in the last six months following my appointment. This has included developing a new strategic approach and staff structure, and a more dynamic plan and annual work programme. The coming year will be an important stage in our development. The MPA and MPS will continue to face significant challenges in responding to the need to maintain frontline services within a reduced budget. Our key objectives for the coming year, therefore, include:

- Meeting our commitments under Met Forward
- Working with the MPS to improve the internal control framework
- Seeking opportunities to increase value for money and productivity
- Driving forward risk management in the MPA and MPS
- Conducting effective reviews of high risk/cost areas
- Delivering a dynamic DARA plan
- Embedding the new strategic approach
- Maintaining professional standards in all areas of our work

In contributing to the change agenda we will also be looking to ensure defined benefits are realised in support of frontline policing. I look forward to the challenges and opportunities of the year ahead.

Julie Norgrove

MPA Director of Audit, Risk and Assurance