

Statement of Accounts 2004 – 05
Statement on System of Internal Control.

1. Introduction

1.1 The Authority at its Annual Meeting on 01 June 2005 approved changes to the terms of reference of its committees. For the Audit and Performance Committee, the changes included giving the Committee responsibility for approving the Authority's Annual Statement on Internal Control and the Authority's Annual Statement of Accounts.

1.2 The Accounts and Audit Regulations 2003 require that in respect of the year to 31 March 2005, the Financial Statements must be approved no later than 31 July 2005. This special meeting of the Committee has been convened for the sole purpose of approving the Statement of Accounts and the Statement on Internal Control. The Audit Commission has set the date of 22 August as the date on which the audit will commence.

1.4 The Accounts and Audit Regulations 2003 make requirements not just in relation to the Accounts themselves, but also in relation to the systems of internal control, and the review and reporting of those systems. The regulations require inclusion within the Financial Statements of a separate Statement on Systems of Internal Control, focussing not simply on the *financial* controls, but on *all* of the controls over the whole of the Authority's business and services. It is this aspect of the regulations, which is addressed in this report.

2. CIPFA Guidance

2.1 CIPFA has developed a paper giving guidance on the processes needed for the establishment, maintenance and review of a system of internal control and risk management in local authorities and in establishing proper practices for the form and content of a Statement on Internal Control (SIC).

2.2 Sections 1 – 3 of the CIPFA paper provide guidance, but Section 4 advises on the "Proper Practices" and in consequence, compliance with those practices is mandatory for all local authorities.

2.3 Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 01 April 2003:

- "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

- “The relevant body shall conduct a review at least once a year of the effectiveness of its systems of internal control and shall include a statement on internal control, prepared in accordance with “proper practices”, with (a) any statement of accounts it is obliged to publish in accordance with regulation 11, or (b) any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish in accordance with regulation 12.”

2.4 These requirements build on the 1999 Turnbull Report, which stated

- “A company’s objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which a company is exposed.”

2.5 The CIPFA guidance paper has clarified what the regulations mean by a “*sound system of internal control*.” It has provided a framework within which the elected members of the authority can maintain such a system and conduct an annual review of its effectiveness to provide sufficient, relevant and reliable assurance to enable them to authorise the signing of a SIC to be published *with* the financial statements.

2.6 In response to these requirements, the attached Statement on System of Internal Control has been approved by the Clerk and Chief Executive, the Treasurer and the Chief Constable, signifying compliance and assurance by those charged with maintaining appropriate levels of internal control and governance at the highest levels within the organisation. Subject to the approval of the SIC by the Committee, it will also be signed by the Chairman of the Authority.

3. Report of Internal Auditor

3.1 Attached to this covering report is a report by the Authority’s Internal Auditor, which has been prepared in accordance with the guidance and the “Proper Practices” identified in the CIPFA report. The report is an independent and objective assessment of the authority’s systems of internal control, cross referenced to the evidence on which the report is based. The report should provide members with the level of *independent* assurance as to the existence and operation of internal controls such as to enable the Committee to approve the Statement and to authorise the Chairman of the Authority to sign the Statement on System of Internal Control on behalf of the Authority.

4. Recommendation

- 4.1 Members are asked to consider the Internal Auditor's report reviewing the Authority's systems of Internal Control, and the Statement thereon.
- 4.2 Members are asked to note those areas where improvements in procedures are required to be made during 2005 – 06.
- 4.3 Subject to Members' satisfaction with the report of the Internal Auditor and his response to any questions raised, Members are asked:
- (i) to approve the Statement attached as the Authority's Statement on System of Internal Control in respect of the year ending on 31 March 2005
 - (ii) to authorise the signing of the Statement by the Chairman of the Authority so that it might be presented for audit with the Authority's Statement of Accounts on 22 August 2005.

Clive Alcock
Clerk and Chief Executive

Douglas Thomas
Treasurer

Michael Baxter
Chief Constable

Statement of Internal Control for Cumbria Police Authority 2004-05

1. The Scope of responsibilities

The primary responsibility of the Police Authority, as defined in the Police Act 1996 is to secure an efficient and effective police service in Cumbria. In so doing, the Authority must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Police Authority also has a duty to make arrangements to secure continuous improvement in the way its functions are exercised.

In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

2. The purpose of the Internal Control Systems

The systems of internal control are designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of internal control are based on ongoing processes designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The systems of internal control are reviewed in order to bring about improvements in those systems wherever possible and to ensure that they remain fit for purpose. The detailed controls outlined below represent those in place as at 31 March 2005 and up to the date of approval of the annual report and statement of accounts for the year ended on that date.

