

APPENDIX 1

EXTRACTS FROM

INTERNAL AUDIT ANNUAL REPORT 1st APRIL 2000 TO 31st MARCH 2001

Introduction

1. This Annual Report summarises the activities of Internal Audit for the period from April 2000 to March 2001. It gives the Director of Internal Audit's opinion on the adequacy and effectiveness of control within the Metropolitan Police Service (MPS) and Metropolitan Police Authority (MPA).
2. It is the duty of the Director of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of internal control (including financial controls) within the MPS and the MPA. This is based on the adequacy of control noted from systems audits carried out during the year and other advice work on control systems. The results of investigation inquiries and the work of internal review agencies within the MPS also inform my opinion.

Background

3. Internal Audit transferred under the direct control of the MPA, through the line management of the Treasurer, on 3 July 2000. To ensure consistency in measuring the performance of Internal Audit this report covers the full financial year from April 1 2000 to March 31 2001.
4. Although there was a high¹ turnover of staff during the year numbers employed in Internal Audit have remained constant (31 staff were in post on 31 March 2000 and 32 staff on 31 March 2001). Vacancies have remained at or around 11 posts throughout the year, mainly at the basic auditor or forensic auditor level. Our five year contract with PricewaterhouseCoopers to provide specialised audit services (particularly accountants and computer auditors, as well as some forensic accounting) was extended a further year to cover this transition period under the MPA.²
5. We achieved coverage of 66% of the agreed programme of systems audit work for the year. Staff shortages and the learning curve for new staff contributed to the shortfall against the programme. More time than originally planned was spent on advice on developing systems and one systems auditor spent much of the year on an additional procurement review. A major

¹ Nine staff joined in the year and eight staff left, including three retirements.

² At the time of writing this report we are in the process of setting up framework agreements with a number of specialist audit service providers to replace the previous PwC contract.

review at the request of the Director of Resources in the last quarter of the year also had a significant impact, reducing the completion of the planned programme of work by a further 9% from that we could have achieved.

6. Audit work carried out was broadly in proportion to the intended split of time between systems audits (including visits to Borough Command Units), investigations and audit advice on new and developing systems. In addition to improvements in control, potential savings by implementing systems audit recommendations were identified of around £860,000.
7. The Forensic Audit Branch (FAB) within Internal Audit is the investigative arm of Internal Audit. FAB has had a significant impact on the MPS. Sixty-six new cases were dealt with during the year, ranging from concerns about major contracts through to allegations about an individual's overtime earnings. Seventeen cases arose as a result of 'Right Line' calls³. Assistance has also been provided to the Directorate of Professional Standards. As a result of FAB activity savings or losses stemmed during the year were approximately £187,000 and recoveries made were £237,361.

Assurance on Internal Control

8. I can offer little assurance on the adequacy of internal control in the MPS. Although there is an increasing awareness of the need for adequate controls, there is an issue around the lack of accountability and acceptance of responsibility in a number of areas of the MPS. Additionally, the pace of organisational change has had an impact on the quality and effectiveness of controls.
9. We have found basic weaknesses in financial controls in systems reviewed during the year. The change to borough based policing has also temporarily weakened local financial control. Where business activity has been outsourced in the last two years we have found that some client units have found it difficult to monitor and control the costs of the contractors. Reconciliation centrally of income received has been hampered by an inability in Finance to keep up to date. The receipt of income into one central account without clear source identification has compounded the difficulties. The monitoring of expenditure has also caused me concern.
10. We have identified a number of weaknesses and risks that have now been addressed by line management. But control remains weak in some systems that we have reviewed, including significant systems where our recommendations have been accepted but not yet fully implemented.

³ The Right Line is the internal whistle-blowing hotline for the MPS and calls are routed either to the Directorate of Professional Standards or Internal Audit's Forensic Audit Branch.

11. Several of our investigations during the year have yet again highlighted a lack of adequate management supervision and control, particularly in the management of large service contracts, with the risk of fraud, waste and abuse as a consequence.
 12. During the year we carried out two major reviews relating to the seven-year £53million transport repair and maintenance contract. As a result I issued a report outlining weaknesses and lessons to be learned in the way in which the contract had been awarded and a commercially confidential report to the MPA Treasurer and MPS Director of Resources on the financial position.
 13. In summary, while I am satisfied that efforts continue to be made to correct identified weaknesses, particularly within the Finance Directorate of the MPS, I can offer little assurance on the adequacy of control and the effectiveness of systems within the MPS.
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Output Measurement

48. We have recorded not only details of the number of Internal Audit recommendations made and accepted but also the numbers of recommendations which are of high, medium or low risk significance. I am pleased to note that line management accepted 100% of our high-risk recommendations last year. We have also recorded details of the implementation of accepted audit recommendations. The degree of implementation of, in particular, highest risk recommendations is a true measure of Internal Audit output success, as this demonstrates where we have been an effective agent of change for the better.
49. All recommendations accepted are intended to be subject to a follow-up audit, at approximately six months after the issue of the final agreed report for high risk audits, to determine the level of effective implementation. Although the level of implementation has improved from last year it is not yet good enough. We found that for the calendar year 2000 a third of high risk accepted recommendations had not been implemented at the time of writing this report in June 2001. Strong representations have been made to responsible line management in these instances and I expect to see a marked improvement. We will have to revisit some follow-up audits to ensure progress has been made.

RECOMMENDATIONS – MADE, ACCEPTED, IMPLEMENTED

Year on Year Comparison

Table 1

Recommendations	1998/99	1999/00	2000/01
Made	834	539	575
Accepted	806	517	545
Percentage Accepted	97	96	95

Source – Final Reports issued 2000/01

2000/01 By Significance of Recommendations

Table 2

Recommendations	High	Medium	Low
Made	118	398	59
Accepted	118	376	51
Percentage Accepted	100	94	86

Source – Final Reports issued 2000/01

Recommendations Implemented – Last two years

Table 3

Recommendations	Jan – Dec 1999			Jan – Dec 2000		
	High	Medium	Low	High	Medium	Low
Accepted	368	403	78	160	244	23
Implemented	206	232	54	107	160	20
Percentage Implemented	56	58	69	67	66	87