

audit 2001/2002

Corporate Governance
Report
Metropolitan Police
Authority

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ACTION PLAN



DISTRICT AUDIT

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Introduction

The Audit Commission's Code of Audit Practice requires us to review and, where appropriate, report on the Authority's corporate governance arrangements. It is the responsibility of the Authority to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the Authority's corporate governance arrangements, as they relate to:

- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption;
- the legality of transactions that might have significant financial consequences; and
- the financial standing of the Authority.

As part of our 2001/2002 audit, we carried out a high level review of the Authority's overall corporate governance arrangements, as well as work on a number of other specific areas in accordance with our risk based planning assessment. We identified the following risk areas for review in 2001/2002, in addition to our review of overall arrangements:

EXHIBIT 1

The individual risk areas identified for review in 2001/2002

Main element	Aspects considered
Systems of internal financial control	Follow up of our 2000/2001 review of internal audit
Standards of financial conduct and the prevention and detection of fraud and corruption	Review of implementation and operation of the ethical framework and standards committee
Legality	Review of compliance with key legislation, including the Data Protection Act 1998 and the Race Relations (Amendment) Act 2000

This report summarises the findings of our reviews. Where relevant, recommendations for action have been made and these are detailed in the attached action plan. This report does not contain our findings in respect of financial standing, which we will report in our Annual Audit Letter later in the year.

Audit approach

Our audit approach comprised:

- discussions with key members of staff;
- reviews of committee minutes and other documentation; and
- compliance testing on key expected controls.

Systems of internal financial control

It is the responsibility of the Authority to develop and implement systems of internal control, including systems of internal financial control, and to put in place proper arrangements to monitor their adequacy and effectiveness in practice, covering:

- the overall control environment, including internal audit;
- the identification, evaluation and management of operational and financial risks;
- budgetary control and monitoring arrangements; and
- Documentation of control procedures.

Internal audit forms a key part of the corporate governance arrangements put in place by the Authority to ensure adequate internal control. During our first year of audit of the Authority in 2000/2001, we undertook a substantial review of internal audit against its own professional standards, which are based on those set out in CIPFA's Code of Practice. The Code provides clarification of the internal audit role and responsibilities. We agreed a number of recommendations for improvement with the Authority.

For 2001/2002, we reviewed the progress on the implementation of these recommendations and the progress made in the development of internal audit's own systems of quality control and monitoring. We held discussions with key internal audit staff, reviewed recent internal audit reports and reviewed in detail the files for five audits completed during the audit year 2001/2002.

Follow up of review of internal audit 2000/2001

As was the case last year, we are again pleased with the overall quality of internal audit and find that, subject to our recommendations for improvement, internal audit have achieved the required professional standards. The key opportunities for improvement we have identified concern the resources used in undertaking audit work and the definitions used in reporting progress on work.

Quality and peer reviews

We welcome the introduction of a formal framework for quality and peer review of files and the completion of post audit evaluations for each audit. At the date of review, two pilot quality and peer reviews had been completed. The pilot process itself had also been evaluated by internal audit, taking into account feedback from the subjects of the pilot. Internal Audit has drawn up a programme of peer reviews for the remainder of the year. This aims to ensure that each team leader peer reviews another audit and is in turn peer reviewed themselves. We reviewed the content and structure of the peer review framework and found it contained many of the elements we would expect to see in such a programme. It is important that internal audit maintains the momentum in this area and ensures that all programmed peer reviews are undertaken in the planned timescale.

Risk alignment with the Authority

We commend the steps taken by internal audit to more closely align its risk assessments with those of the Authority and the sharing of information and risks from the different reviews and assessments undertaken across the organisation. Internal audit's presence on risk management groups assists in ensuring risks are disseminated and discussed across all aspects of the organisation. The Authority has still not yet compiled an organisation wide risk

register, which would further facilitate the identification and dissemination of risks across the organisation. Action should be taken towards compiling such a register at the Authority.

Internal audit have now revised their strategy to take account of the Authority's corporate objectives. This strategy will be presented to the Audit Panel for approval in December.

Benchmarking

Previously, internal audit benchmarked themselves only against other central government departments. We commend the action now being taken by internal audit to benchmark its performance against other police authorities and in encouraging greater commitment from these authorities in the benchmarking process. This process is currently in its early stages and as yet, there is little substantive output or feedback from the benchmarking process. Criteria benchmarked is currently output focused, e.g. number of recommendations made, number of recommendations accepted, number of recommendations implemented, etc., and little benchmarking is currently undertaken in respect of "input focused" areas, such as length of time to undertake audit, length of time between completion of audit and issuing of report, number of audit days required to undertake audit, cost of audit, etc. Such benchmarking would enable internal audit to compare its performance and efficiency against other police authorities and could provide useful indicators of good or bad practice. Internal audit inform us they intend to increase the level of input focused benchmarking across the benchmarking group, as well as reduce the differences in definitions used by authorities to ensure benchmarked figures are compiled on a comparable basis. We will follow up internal audit's progress in these areas in due course.

