

## **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 high<sup>1</sup> 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.<sup>2</sup>
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 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.

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<sup>1</sup> Nine staff joined in the year and eight staff left, including three retirements.

<sup>2</sup> 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.

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' calls<sup>3</sup>. 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.
11. Several of our investigations during the year have yet again highlighted a lack of adequate management supervision and control, particularly in the

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<sup>3</sup> 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.

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.

#### **Summary of Key Internal Audit Achievements during the Year**

14. Several major systems reviews were carried out during the year and there were a number of successful investigations with significant impact on fraud and abuse by civil staff or contractors.

#### **Systems Audits**

15. The major systems audits during the year were reviews of:

##### ***Police Overtime***

16. The MPS spent approximately £90 million on police overtime in 2000/2001. Because of police concerns about overtime control additional work for this audit was requested by Commander Croll to examine closely the quality and integrity of overtime records and systems at BOCU level. We found a lack of control over the checking and processing of police overtime at several locations during the audit. There was a general lack of documentary evidence to back up overtime data in respect of authorisation, time actually worked and time off in lieu or on leave. We cannot give any assurance about the integrity of police overtime data that was processed during this period. Senior line management accepted all thirty-three of our recommendations.
17. In view of our concerns we issued an "Emerging Findings" note to all OCU commanders in February 2000 to warn BOCU Commanders of the risks particularly while OCUs were merging to form BOCUs. This was followed by a more detailed Audit Advice Note (number 7 in a series of advice notes to managers and police operational commanders within the MPS) issued in August 2000 setting out the controls necessary for effective local management of the system for authorising and paying police overtime.

### ***Police and Civil Support outside the UK***

18. We found that arrangements for evaluating and approving police and civil staff support to forces and organisations outside the UK and for recovering monies due to the MPS were not effective. There were discrepancies between the information held by the Personnel and Finance Directorates and as a result we estimated that £460,000 of income had not been reclaimed. The criteria for evaluating and approving requests for support are unclear and there are no laid down guidelines for agreeing and authorising terms and conditions of support arranged locally.
19. Personnel and Finance management accepted 33 of the 35 recommendations made (including all 11 high-risk recommendations).

### ***Information System Strategy***

20. This audit was conducted with specialist assistance from PricewaterhouseCoopers. This is one of the highest risk business systems and any shortcomings would have a profound effect on the operations of the MPS in the long term. We found that the processes for formulating strategy and ensuring it reflects MPS strategies and objectives required improvement. There was no formal process to measure and monitor progress or to report to top management on the delivery of the strategy.
21. The MPS Department of Information (DoI) has accepted all thirteen of our audit recommendations.

### ***Security of Computer Operating Systems***

22. We found that there are adequate systems for securing and controlling operating systems and that such systems are generally managed within a framework of documented procedures and controls. However, we also found significant weaknesses – a lack of effective monitoring of systems activity and access, audit trails and back up and business recovery procedures.
23. DoI senior management have accepted all eighteen audit recommendations.

### ***External and Internal Data Communications***

24. We found the security and control processes supporting data communications to be weak. There is a lack of definitive knowledge of the infrastructure and weaknesses in management of change and configuration processes. There is a high risk that security incidents in MPS networks would not be detected and there are insufficient preventative measures in place.
25. DoI senior management have accepted all twelve audit recommendations.

### ***Treasury Management***

26. This audit was conducted with specialist assistance from PricewaterhouseCoopers. Controls over the Treasury Management process are operating effectively. However we were concerned that the MPS was not getting best value on the current level of outstanding borrowings. Steps needed to be taken to review the loan portfolio to establish whether there was scope for reducing the level of interest payments.
27. MPS Finance Directorate management accepted all eleven audit recommendations.

### **Borough Operational Command Unit Assistance**

28. We have provided assistance during the year to several BOCUs, particularly over financial reconciliation of imprest accounts and audits of crime property stores. Thirty-six BOCUs or Specialist OCUs were visited during the year to confirm work on system audits or to advise on local procedures. Teams of investigators from our Forensic Audit Branch have linked with experienced systems auditors to help local BOCU police management establish whether they have had problems with mismanagement and/or thefts or frauds from crime property stores. We have helped local inspection teams to understand the essential controls necessary to run effective crime property stores. While our efforts have been welcomed it is disappointing that there has not been more rapid progress to implement the recommendations in our audit of crime property two years ago. The absence of an up to date crime property manual and the lack of independent checks on the work of staff who control and record crime and lost property are a particular concern.