3. The Internal Control Environment

The Chief Constable is responsible for operational policing matters and the direction of police personnel. The Police Authority is responsible for securing and maintaining an efficient force. The Authority and constabulary work together to ensure that there are appropriate control mechanisms in place. The Accounts and Audit Regulations 2003 require that the Statement of Internal Control is prepared in accordance with proper practice, as represented in guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The areas of control set out below are taken from that guidance.

(i) Establishing and monitoring the achievement of objectives: -

The Constabulary's objectives are established from the following key sources:

- The National Policing Plan, issued by the Home Secretary
- Consultation with local communities
- Strategic assessment using the National Intelligence Model
- Crime and Disorder Reduction Partnership and Local Criminal Justice Board objectives.

The planning process follows a predetermined schedule with key milestones and is linked to the budget setting process to ensure that resources are available to progress objectives. The process culminates with the approval of the Police Authority Policing Plan. Departmental and Basic Command Unit (BCU) plans are subsequently produced to show how the Police Authority Plan will be delivered at local level.

The main groups involved in setting objectives are: -

- The Police Authority Policing Plan and Best Value sub-committee receives and endorses a draft plan which is subsequently approved by the full Police Authority
- The Chief Officer Group - the constabulary body which approves the draft plan
- Strategic Development department – who draft the plan and coordinate the public consultation process
- BCU and departmental management teams – who develop local plans which deliver corporate objectives and also address local priorities

Objectives were formally monitored for the first three quarters of the year at the Force Strategy Group. In the final quarter of the year, this was replaced by an outcome focused Performance Development Conference, supplemented by monthly detailed scrutiny meetings between Chief Officers and individual Commanders and Directors. The Police Authority Audit and Performance committee receive quarterly reports relating to performance objectives. The Police Authority has established specific committees to review and monitor particular aspects of the Constabulary's performance, including the Personnel committee, the Community and Race Relations committee and the Professional Standards Committee.

(ii) Policy and decision making

The Police Authority has a range of policy and decision making responsibilities, many of which are prescribed by legislation. These include: -

- agreeing an annual budget and local Council Tax for policing
- consulting with local communities to help determine public priorities for policing and the costs they are prepared to pay via the Council Tax

- agreeing the strategic direction for the constabulary, including performance targets, as described in annual policing plans
- ensuring continuous improvement through Best Value
- monitoring performance of the constabulary

A committee structure has been established to support the role of the main Authority in managing these responsibilities.

Policy and decision making within the constabulary ultimately rests with the Chief Constable. A structure of boards exists to support him in this process, with delegated authority to make policy. The board structure, reviewed in the last quarter of the year, is as follows:

- Chief Officer Group – made up of the Chief Constable, Deputy Chief Constable, the Assistant Chief Constable (Operations) and the Assistant Chief Constable (Organisational Development and Partnerships).
- Resources and Standards Board - led by the Deputy Chief Constable and comprised of Directors responsible for professional standards, legal, personnel, finance and resource management services.
- Operations Board - led by the Assistant Chief Constable (Operations) and comprised of all Commanders, and Superintendents in charge of sections which impact directly on operations. Responsible for operational service delivery.
- Organisational Development and Partnerships Board - led by the Assistant Chief Constable (Organisational Development and Partnerships) and comprised of Directors responsible for strategic development, partners, information and programme management services.

Terms of reference are in development for all the Boards and corporately agreed guidance exists to support the decision making process. Policy development is controlled by the Boards, and is carried out in accordance with detailed procedure, including vetting and consultation.

(iii) Policy and Risk Management

Policy is formally promulgated through Force Orders and is disseminated through internal communication mechanisms, and training when appropriate. A library of policies exists on the Constabulary intranet and is available as a reference to all staff. Each policy has a designated owner, who is responsible for ensuring policies are complied with and that this is checked on a periodic basis as part of normal management practice. Internal reviews, such as Best Value reviews, include within their scope compliance checks on relevant policies. Arrangements have been introduced for 2005/6 to support additional policy compliance audits.

