



COUNTY COUNCIL

MANAGEMENT AUDIT UNIT

CUMBRIA POLICE INTERNAL AUDIT REPORT

**POLICE OPERATIONAL SUPPORT
FINANCIAL MANAGEMENT**

Draft Report Issued: October 2006
Final Report Issued: November 2006

1.0 INTRODUCTION

- 1.1 An audit was carried out of the financial management and administration of Operational Support in September 2006.
- 1.2 The following members of staff provided information during the audit review:
 - R. Smith, Chief Superintendent;
 - R. Marshall, Financial Services Manager;
 - M. Church, Budget & Accounting Officer;
 - L. Watt, Budget & Accounting Officer;
 - M Carter, Corporate Budget & Accounting Officer.
- 1.3 Since the last internal audit review of Operational Support in December 2004, there have been significant changes in management. In December 2004, J Rush was acting as Chief Superintendent whilst J Taylor acted as Assistant Chief Constable. Mr Taylor subsequently returned as Chief Superintendent, but then retired and was replaced by G Horlacher, who was seconded to the Foreign and Commonwealth Office in February 2006, to be replaced by R Smith. Mr Smith was then on sick leave for April and early May, and had other responsibilities on the Amalgamation Team.
- 1.4 There have also been changes in finance support to Operational Support. The Finance Manager in December 2004 was Elizabeth Parkin, who was replaced by David Angel, who in turn was replaced by Michelle Church and Lorraine Watt, who share the role each working on a part time basis. The finance support role has been retitled as Budget & Accounting Officer, with line management to Financial Services, rather than Operational Support. Michelle and Lorraine share the finance support role for Operational Support and this arrangement is working well. Additional support and expertise is available from their line manager, the Budget & Accounting Manager (Fiona Miller).
- 1.5 A potential overspend on the 2005/06 Operational Support budget was highlighted in the management accounts process and following the department's Financial Performance Review led to the commissioning of an internal review of financial management by the Budget & Accounting Manager. This resulted in an action plan that was agreed by the Chief Officer Group of the Constabulary. The predicted overspend per January management accounts was £305,998, but this reduced to £142,911 by the year-end.
- 1.6 The main overspend related to forensics costs and the 2005/06 costs are after crediting windfall income of £140k arising from Policing costs recovered for attendance at the G8 Summit in Edinburgh, otherwise the deficit would have been greater. It is of some concern that the Scientific Support Manager post is currently vacant, but the introduction of new systems and controls including protocols for authorising and charging expenditure and the adoption of a new commitments system should mean that budgetary control in this area is improved. The audit scope includes the key areas that were to be addressed as part of the action plan. It should be noted that aspects of the Action Plan were also included in the Finance & Resources Department Plan for 2006/07.
- 1.7 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:
 - Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed.
 - Grade 2: Recommendation which should be addressed in order to establish a satisfactory level of internal control.
 - Grade 3: Minor recommendation made to improve the system under review.
- 1.8 Recommendations to this report are included as Appendix 1 – Summary of Recommendations & Action Plan.

2.0 OVERALL EVALUATION & CONCLUSION

2.1 The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Management Audit assesses the controls operating in each audited area as ‘good’, ‘satisfactory’, ‘fair’, or ‘weak’. This assessment is based on the number and grading of recommendations made.

2.2 Controls have been evaluated as follows:

AREA REVIEWED	EVALUATION
Budget preparation	Good
Budget reporting	Good
Budget monitoring	Good
Forensics budget	Satisfactory
Payroll financial management	Satisfactory
Scheme of financial delegation	Good
Equipment Inventory	Satisfactory
OVERALL EVALUATION	Satisfactory

3.0 FOLLOW UP TO PREVIOUS AUDIT RECOMMENDATIONS

3.1 The previous audit review was carried out in December 2004 and 2 actions were agreed; to document a formal written scheme of financial delegation and to create an inventory record, as required by the Constabulary's Financial Regulations. A draft scheme of delegation and equipment inventory have been prepared.

4.0 AUDIT SCOPE

4.1 The audit scope was discussed and agreed in advance and the following areas were reviewed:

- Budget preparation
- Budget reporting, including forecasting
- Budget monitoring by budget managers & SMT
- Scheme of financial delegation within OS - approval of expenditure: commitments/orders/invoices
- Confirmation that equipment inventory in place (previous agreed action)

Within the above, progress against the action plan agreed by COG following financial issues arising in 2005/06 was reviewed and in particular the systems for,

- Managing forensics budget & implementation of new protocol
- Management of payroll costs: Overtime and training budgets and management of staffing “turnover factor” to achieve required financial outcome, whilst minimising impact on performance.