### **Control Advice for Developing Systems**

29. Internal auditors have an expertise in control within systems. This expertise can be used positively to ensure that new and developing systems are not designed with built in flaws in their control framework. With the pace of change in the MPS and new systems within the MPA we have devoted more time to this work than previous years.
30. We produced guidance across the MPS as well as specific advice on developing systems and projects, both where requested and where we identified the need to offer advice. Staff within internal audit have been actively involved in giving control advice to key projects including:
- the **Best Value Programming Board** (where we also meet regularly with the Corporate Best Value Team to provide advice)
  - the **Combating Bureaucracy team** (where our helpful approach was recognised by Commander Cullen in an article in print).

- the **MPS corporate personnel system** (the PRISM project which includes an overtime system, a duties management systems and personnel to payroll interfaces. We advise the project board and have commented on the project management and system testing.)
- the **Language Services Project Board** (following our audit report on translators and interpreters we have provided advice to the project board. We anticipate savings in the region of £400,000 or more per annum if our recommendations are implemented.)

31. We have also continued to promote the Internal Audit Helpline, which is answered by a trained internal auditor during normal business hours.

### Investigations

32. Investigations have been necessary where either a discovered fraud has thrown up question marks about the system and employees/contractors or, where Internal Audit has found evidence of a potential fraud or abuse by civil staff or contractors which has required immediate investigation. A number of cases each year are referred to Internal Audit through the Right Line, the MPS internal telephone line for reporting wrongdoing.
33. The number of allegations referred to my investigative branch (Forensic Audit Branch) during the year showed a decrease from last year (66 against 77). However the complexity of the cases and the evidential standards required continue to be more demanding. Seventeen of the cases resulted from Right Line calls or referrals (sixteen in 1999/2000). The Forensic Audit Branch was first formed in July 1997. They have handled 273 allegations since formation. The table at confidential Annex 2 sets out the business area where these cases arose and the results and outcomes of enquiries during the year.
34. For the second year, as well as identifying actual recoveries of monies, we have also quantified losses that have been stemmed and savings made as a result of our work. Recoveries in year came to £237,361 (compared to £3,347 in 1999/2000). Savings and losses stemmed where we made a significant contribution to the case came to £187,000 (compared to £130,594 in 1999/2000).
35. The process of internal investigation is one of partnership within the MPS. Internal Audit provides one part of the process, that from the point of allegation about (generally) a member of the civil staff or a contractor to the point of determining whether there is a criminal or discipline case to answer. The ultimate outcome of the case lies in the hands of those responsible for that stage of the process (e.g. personnel or the police). However, my investigative branch monitors the results of our enquiries to ensure that appropriate action has been taken by those to whom we have passed our case papers.

36. A significant amount of the Forensic Audit Branch resource during the year has been deployed in forensic audit of the awarding and operation of contracts to undertake non-core activities in the MPS. Several of these have been referred to the MPA in the course of the year due to the financial impact of costs in excess of the contracted level, this has been particularly so in relation to vehicle maintenance and vehicle removal contracts. It is too early to anticipate the outcome and none of the results of this work feature in our reported results.

37. Our support to the Directorate of Professional Standards (formerly known as CIB) and others has continued for those cases where the forensic or analytical skills of internal audit forensic staff can be of assistance. A number of cases have benefited from our input and our support for one particular major case continues.

#### **Lessons Learned from Investigations**

38. During the course of each investigation we have continually kept the senior line management concerned informed of our emerging findings, particularly where they have indicated management failures or poor controls or practices. Where appropriate I have issued reports to senior management in confidence which have made recommendations for actions to improve the controls to prevent or minimise the risk of further problems arising in these areas. We have also given specific advice to individual line managers who have sought our help to improve their controls where frauds or irregularities have occurred.

#### **Follow-up Work**

39. It is disappointing to note that in a number of follow-up audits we have found that accepted high and medium risk recommendations have yet to be implemented - in some instances more than a year after the publication of our original audit report. This is a contributory consideration in my opinion about the adequacy and effectiveness of internal control in the MPS. The appropriate MPS Management Board member has had the relevant audits drawn to their attention.

40. Particular follow-up audits of concern were those of:

|                    |  |
|--------------------|--|
| Control of Debtors | 1 out of 4 high risk not implemented<br>12 out of 21 medium risk not implemented   |
| I. D. Suites       | 18 out of 36 high risk not implemented<br>10 out of 13 medium risk not implemented |
| Uniform Services   | 11 out of 21 high risk not implemented<br>1 out of 5 medium risk not implemented   |

Sponsorship                      1 out of 3 high risk not implemented  
    5 medium risk not implemented