The key elements of the Constabulary's Risk Management framework are set out below: -

- The Constabulary has a Risk Management Mission Statement and Policy statement. These statements raise the awareness of risk management within the Constabulary. The Policy was amended and updated during 2004-05 and was approved by the Resources and Standards Board in February 2005.
- The Constabulary has a Risk Management Strategy Statement which provides the foundation for the development of a risk management culture within the Constabulary. The strategy is subject to review due to the change in the board structure. The strategy provides managers at all levels across the Constabulary with an understanding of their responsibilities in relation to Risk Management.
- The Constabulary has a Risk Register, which is comprised of three separate registers resulting from Risk Workshops in 2001, 2003 and 2004. Concerns have been raised in relation to the appropriateness of the Register and the Constabulary is therefore in the process of developing a Strategic Risk Register, which will build on the earlier Registers. The Strategic Risk Register will be managed by the Strategic Risk Group. Sitting beneath the Strategic Risk Group will be three separate Risk Registers belonging to the three boards, which will be managed by those boards. The current Risk Register identifies significant risks and prioritises those risks, taking into account the probability of the risk and its potential impact.
- The Risk Management Group was named the Strategic Risk Group (SRG) in 2004-05. The composition of SRG was reviewed to make it more effective and efficient. The SRG is comprised of individuals from across the various disciplines across the Constabulary. The SRG places a greater emphasis on key corporate and strategic risks with the three boards and BCU's / Departments owning and managing other risks.
- Part of the Risk Management strategy involves the purchasing of insurance cover to protect assets and minimise liabilities, where taking insurance is either legislated or is assessed as beneficial to do so. The insurance policies provide for differing excess levels, which means that some proportionate risks are met internally. Insurances are reviewed annually and provision is made to meet the possible costs arising from incidents not covered by insurance.
- The Police Authority and the Constabulary are committed to the health and safety of all staff. This commitment is reflected in the Health and Safety Policy and Occupational Health Policies, which each aim to achieve the highest possible standards of health, health and safety and the creation of a safer working environment for all.
- The Constabulary has a Professional Standards department, whose responsibilities include pursuing the highest standards of integrity and behaviour. The unit aims to minimise risks to the constabulary of any inappropriate or unethical behaviour.
- The Bichard report, presented in response to the Soham murders, raised a number of issues for the police service. They included: -
 - IMPACT and requirements for information sharing
 - A Code of Practice for Information sharing (CoPIM)
 - Vulnerable people
 - Vetting and disclosure

The Constabulary is responding to these issues as set out below. Firstly, in relation to IMPACT, a formal plan is being prepared which will set out how the Constabulary will become compliant against the requirements for sharing information. In relation to CoPIM, work has commenced to assess the impact of the code and how the Constabulary can become compliant. With regard to Vulnerable people, a steering group has been set up and a detailed action plan agreed, to both meet the requirements of Bichard and the complimentary guidance issued by the National Centre for Policing Excellence (NCPE). Finally, with regard to Vetting and Disclosure, the Constabulary has strengthened its resources in this area by establishing a dedicated general security, Vetting and disclosure unit, headed by a Chief Inspector, and including a legal advisor and Data Protection officer.

(iv) Efficiency, Effectiveness, Continuous Improvement and Best Value

- The constabulary has well-established arrangements for supporting the Authority in delivering its statutory duty of Best Value. The Police Authority Policing Plan and Best Value Committee discharges this responsibility on behalf of the Police Authority. Within the constabulary, the Best Value Board led by the Assistant Chief Constable (Organisational Development and Partnerships) directs the activity of the Best Value team.
- The constabulary has produced a Best Value Policy & Strategy handbook, which details the policy, processes and procedures relating to Best Value within the organisation. An annual programme of reviews and supporting activities is in place, and reviewed quarterly. Findings from the reviews are developed into action plans that are then implemented by the relevant business owner.
- The Audit and Performance Committee monitor implementation of Best Value recommendations on behalf of the Authority.
- Managers in the constabulary conduct improvement reviews, with the Best Value team supporting and advising on a consultancy basis.
- For 2004/5, the constabulary was required to prepare an annual efficiency plan, setting out how savings amounting to 2% of net expenditure were to be made, whilst maintaining overall operational performance. For the future, the constabulary has produced a three year efficiency plan to achieve savings of 3% of net expenditure, half of which must be cash savings. The constabulary has carried out a corporate efficiency review during 2004/5, which has resulted in the production of a three year strategy and detailed plan. Development and delivery of efficiency plans is overseen by Performance and Efficiency Steering Group (PESG), which is chaired by the Assistant Chief Constable (Organisational Development and Partnerships). The efficiency plan is approved by

Policing Plan and Best Value Committee and is monitored quarterly by Audit and Performance Committee.

- Resources have been dedicated to developing new efficiencies from 2005/6.

(v) Financial Management and Reporting

The key elements of the Authority's financial management framework are set out below. They aim to follow professional best practice at all times.