Internal audit should also ensure that the results of the benchmarking data are proactively used to inform and improve future working practices and ensure maximum benefit is gained from being a member of the benchmarking group.

Opportunities for improvement

In the main, we are pleased with the steps internal audit has undertaken since our last review in the implementation of our recommendations and the move towards continuous improvement of the service they provide. There remain, however, areas where further improvements can be made, although we accept that some of the recommendations require longer periods of time to lead to identifiable improvement.

We note that although the average audit time has reduced, the amount of time spent by auditors undertaking some audits is still high compared to our experiences elsewhere. Additionally, the amount of elapsed time between the commencement of an audit and the issuing of a final report is also high compared to our experiences elsewhere, with durations over a year and in some cases, over two years between the start and end of the audit. We recognise that there are often valid operational reasons for these delays, such as postponement due to revised risk assessments or unforeseen high risk audits arising in the year. In addition, we recognise that the time taken to close an audit is often increased due to delays in responses from auditees. The directorate, however, should continue to work at reducing the time between the start and end of audits and the number of days spent in undertaking the audits, as well as improving the timeliness of its reporting after the completion of the audit field work.

We welcome the increased monitoring role undertaken by internal audit in analysing audit overspends and the emphasis that team leaders should identify potential overspends before, rather than after the event. Internal audit should continue to improve the robustness of the

monitoring and control of its inputs to ensure audits are undertaken with maximum efficiency and that overspends are caused by genuine reasons.

Although some, but not all follow up work had been undertaken by internal audit since our last review, a programme has now been drawn up for 2002/2003 which aims to ensure all 2000/2001 and 2001/2002 audits have been followed up by the end of the 2002/2003 audit year. Internal audit should ensure this timetable is adhered to within the planned timescale.

There remain opportunities for improvement within the working paper files. We note the improvement in cross referencing and robust audit trails within the high level permanent files. The supporting working paper files, however, continue to be largely unreferenced and difficult to follow, with a lack of documentation of internal audit thought process and unclear trails back to the permanent audit files. We recognise that there will be a time delay before the impact of improved referencing is noted across working paper files but encourage internal audit to continue to improve its referencing of evidence and supporting documentation across all files relevant to each audit.

Internal audit annual report

Annually, internal audit report their performance for the year to the Audit Panel in the form of their annual report. This contains details of all reports finalised in the year and discusses the extent of their coverage against the initial audit plan.

In their 2001/2002 annual report, internal audit stated that they had "achieved coverage of 67% of planned systems audit work". This figure is calculated on a simple percentage basis, i.e. number of audits 'covered' divided by total number of audits in the plan. The only audits excluded from the numerator are those where no work has been commenced. It is arguably implicit in the statement, "67% of audits have been covered", that "covered" means undertaken to completion. The numerator, and thus the "67% coverage" figure includes audits for which reports have not been drafted or finalised, as well as audits where the field work has not yet been completed. It may be fairer to break down this percentage further to identify those audits which have been completed and those which are still in progress.

Due to the length of time between the commencement of audits and the agreement of finalised reports, the majority of audits are not completed in the year they are planned. Internal audit's reporting of performance could be further enhanced by updating the percentage of completed audits for previous years as and when reports are finalised in the current year of reporting.

Internal audit are due to hold discussions with the Audit Panel regarding the level and extent of reporting information the Panel wishes to have available on internal audit's performance. Internal audit will then tailor future annual reports accordingly. Suggestions to enhance the reporting framework include the following:

- analyses of the loss of planned coverage due to additional unforeseen work, as opposed to the loss of coverage due to lost time and overruns;
- analysis of project work undertaken (both planned and unplanned);
- analyses of performance against budget for other work, such as Managed Audit and the National Fraud Initiative and analysis of the use of contingency budget;
- analysis, clarification and breakdown of management, administration and "other non audit" time (a total of 19% of internal audit's days in 2001/2002).

Standards of financial conduct, and the prevention and detection of fraud and corruption

It is the responsibility of the Authority to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. Our role is to consider whether the Authority has put in place arrangements to meet these responsibilities. For 2001/2002, we reviewed the overall arrangements in place across the Authority for the prevention of fraud and corruption and for compliance with the requirements of the Ethical Framework.

Prevention and detection of fraud and corruption

Overall arrangements

A large part of the Authority's overall arrangements for prevention lies in the role of Internal Audit. Internal Audit has now undertaken an increasingly wider role in the review of systems and processes in the Service. A Memorandum of Understanding is in place between the Service's Directorate of Professional Standards (DPS) and Internal Audit. This sets out the role of Internal Audit in respect of potential or actual financial irregularities in the Service and assists in clarifying and publicising the role that Internal Audit has to play in detecting fraud involving serving police officers.

Internal Audit have undertaken a wide range of fraud investigations through the year. These have covered most areas of the Service, including, Personnel, Directorates of Information, Resources, Transport, Catering and Procurement, and Specialist Operations.

