

Warwickshire Police Authority – 23 April 2008

Report of the Audit Panel

Summary

This report provides an update for Members on the progress of the Audit Panel following their meetings on the 5th March and the 16th April 2008.

Recommendation

That the Police Authority approve:-

- a risk based approach being adopted in principle in order to comply with the Cipfa Code of Practice;
- work being carried out to develop a risk based audit plan; and
- the number of audit days for 2008/2009 being increased to 108 and note the budgetary impact.

1. Annual Audit Letter 2006/07

At our meeting on the 5th March, we had a detailed and vigorous discussion with Dave Rigg from the Audit Commission on a range of issues in the Annual Audit Letter for 2006/07. We made it very clear that the Authority was unhappy with the PURE scores and emphasised to Mr Rigg that significant work had been undertaken by both officers and members resulting in more rigorous procedures being in place to achieve a higher score in 2007/08. The Panel proposed to closely monitor the audit process to ensure that the Authority and the Force meet all the required deadlines for 2007/08.

2. Contract Standing Orders

We have considered a report which details the progress which has been made with the training programme in relation to Contract Standing Orders (CSOs) and the level of exemptions made in relation to CSOs in 2007/2008.

As part of the implementation of CSOs, the Police Authority required that the Contracts & Purchasing Manager organise training for all Police Officers and Staff. The training also needed to be made available to departmental, cost centre, finance managers, finance assistants, requisitioning and purchase order authorising staff, specialist and specifying officers and staff.

The plan also required that the Contracts & Purchasing Manager together with the Police Authority's Legal Adviser would prepare material and present to officers and staff during the last quarter of 2006 and first quarter of 2007.

Following the initial delivery of 7 training events to 84 officers and staff, the Contracts & Purchasing Manager and Legal Adviser continued to organise training events such that

120 officers and staff have received training at 23 events between 1st March 2007 and 7th February 2008.

We noted that a further 6 sessions have been planned between March and May 2008 which will be used to update officers and staff of the changes to CSOs version 2 approved by the Police Authority on 31st October 2007 and also to train the remaining 96 officers and staff that have been identified as requiring training and who have not received training to date. We were however concerned to note that a significant number of officers and staff had not attended training sessions and we have asked to be kept up-to-date with progress in this area.

3. Audit Plan 2008/09

The requirement for an internal audit function is detailed in the Accounts and Audit Regulations 2003 (as amended), which require that the Authority must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Guidance on the regulations indicates that proper internal control practices are those contained in various Cipfa publications but particularly the Code Of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Regulations therefore effectively make compliance with the Cipfa Code mandatory.

The regulations also lay down far-reaching requirements regarding systems of internal control. They require the Authority to:

- Have “a sound system of internal control which includes arrangements for the management of risk”;
- “Conduct a review at least once a year of the effectiveness of its system of internal control”; and
- Include a Statement on Internal Control (SIC) with its statement of accounts (now the Annual Governance Statement)

In particular, the 2003 regulations changed the focus of internal audit to internal control rather than systems of internal financial control. This is a significant and wide-ranging difference to the historical focus on financial systems because it includes virtually every management control system, covering every risk in corporate and departmental risk registers. These requirements brought local government practices into line with the private sector and other parts of the public sector.

The Cipfa Code was updated during 2006/7 to reflect developing practice in internal audit, risk management and corporate governance. Compliance with the Cipfa Code of Practice is a pre-requisite for obtaining a PURE score of 2 or above for internal control

In order for the Police Authority to comply with the CIPFA Code of Practice and to improve its PURE score for internal control, there needs to be a significant shift in emphasis in the audit plan from examining financial systems to looking at how the control environment addresses risks and objectives.

Our officers have informed us that this would involve a much more structured process for developing the audit plan, and would require a thorough analysis of the risks facing the Authority and the audit resources needed to address those risks. It is certain that there would also need to be a significant increase in audit resources. This would entail

a higher initial investment of audit time in the first year, in order to make an assessment of the risk management process. A risk based auditing plan would then need to be developed for subsequent years.

Research has been carried out into the scale and scope of audit plans for the seven other Police Authorities in the same Home Office's 'Most Similar Forces' grouping.

To bring the Authority's audit days up to the group average of 1.4 audit days per £1m budget would require an additional 18 days, bringing the annual total to 108 days. This would mean an increase of approximately £6,500 in audit costs, bringing the total cost to £37,000 for 2008/2009. This would also enable work to be carried out to develop a risk based audit plan for subsequent years.

We are aware that actual requirements will not be clear until a risk based plan has been developed, but it is likely that between 150 and 180 days would be necessary to provide an effective risk based audit service. Since no risk based audits have been carried out in the past there is a "catch up exercise" needed and the number of days needed in subsequent years should be less.

At present, audit work is targeted almost completely on financial risks, with rare exceptions for special investigations. This approach does not include important areas of non-financial risk. The plans from other authorities in the group include:

- health & safety;
- premises management;
- asset management,
- management of utility contracts;
- property management;
- transport fleet management,
- seized assets & property;
- partnerships;
- corporate governance;
- whistle blowing arrangements;
- overseas travel; and
- communications.

We therefore recommend to the Police Authority that:

- a risk based approach be adopted in principle in order to comply with the Cipfa Code of Practice;
- work be carried out to develop a risk based audit plan; and
- the number of audit days for 2008/2009 be increased to 108 and the budgetary impact be noted.

4. Finance Function Development Project Board

The Project Board has recently been formed to manage the implementation of the Finance Function Development Action Plan. The Action Plan had been formulated following concerns previously raised by members of the Project Board in addition to those raised by the Police Authority, the Chief Constable and the staff within the Finance Department.

The Action Plan addresses the following key areas

- People and Organisation
- Financial Planning, Monitoring, Control and Reporting

- Contracts and Procurement
- Accounts Payable
- Responsiveness to and implementations of Audit Recommendations and PURE ratings
- Risk management and Insurance
- Key Performance Indicators

The principal objective of the plan is to ensure that the Finance Function significantly increases its standard of work and communication such that it becomes an effective and efficient function that:

- Contributes to the strategic direction of the Force
- Maximises relevant ratings from external monitoring such as PURE and Audit Commission Management Letters.
- Publishes, meets and celebrates internally agreed Key Performance Indicators (KPI's)
- Is valued by the Force and the Police Authority
- Leads the staff within the department to be fully motivated and feeling valued

The Project Plan therefore will cover the recognition of, responsiveness to and implementation of action in respect of, KLOEs and PURE

In terms of the governance arrangements, the Project Board and the Project Plan fall under the auspices of the Resources Panel. Therefore it is appropriate that we deliver the role of scrutiny by considering progress reports from the Resources Panel.

JOHN VEREKER
Chair of Panel