- The Authority has comprehensive Financial Regulations, which establish detailed financial controls covering a range of different aspects of financial management. The regulations are reviewed on a periodic basis and are currently again being reviewed.
- The Constabulary has detailed financial rules, which are supplementary to the Authority's regulations. They are used to ensure proper management of resources devolved to the Chief Constable.
- The Authority has detailed Contractual Standing Orders, revised in 2003-04, which set out the processes to be adopted relating to the supply of goods and services.
- A protocol between the Police Authority Treasurer and the Constabulary Director of Finance and Resources has been agreed, to clarify the respective roles within the Authority and Constabulary.
- Budget planning: -
 - The Authority receives regular reports relating to budget planning. All reports are in the joint names of the Treasurer and Chief Constable.
 - A Medium Term Financial Forecast is prepared and rolled forward on an annual basis.
 - Structured processes exist to determine spending priorities
 - Annual budgets must be approved by a majority of the total membership of the Authority including a majority of the 'elected' members of the Authority.
- Budget Management
 - The Constabulary has a scheme of financial delegation, which gives individual budget holders local control of financial resources, within a framework designed to ensure overall control. Budget holders are required to formally accept devolved resources subject to specific terms and conditions, which set out local powers and responsibilities.
 - Both the full Authority and Audit and Performance Committee receive regular reports showing expenditure against the budget including explanations of budget variances.
 - The Force Strategy Group receive regular financial reports, setting out the local financial performance of BCU's and Departments, collated to show the overall position of the

constabulary. The Constabulary reviewed its board structures during 2004-05 and agreed to abolish its strategy group. Future financial reports will be presented to the Resources and Standards board.

- The statutory year end accounts are presented to members in line with the legal deadlines.
- Treasury Management – The Authority approves an annual Treasury Management strategy and receives periodic reports on Treasury Management activities. The Authority also approves an annual report which summarises activities in each financial year. The Authority has adopted the CIPFA Code of Practice on Treasury Management and has approved detailed Treasury Management Practices written in accordance with the Code.
- Prudential Indicators – The Authority has approved a suite of Prudential Indicators for the period to 2007-08 as set out in the statutory CIPFA Code of Practice on Capital Expenditure – the Prudential Code.

(vi) Performance Management and Reporting

- The constabulary has developed a performance management strategy setting out how it will deliver improvements to controls and processes in line with the national Performance Management Handbook.
- The constabulary has also developed an information management strategy, setting out how it will deliver the information required to enable performance development. Faster and more impactful performance information has been introduced.
- Chief Officers hold all senior managers to account in quarterly Performance Development Conferences, which were introduced during 2004/5. Monthly performance review meetings between Chief Officers and individual Commanders and Directors support the conferences.
- Each senior management board maintains an overview of progress on objectives for its area of business.
- Planning and performance management is informed by the prevailing National Intelligence Model strategic assessment, which ensures that the process is forward looking and dynamic, as well as taking account of achievements since the previous review.
- The constabulary has increased the resource available to performance management at local level from April 2005.

4. Review of Effectiveness

The Accounts and Audit regulations require that a review of the effectiveness of the system of internal control is undertaken at least annually. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and

senior officers of the Authority and Constabulary, who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The processes applied in maintaining and reviewing the effectiveness of the system of internal control during 2004-05 are described below: -

(i) Police Authority

The Police Authority places responsibility on the Audit and Performance Committee and relies upon its work, as detailed in (ii) below, for monitoring the effectiveness of Internal Controls.

Following a Best Value review in 2002-03 of the way in which the Authority was administered, the Police Authority has subsequently approved and implemented a number of key strategic measures, aimed at improving and maintaining the effectiveness of systems of internal control. These have included: -

- The appointment of a full time Clerk and Chief Executive and a dedicated (part-time) Treasurer to strengthen the corporate management of the Authority. The changes also formalised the arrangements for fulfilling the role of the monitoring officer.
- The endorsement of revised Standing Orders relating to contracts
- The endorsement of a formal scheme of delegation, setting out the delegated responsibilities of a number of senior officers of the Authority and Constabulary across a range of functional areas in June 2004
- Fully documenting and revising the schedule of individual roles and responsibilities of Police Authority members
- The appointment in 2004-05 of a Performance Manager and Policy Adviser to provide added emphasis to an support for performance management and policy development
- The Authority's Internal Auditors have been contracted to comprehensively review Financial Regulations, (as noted elsewhere in this Statement) with a commitment to report to the Authority in September 2005

The Authority has in 2004-05, in advance of the of the Police Authority Self-Assessment and Improvement Framework being formally approved by the APA and HMIC, embarked on a review of its own performance, using the template modelled in the APA draft framework, and which it expects to complete by mid 2005-06.