Fraud and Corruption Strategy

The Authority has yet to produce a finalised Fraud and Corruption Strategy. The Audit Panel has agreed a policy for fraud and corruption together with an outline policy statement. The Authority intends to draft and implement an overall fraud strategy by April 2003 after consulting with the Service. It is important that the Authority adheres to the planned timescale to ensure a comprehensive Fraud and Corruption strategy is implemented as soon as practicable.

Compliance with the Public Interest Disclosure Act

Our audit work in the previous year highlighted weaknesses in the Service's arrangement for compliance with Public Interest Disclosure Act in that there were no arrangements for employees to report to an external body. Since then the existing staff reporting hotline called "Right Line" has been strengthened which enables callers to report complaints to the Police Complaints Authority.

The Ethical Framework

The Authority has established a Standards Committee in accordance with the Local Government Act 2000. Members have signed up to the Code of Conduct and, where necessary, made declarations in the Register of Personal Interests.

The Authority has in place a Register of Interests and a Register of Gifts and Hospitality to record offers of gifts and hospitality. We noted that only one Member had declared an acceptance of some hospitality in the Register of Gifts and Hospitality. This is low compared to our experiences elsewhere and the Authority should satisfy itself that all offers, including those that have been declined, are disclosed by all Members.

By signing up to the Code of Conduct, Members have taken on the responsibility to inform the Monitoring Officer of relevant interests and gifts and hospitalities. Best practice recommends that Members are positively reminded of the need to make such disclosures on a regular basis, including offers that are declined. Additionally, Members should make a positive disclosure that they have no interests to declare if this is in fact the case. The Register should be regularly reviewed by a senior officer, including review of omission and evidenced as such.

Legality of transactions

The Monitoring Officer

It is the responsibility of the Authority to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.

The Authority has in place arrangements for ensuring the legality of transactions which might have significant financial consequences.

Since our previous audit, greater clarity between the roles of the Authority's Monitoring Officer and the Service's Legal Services has been established.

In carrying out her statutory functions, it is important that the Monitoring Officer can hold to account the Service where there is actual or perceived illegality. Therefore it is important that she has access to legal advice independent of the Service in order to avoid any conflict of interests arising and to prevent the perception of a lack of impartiality in the advice provided.

This could be established by a formal arrangement with external solicitors or by the appointment of a legally qualified officer who is independent of the MPS Legal Services.

Consideration of legal issues and implications

Minutes of Committee meetings do not evidence whether legal implications have been considered by the Committee members in making decisions. If there are in fact no legal implications, the Authority should minute that they have considered the possibilities to demonstrate that a full consideration of all the issues has taken place before decisions are made.

Race Relations (Amendments) Act 2000

The Authority's arrangements for the Act

The Race Relations (Amendments) Act 2000 and the Home Secretary's Orders under that Act required public authorities, including police authorities to set out their arrangements for meeting the general and specific duties of the Act in the form of a Race Equality Scheme. In compliance with the Act and the Home Secretary's Orders, the Authority has in place arrangements which are set out in its Race Equality Scheme.

The Service's arrangements for the Act

The Act requires that, as “employer” of Service staff, the Authority needs to monitor and scrutinise the arrangements that the Service’s arrangements to ensure they are adequate in meeting its duties and complying with the Act.

The Service has published their own Race Equality Scheme. There has been extensive co-ordination and liaison between the working groups of the Authority and the Service in order to ensure uniformity and consistency in their respective approach to Race Relations.

The Authority has in place an Equal Opportunities and Diversity Board to facilitate the monitoring function. The Board is still in its early stages and comprises of six Authority members. It is intended that it will eventually include staff and representatives from the Service, partner organisations and the wider community. The Board’s terms of reference are concerned with implementation, monitoring and review of the Race Equality Scheme. In carrying out this function the Board will request papers, reports and attendance of senior Authority and Service officers at meetings.

We will continue to monitor the progress in this area as part of our ongoing risk assessment process.

The Authority’s role is new when compared to the Service’s longstanding presence. This was highlighted by the Authority receiving a lower level of response from Community organisations in the consultation stage of the Race Equality Scheme, than that received by the Service. It is important that the Authority continues to raise its profile as a body which can hold the Service accountable within the wider community.

Data Protection Act 1998

It is a requirement of the Data Protection Act 1998 that bodies involved in the control and processing of data notify the Information Commissioner of the purposes for which they hold and process data. The Information Commissioner then provides the notifying body with a unique registration. At the time of our audit, although the Service was registered with the Information Commissioner, the Authority was not registered. The Authority has now nominated Alan Johnson, head of Human Resources as the Data Protection Officer. On the 9th of September 2002 a registration was issued to the Authority by the Information Commissioner and this will be valid up till 15th August 2003.

Internal Audit intend to undertake a detailed audit of the arrangements for and compliance with the Data Protection Act in the Authority and in the Service. We will take account of their findings to inform our own risk assessment in this area.

The way forward

Detailed recommendations for improvement are contained in the attached action plan.

Acknowledgement

We would like to take this opportunity to thank your officers for their friendly and helpful co-operation and assistance in the completion of these audits.

Status of our reports to the Authority

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.

DA Head A

DA Head B

DA Head C

DA Head D