



MANAGEMENT AUDIT UNIT

CUMBRIA POLICE AUTHORITY STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

2004-05

Draft Report Issued: 15 July 2005
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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.