(ii) Internal Audit and the Audit and Performance Committee

The Audit and Performance Committee agreed a plan of internal audit work for the 2004-05 financial year and received a report on the overall results of that work in June 2005. Reports of individual audits were also reported regularly during the year. Most of the audits carried out during the year were related to financial systems, although future audit plans will include more reviews of non financial systems. Follow up reports are also presented to the Committee to ensure that improvement recommendations have been properly implemented. The overall audit assessment for 2004-05 was that the systems

of financial control are operating well. From the 16 individual reports conducted during the financial year, 10 had been assessed as 'good' and 6 as 'satisfactory'. The Audit and Performance Committee also receive regular reports on operational and resource management performance including comparison with agreed targets.

The results of this review of effectiveness of internal control were presented and discussed with members of the Audit and Performance Committee on 27 July 2005.

(iii) Constabulary Risk Management Group

During 2004-05, the Risk Management Policy Statement and Strategy Statement have both been redrafted in light of the change to the Constabulary's board structure. The amended Risk Management Policy Statement has been formally approved by the Resources and Standards Board. The Strategy Statement is due to be approved during 2005-06.

The members of the newly named Strategic Risk Group have completed formal training in relation to Risk Management, provided by the Authority's insurers.

The membership of SRG has again been reviewed. The three Constabulary boards each have a formal responsibility for Risk Management within their terms of reference. These latest changes will, hopefully ensure that Risk Management is properly embedded within the Constabulary and will provide Strategic support for the wider processes.

(iv) Other Review / Assurance mechanisms

- External Audit

The District Auditor consults with the Officers of the Authority and Constabulary before presenting the annual audit plan to members of the Audit and Performance Committee. The Audit plan reflects the Audit Commission's risk based approach to audit planning. The District Auditor also presents the annual audit letter to the Police Authority. To date, all external audit letters have given an unqualified opinion on the Authority's statements of accounts. The latest annual audit letter received in 2004-05 stated that arrangements were in place to maintain systems of internal control. The letter also acknowledged the plans in place to strengthen Risk Management arrangements.

The Audit Commission undertook a number of specific reviews during 2004-05. These included in relation to compliance with the National Crime Recording Standard (NCRS) and the development of Activity Based Costing (ABC). In relation to NCRS, the review concluded that arrangements were graded via a traffic light system as 'red', both in relation to data testing and wider management arrangements. Areas for improvement have been agreed and are being taken forward. The Constabulary undertook an internal review of progress in March 2005, which made some further recommendations for improvement. A further review by the Audit Commission to monitor progress is planned for 2005-06. In relation to ABC, the Commission's review in 2004-05 identified a number of weaknesses, including in relation to the collection of data. An action plan has been agreed containing a number of areas for improvement, which has been taken forward.

- Her Majesty's Inspectorate of Constabulary (HMIC)

The Home Office appoints Inspectors of Constabulary to inspect and report to the Secretary of State on the efficiency and effectiveness of police forces. HMIC carry out thematic inspections on strategic topics determined by the Home Office, inspects Basic Command Units, and undertakes 'baseline assessments' of the constabulary's overall performance and services. The results of these inspections are published. HMIC also visit the constabulary quarterly to assess its performance and efficiency. Should the constabulary's performance fail to meet HMIC requirements, national arrangements are in place for direct Home Office engagement to improve it.

An inspection of North Cumbria BCU in February 2005 found that inadequate progress had been made on previous recommendations, and the BCU will be visited again in July 2005.

- National Centre for Police Excellence (NCPE)

NCPE is developing national mandatory codes of practice for key policing functions including an updated National Intelligence Model, use of firearms, and investigation of domestic violence, child abuse and missing persons. NCPE work with the constabulary to implement the codes of practice, which are then subject to compliance inspection by an appointed auditor.

5. Significant Internal Control Issues

The review of the effectiveness of the systems of internal control for 2004-05 has identified no significant control weaknesses, nor any major risks not being adequately addressed. Some internal control issues were raised during an external review of two disciplinary cases, which reported during 2004-05. These control issues have been incorporated into an action plan, which is being monitored by the Police Authority.

In January 2005, the Constabulary lost the use of its BCU HQ and station in Carlisle, as a result of storm damage. This has highlighted the need to review formal business continuity plans for all areas of the Constabulary's activities.