**Internal Audit Planning**

41. We anticipated from our planning last year that we were likely to have a maximum of 5,072 direct auditor days available from a total audit need of 5,670 days. In reality, we managed 4,051 direct auditor days. The planned and actual splits of time were:

| <b>Internal Audit Planning</b> |                     |                   |                    |                   |
|--------------------------------|---------------------|-------------------|--------------------|-------------------|
| <b>Audit Activity</b>          | <b>Planned Days</b> | <b>% of Total</b> | <b>Actual Days</b> | <b>% of Total</b> |
| Systems Audits                 | 2928                | 58%               | 2,175              | 54%               |
| Investigations                 | 1660                | 33%               | 1,412              | 35%               |
| System Advice                  | 354                 | 7%                | 431                | 11%               |
| BOCUs                          | 130                 | 3%                | 32                 | 1%                |
| <b>Total</b>                   | <b>5072</b>         | <b>100%</b>       | <b>4,051</b>       | <b>100%</b>       |

**Internal Audit Performance**

**Customer Satisfaction**

42. At the end of each systems audit I send out a customer satisfaction questionnaire to the senior line management of the area recently audited. I test senior and local management reaction to work carried out under our pre-planned systems audit programme. Five key areas of audit work are tested: consultation with the auditee, conduct of the audit, the audit report, the value of recommendations we have made and, an overall assessment of the value of the audit.

43. As might be expected, there are occasions when MPS management are not quite as enthusiastic as one might hope about the internal audit product. To some extent this is reflected in 61% of auditees being concerned about the amount of consultation they had during the audit. It is a little disappointing as senior line management are contacted up to a year in advance and nearer the time are sent draft terms of reference for comment and discussion (although internal MPS reorganisations added to our communication problems here). However, 77% of auditees found overall that our work was worth at least eight out of ten for overall value. A healthy 85% found our recommendations worth at least four out of five for value.

44. We are already addressing the main area of concern and I will be producing a new communication strategy shortly that should help resolve the consultation issue.

### **Stakeholder Views of Internal Audit**

45. A number of stakeholders have recognised the value that Internal Audit has been able to give over the financial year. Superintendent Jauch referred to our systems audit of Premises Licensing in his memorandum to the Assistant Commissioner, noting *“The object of the attached audit report is to ensure that the financial and other arrangements involved in the licensing process are beyond reproach, and I should say at the outset that I have found their work to be both thorough and very useful.”*
46. Following one recent audit investigation by my Forensic Audit Branch, the head of OTSU, Trevor Sleet, commented *“The investigation was professionally handled with sensitivity and understanding. The final report was received in good time from the start of the investigation and the conclusions were clear and concise.”*

### **Use of Internal Audit Resources**

47. The budget for Internal Audit for 2000 – 2001 was set at £1,281,000. Overall the budget was overspent at the year-end by £35,000 (2.7%). The small overspend was mainly due to the increased need to use consultants and contractors to make up the shortfall of in-house internal audit staff.

### **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       |
| <b>Percentage Accepted</b> | <b>97</b> | <b>96</b> | <b>95</b> |

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        |
| <b>Percentage Accepted</b> | <b>100</b> | <b>94</b> | <b>86</b> |

Source – Final Reports issued 2000/01

### Recommendations Implemented – Last two years

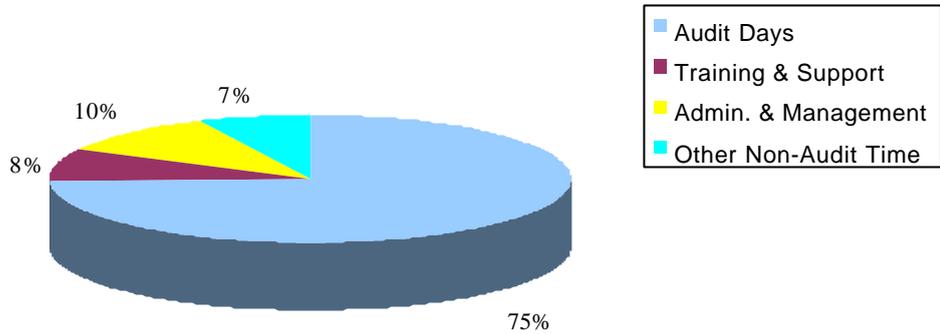
Table 3

| 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        |
| <b>Percentage Implemented</b> | <b>56</b>      | <b>58</b> | <b>69</b> | <b>67</b>      | <b>66</b> | <b>87</b> |

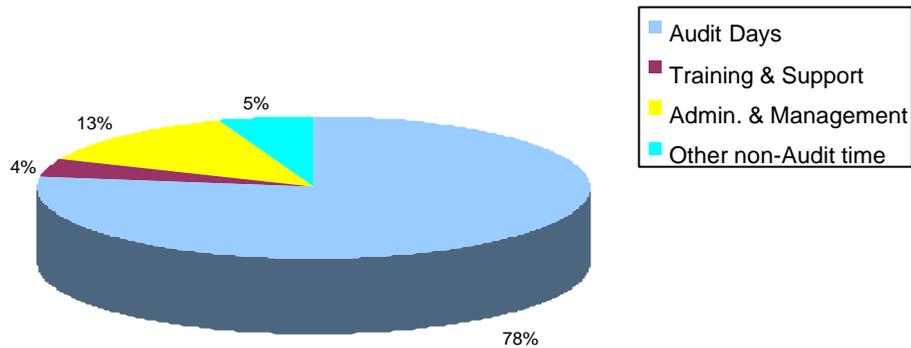
#### 50. Use of Internal Audit Staff Time

51. The charts below show that the amount of productive audit time compares favourably with peer government audit units of similar size to ourselves from the last survey carried out by HM Treasury.