Clive Alcock
Clerk and Chief Executive

Douglas Thomas
Police Authority Treasurer

Michael Baxter
Chief Constable

Reg Watson
Police Authority Chairman



MANAGEMENT AUDIT UNIT

CUMBRIA POLICE AUTHORITY STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

2004-05

Draft Report Issued: 15 July 2005
Final Report Issued: 18 July 2005

1.0 INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2003 required all local authorities to produce an annual Statement on Internal Control (SIC) from 2003/04 onwards. Initial guidance on how to do this in practice, and what the statement should look like, was issued by CIPFA in April 2004. Further detailed guidance was issued later in 2004.
- 1.2 This report sets out findings from a review of Cumbria Police Authority's Statement on Internal Control (SIC) for 2004/05. Evidence and explanations were provided by the following staff:
 - Michael Thompson – Director of Finance and Resources
 - Andrew Dobson – Director of Legal Services
 - Jenny Davies – Director of Strategic Development
 - Clive Alcock – Chief Executive & Clerk to the Police Authority
 - Douglas Thomas – Treasurer to the Police Authority
 - Stuart Edwards – Deputy Clerk to the Police Authority
- 1.3 The draft Statement was co-ordinated by the Director of Finance and Resources, with specific sections being provided by the Director of Legal Services, the Director of Strategic Development and the Police Authority.
- 1.4 The final SIC will be signed by the Clerk and Chief Executive, the Treasurer to the Police Authority and the Chief Constable. The Statement will then be approved by the Audit & Performance Committee and be countersigned by the Police Authority Chairman and form part of the 2004/05 statutory accounts.

2.0 OVERALL EVALUATION & CONCLUSION

- 2.1 **The SIC has been drafted in accordance with the legal requirements of the Accounts and Audit Regulations, following the detailed guidance issued by CIPFA.**
- 2.2 **Evidence has been provided which supports the information included in the SIC, in terms of systems in place and reviews made of the controls over these systems.**
- 2.3 **Due consideration has been given to the existence of any “significant internal control issues” (as defined by CIPFA) by the Constabulary and the Authority and none has been identified. Internal Audit concurs with this assessment.**
- 2.4 **Section 12 of this report follows up on development issues identified following a review of the 2003/04 SIC (the first one) in July 2004. Most issues have been taken forward but there is a need for earlier dialogue between the Constabulary Directors and officers of the Police Authority to ensure that the latter has sufficient time to review the content of the Statement.**

3.0 OBJECTIVES OF INTERNAL AUDIT REVIEW

- 3.1 For the first year that a SIC was required (2003 04), initial summary guidance only was provided on how this might be done. CIPFA has since produced a "Rough Guide" for practitioners, which sets out in detail the process for compiling a SIC. This sets out the steps to be followed and gives examples of assurance for these.
- 3.2 The audit approach this year has been to follow the steps set out in the CIPFA "Rough Guide" and assess relevant evidence. A diagram to illustrate this is shown at Appendix 1. Each step forms a section of this report.

4.0 ESTABLISHING PRINCIPAL STATUTORY OBLIGATIONS AND ORGANISATIONAL OBJECTIVES

- 4.1 There is a mechanism in place to identify principal statutory obligations: Qualified legal & financial staff are employed by both the Police Authority and the Constabulary, who keep abreast of statutory changes. Environmental scanning is also carried out via various groups, including the Force Learning Panel, which has access to various sources of information.
- 4.2 Committee terms of reference are established and reviewed annually and there is a Scheme of Delegation which formally sets out what legal duties the Authority has delegated to the Constabulary. Formal terms of reference for the 3 main Constabulary management Boards are still to be agreed.
- 4.3 There is a mechanism in place to establish corporate objectives: There is a joint 3-year Strategy Plan produced by the Authority & Constabulary which covers April 2005 to March 2008, complemented by a three-year Medium Term Financial Forecast; there is an annual Policing Plan for 2005 06 and there are annual service plans produced by the BCU's and Support Departments. BCU plans were viewed, but departmental plans are not due to be completed until 31 July. Team plans are also produced as appropriate. The plans are aligned to the national policing plan and available funding (set out in the Medium Term Financial Forecast) and are informed by public consultation. Formal survey results were published in November 2004.
- 4.4 Effective corporate governance arrangements are being reviewed by the Constabulary and a Governance Standard has been developed, based on the *Good Governance Standard for Public Services*. This sets out the current position and states a number of areas where improvements can be made. The document was agreed by the Constabulary's Resources & Standards Board in June 2005 and will be presented to the Police Authority's Audit & Performance Committee in due course.
- 4.5 Police Authority Members are bound by the Members Code of Conduct, which is monitored by the Clerk and Chief Executive to the Authority. New Members had received appropriate training on governance issues at their induction.
- 4.6 Performance management arrangements are in place: There is a clear framework for reporting Constabulary performance to senior management via the Performance Development Conferences which are held quarterly, with interim monthly Performance Development Meetings. Progress against agreed work programmes is also reviewed at each of the Constabulary's 3 main management boards. Performance is also considered quarterly by the Police Authority's Audit & Performance Committee.
- 4.7 There is a formally agreed 'Protocol' between the Treasurer and the Director of Finance and Resources to give clarity to their respective roles.

5.0 IDENTIFYING PRINCIPAL RISKS TO ACHIEVEMENT OF OBJECTIVES

- 5.1 The Constabulary is developing systems and processes for the identification and management of strategic and operational risk: There is a risk policy and strategy in place and structures and processes for dealing with risk are clearly set out. A Strategic Risk Register has been developed and subsidiary registers for each of the 3 Constabulary Boards are being collated.
- 5.2 Risks have been scored and evaluated on the basis of impact and likelihood and then re-scored after consideration of current controls in place to mitigate risk. Detailed risk assessment records support the registers.
- 5.3 There is a risk management strategy implementation plan that sets out actions required over the next 2 years, including further training and possible development of BCU/Departmental risk registers.
- 5.4 The Police Authority is to formally document its risks in a register once the Constabulary has finalised its format. A Member has been identified to specialise in risk management, has received appropriate training and attends meetings of the Constabulary's Strategic Risk Group as required.

6.0 IDENTIFYING KEY CONTROLS TO MANAGE PRINCIPAL RISKS

- 6.1 The Authority has a series of internal controls that include systems and procedures to mitigate principal risks: This audit has considered each of the examples of assurance suggested by CIPFA and compared to actual practice within the Constabulary and the Authority .

Example of assurance	Police Authority position
Financial Regulations – approved, regularly reviewed & communicated	Current Financial Regulations were approved in 2001. Currently being updated for Police Authority approval later in 2005.
CIPFA Code of Treasury Management adopted	Adopted and operating well – annual internal audit coverage.
Compliance with Prudential Code	Compliant in 04/05 (first year) – internal audit review. A schedule of prudential indicators has also been produced for the period to 2007-08
Contract Standing Orders - approved, regularly reviewed & communicated	In place – annual internal audit review. Generally operating satisfactorily. Currently being reviewed as part of review of Financial Regulations.
Whistle blowing policy - approved, regularly reviewed & communicated	Included in Anti-Fraud & Corruption Policy and Code of Practice.
Counter fraud & corruption policy - approved, regularly reviewed & communicated	Anti-Fraud & Corruption Policy in place. Needs review and update of contacts.
Codes of Conduct in place	Codes in place for Members, Police Officers & Police staff.
Registers of Interests maintained	Registers of Interests are maintained by corporate Training & Development Dept. Registers of hospitality to be maintained by Area Commanders and Heads of Department. Gifts cannot be accepted. Members have separate Code (as required by statute) and records maintained by Police Authority.
Scheme of Delegation	Formal Scheme approved between Police Authority and Constabulary. DRM protocols exist in the Constabulary.
Corporate procurement policy	In place.
Business/service continuity plans – regular testing/review	This is an acknowledged area for development in the SIC. This issue has also been raised by Internal Audit in October 2004 and will be followed up in 2005/06.
Risk registers in place – include key controls to manage principal risks	Strategic corporate register drafted. 3 Boards to produce own registers.

Example of assurance	Police Authority position
Key risk indicators in place to monitor risks	These exist but need to be regularly considered by the Strategic Risk Group.
Internal control framework subject to regular independent assessment	Various internal/external assurance reports are considered by the Police Authority's Audit & Performance Committee.
Corporate health & safety policy – regularly reviewed & communicated	In place.
Corporate complaints policy/procedure	Managed by Professional Standards Department with some specific areas reserved for Police Authority. Quarterly reports to Professional Standards Committee.

7.0 OBTAINING ASSURANCE ON THE EFFECTIVENESS OF KEY CONTROLS

- 7.1 Appropriate assurance statements are received from designated internal and external assurance providers: Internal assurance is provided by annual statements from relevant Directors on the key control areas specified in the SIC. These are:
- Establishing and monitoring the achievement of objectives;
 - Policy and decision making;
 - Policy and risk management;
 - Efficiency, effectiveness and continuous improvement/best value;
 - Financial management and reporting;
 - Performance management and reporting.
- 7.2 Internal assurance is also provided by Internal Audit and the Constabulary's Best Value Unit.
- 7.3 External assurance providers are mainly Her Majesty's Inspectorate of Constabulary (HMIC) and the Audit Commission. Some assurance is also carried out by the National Centre for Policing Excellence (NCPE).