### Analysis of Total Staff Days HM Treasury Benchmarking 1998/99



### Analysis of Total Staff Days MPS Internal Audit 2000/2001



#### Excellence in Internal Audit

52. Internal Audit operates under the processes laid down within the Excellence Model. Year on year there has been continual improvement in our internal procedures on taking forward in consultation with the staff issues raised by our Excellence Model project team. We have also developed our performance management framework in line with my published strategy.

## **Relations with other Review Agencies and Auditors**

### Internal MPS Review Bodies

53. We are in liaison with the Inspectorate and the Performance Review Unit, both through the Continuous Improvement Steering Group and the Quality Performance Review Group as well as directly. Our planned programmes of work are shared and we work hard to ensure that there is no unnecessary duplication of work.
54. We have day to day working relationships with the Directorate of Professional Standards, particularly on investigative matters, but also work together to provide on-going help to their integrity testing programme.
55. We have worked closely alongside the MPS Best Value Review team as well as a close liaison with the MPA Best Value officer, offering advice and assistance where appropriate.

### District Audit and their Subcontractors (KPMG)

56. This is our first year of being put under the spotlight by District Audit. Joint meetings have been held and the District Auditor addressed my staff at our annual conference. All final audit reports are copied automatically to the District Auditor. District Audit carried out an initial assessment of Internal Audit where they expressed satisfaction at our standards and the way we go about our business. In particular, on the quality of our work District Audit's lead Audit Manager has noted: ***"It is clear that internal audit work is of the type of quality we would be able to rely on and I intend to work with internal audit to implement a strategy that will allow us to move to a managed audit approach over a period of time."*** We will shortly be subject to a rigorous review of our work by District Audit to inform their view about our effectiveness to the MPA and the Treasurer. I welcome this first opportunity for MPA Internal Audit to be judged against the standards expected in the local authority arena.
57. We have also continued our open working relationship with KPMG that started when they were previously supporting the National Audit Office.

### Other External Review Agencies

58. We continued our liaison with the Audit Commission on fraud related matters. As part of the National Fraud Initiative for the first time we have co-ordinated the review of relevant MPS data and my investigative branch is looking into anomalies thrown up by the exercise.

59. We continued to build relationships with police authority internal auditors in England and Wales. Following the one-day conference we organised two years ago a group of all police authority internal auditors has been set up under the chair of the Chief Internal Auditor at Thames Valley Police. This group uses informal exchanges by e-mail links in addition to six-monthly meetings to exchange information and identify best practice in auditing police authorities.

60. I have developed an effective working relationship with the financial adviser to HMIC but otherwise we rely on the well-established links through the Deputy Commissioner's Command.

## **Conclusions**

### **The Performance of Internal Audit in 2000 - 2001**

61. The first year under the Metropolitan Police Authority has been very much a learning experience. My staff and I have had to develop a new relationship with senior MPS management and with our new MPA management and Authority members. Internal Audit staff are the only civil staff to transfer to the MPA without remaining under the control of the Commissioner. The change in our reporting relationship and status has raised the profile of Internal Audit but with it has come a greater scrutiny of the quality and value of Internal Audit's work.

62. Generally Internal Audit has had a good year. Despite the high turnover of staff, continued staff shortages and a number of distractions from our intended programme we achieved much during the year. Our strengths have been the quality and value of our output and the significant outcomes from our work. Our areas to concentrate on for future improvement are completing more of the planned programme and reducing time over-runs on more complex audits. These are being tackled – partly through a review of recruitment and retention issues for audit staff and partly through the recent restructuring of the Directorate and development of a performance management system.

### **Opinion on Control in the MPS**

63. My opinion on control has had to take into account the weakening effect of rapid change on the adequacy of control in key areas of the MPS.

64. In what has been a year of change I would like to take this opportunity to pay tribute to all my staff for their loyalty and hard work in at times trying circumstances. We face a year ahead of greater scrutiny of our work and performance as well as the challenge of providing effective support to the Treasurer and the MPA, the Director of Resources and the Commissioner for the MPS and at the same time the external auditors to the MPA.

65. Internal Audit staff can look forward with confidence to the challenges ahead and the continued increase in awareness of the value of our role that has come about through the creation of the Police Authority.

**PETER TICKNER**