8.0 EVALUATE ASSURANCES AND IDENTIFY GAPS IN CONTROL

- 8.1 The Authority has made arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers: The Police Authority's Audit & Performance Committee receives reports from Internal and External Audit and agrees the planned work, subject to the Audit Commission's statutory obligations. The Committee also receives reports from HMIC and monitors outcomes from agreed Best Value reviews. These responsibilities are set out in the Committee's terms of reference.
- 8.2 The Committee does not specifically review the annual statements by Directors on key control areas, but these are, in effect, incorporated into the SIC and evidence for these is independently reviewed by Internal Audit. The Committee will receive a report on the Constabulary's Governance Standard in due course, and a report on risk management once a format has been finalised.
- 8.3 The Constabulary has recently raised concerns over the amount of inspection/audit activity to which it is subjected and the Strategic Development Department has appointed an Inspections Liaison and Policy Manager to co-ordinate this activity.

9.0 ACTION PLAN TO ADDRESS WEAKNESSES AND ENSURE CONTINUOUS IMPROVEMENT OF THE SYSTEM OF INTERNAL CONTROL

- 9.1 An Action Plan is required to be published which sets out the Authority's approach to dealing with **significant** internal control issues. CIPFA acknowledges in the guidance that no single definition is possible, but offers instead some factors that may be helpful in exercising judgement. Current issues at the Police have been fully considered by senior management in compiling the SIC and it has been determined that none are significant. Internal Audit concurs with this opinion.
- 9.2 There are various agreed action plans for dealing with other control issues (deemed non-significant in the context of the SIC), which include those identified internally and by HMIC, the Audit Commission, Internal Audit, Best Value and the Strategic Risk Group.

10.0 STATEMENT ON INTERNAL CONTROL

- 10.1 The draft SIC provided to Management Audit for review on 11 July conformed to the statutory requirements and has been updated on 13 July to include the Authority's contribution.

11.0 REPORTING THE SIC

- 11.1 The SIC will be considered by the Police Authority's Audit & Performance Committee on 27 July 2005, and, if approved, will be signed by the Chairman of the Authority and formally included in the statutory accounts.

12.0 DEVELOPMENT AREAS

- 12.1 The following areas were raised last year following the review of the first SIC.
- A more formal constitution of the Constabulary Steering Group would clarify accountabilities and better enable an agreed work programme and reporting timetable to be drawn up. This would cover more than producing a year-end statement, and tasks could include,
 - Co-ordination of self-assessment and gap analysis against the CIPFA SOLACE corporate governance framework
 - Action planning where gaps have been identified
 - Co-ordinating annual compliance statements of actual controls in place over each key system
 - Liaison and benchmarking with other Police Authorities to determine best practice
 - Development of Local Code of Corporate Governance

A working group has met during the year to take forward the corporate governance agenda at the Police. A Governance Standard was approved by the Constabulary's Resources and Standards Board in June 2005.

A formal timetable for producing the SIC was not drawn up and this would be beneficial. Adequate time should be factored into this to enable due consideration by Police Authority staff and forward planning of internal audit work. It is appreciated that part of the reason for this not being done this year was the limited resources in Finance Department, which takes the lead role in producing the annual SIC and compiling the evidence to support it.

- Fuller consideration of the Police Authority's role in the overall control arrangements.

Consultation with officers of the Police Authority at an earlier stage would be beneficial, as noted above.

- The production of a brief signed summary for each key control area, showing what internal and external reviews were carried out of *actual controls in place* in the year, what conclusions were reached, and what action was taken.

Signed summaries have been produced.

- The above to specifically include (1) Action taken on HMIC performance management recommendations (2) Developments achieved by the higher profile Risk Management Group and (3) System to demonstrate effective communication/training on key policy/procedural changes.

(1) and (2) have been included, and (3) was confirmed with the Director of Legal Services.

- A clear system diagram/schematic for each key control area to illustrate more clearly how the systems operate and where the key controls are located (some already exist eg Best Value process, performance management framework)

These have been drafted, but further work will be required on the key financial systems documentation for 2005-06, to meet the requirements of the new International Audit Standards, which are effective from April 2005.

- Develop ongoing assurance work by Internal Audit on non-financial areas during the year, in conjunction with others (eg HMIC, Audit Commission, Corporate Development) to include SIC type coverage at BCU/Department visits.

Non-financial assurance work has been carried out on planning, performance and risk management. This could be extended (subject to resources) to include further work on corporate governance issues to support the SIC. For example, Members Code of Conduct, Police Officers/staff declarations of interest, Policy & strategy approval, communication & training and monitoring of risk management reporting.