5.0 DETAILED FINDINGS & RECOMMENDATIONS

CONTROL	COMMENT	EVALUATION	REC. REF.
Budget preparation	<p>Base budgets are set out in the Constabulary budget book and the Chief Superintendent has formally accepted responsibility for these as Budget Holder.</p> <p>The 2006/07 base budget is £20,417,428, an increase of £3,785,938 (22.7%), on 2005/06.</p> <p>The 2 main increases relate to:</p> <ul style="list-style-type: none"> • £1.9 million on employer contributions to Police Officer pension scheme – this is a technical change and does not represent additional expenditure for the Constabulary overall; • £1 million relates to organisational changes – most of this is the transfer of CSI (Crime Scene Investigation) teams from BCU's to Operational Support. <p>The calculation of the 2006/07 budget was reviewed and reasons for changes were clearly evidenced.</p> <p>The budget preparation working paper was checked to the budget book and then to the base budgets used in the monthly management accounts. All figures could be reconciled.</p>	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
Budget reports	<p>Chief Supt R Smith is the budget holder for Operational Support and has overall responsibility for the department's budget of £20.9m, supported by formal sub-delegation of responsibility for management of particular areas to other officers (see below). This arrangement does not however dilute Chief Supt Smith's ultimate budgetary responsibility.</p> <p>Monthly budget monitoring reports are prepared by the 2 Budget & Accounting Officers in the standard corporate format. Separate spreadsheets are maintained for each of the 3 budget managers in Operational Support which reflects delegated responsibilities:</p> <ul style="list-style-type: none"> • Supt S Turnbull (Uniform Operations) £12.98m • Chief Supt M Skeer (Crime Intelligence) £2.27m • Det Supt B Pallas (Crime Operations) £4.49m <p>Chief Supt R Smith directly manages the remaining budget of £1.16m.</p> <p>The budget report is prepared in the standard way, which involves inputting actual data from Oracle into the spreadsheet. This is then compared to profiled budgets.</p> <p>Full year projections are added by the Budget & Accounting Officer and draft figures are then discussed with the relevant budget holders in accordance with an agreed timetable. Reasons for variances are included in the report.</p> <p>The individual spreadsheets are then consolidated into a single set of management accounts for agreement with Ron Smith, prior to being forwarded to the Corporate Budget & Accounting Officer to consolidate into the Constabulary accounts.</p>	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
Budget monitoring	<p>Reports are considered by the Operational Support Senior Management Team (SMT). Regular and timely reports have been discussed throughout the year per SMT minutes.</p> <p>The latest report at the date of the audit (to end of August 2006) was reviewed. Figures correctly reflected budget details per the budget book and actual year-to-date income and expenditure.</p> <p>The full year forecast outturn and assumptions made were reviewed with the Area Budget and Accounting Officer and appeared reasonable.</p> <p>Accounts to the end of August 2006 show that Operational Support is projecting a full year under-spend for 2006/07 of £171,071. This includes an over recovery of £68.9k on income budgets. The bulk of this relates to CRB income, where costs will also be higher than budgeted, as a result of increased activity in this area.</p> <p>Accounts for June and July had forecast underspends of £55k and £7k. Detailed explanations of major changes to projections are presented each month as part of the information for SMT, HQ Finance and COG.</p>	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
<p>Forensics budget</p>	<p>The Forensics budget is a known high-risk area and a new submissions protocol has been adopted this year. In addition, a new commitments system (LOCARD) has been introduced.</p> <p>The budget is separated into 4 areas and 3 of these are further subdivided into individual BCU area budgets. A full commitment record is maintained on LOCARD and information from here is included in the monthly management accounts.</p> <p>All cost commitments are authorised by the relevant CSI manager. CSI managers have been transferred into OS from April 2006. Projections based on data within LOCARD were reasonable and it was clear where under/over spends were occurring. Relevant managers, including the Superintendent – Crime Operations, receive monthly update reports.</p> <p>As at the end of August, a net underspend of £75k was forecast for the year. The projected year-end costs are based on actual plus committed costs year-to-date, extrapolated over the full year. OS has undertaken a detailed review of LOCARD and an action plan to address issues with the system has been implemented (including further training). However it is recognised that it may take time for the new procedures to become embedded.</p>	<p>Satisfactory (will improve once internal action plan completed)</p>	

CONTROL	COMMENT	EVALUATION	REC. REF.
<p>Payroll financial management (including training budget and “turnover factor”)</p>	<p>Payroll costs make up the majority of gross expenditure and adequate control and forecasting of these costs is paramount to achieving the delegated budget.</p> <p>The 2 Budget & Accounting Officers demonstrated how these costs are kept under review (particularly overtime) and how projections are calculated.</p> <p>Payroll Detailed spreadsheets are maintained for Police and Police staff, which show at an individual employee level year-to-date costs and a projection for the remainder of the year. These were reviewed and agreed to the latest management accounts.</p> <p>Overtime Detailed spreadsheets are maintained for Police and Police staff overtime, and these are subdivided into general and Bank Holiday overtime. Records were reviewed and there is detailed recording of costs and discussions are held with relevant managers to agree projections.</p> <p>Both general Police and Police staff overtime are forecast to exceed budget by the year-end, due to a combination of additional operations, secondments and cover for staff vacancies. The projected overspend is more than offset by underspends on basic pay costs and bank holiday overtime costs.</p> <p>Corporately, overtime costs are monitored to ensure that officers maintain a work life balance and are reported quarterly to the Audit and Performance Committee.</p> <p>Training Internal training request forms (PD1’s) are completed, and these indicate potential costs. All PD1’s are considered by the OS Training Panel, which meets approximately monthly. This includes the OS HR Advisor.</p> <p>All approved PD1’s are entered onto a commitment spreadsheet by the Training Administration Section, and allocated a unique OS reference number. Training Administration book all courses and approve all invoices for payment. There is therefore effective segregation between committing training costs and approving payment for these. Actual payments are then updated onto the spreadsheet to replace committed costs.</p>	<p>Satisfactory</p>	

CONTROL	COMMENT	EVALUATION	REC. REF.
<p>Payroll financial management (including training budget and “factor”)</p>	<p>Training - continued Certain training (to keep accredited trainers up-to-date) is essential but this is not currently always identified in advance. This training is sometimes expensive, but unavoidable. There is a risk that essential training requests may be received late in the year, when insufficient budget is available. Ideally, training of this type should be quantified at the start of the year and committed as a first call on the budget. The training budget is held by the Chief Superintendent and not further delegated. The Scheme of Financial Delegation does not reflect that, in practice, costs are committed by a Panel. Two of the Panel (CI R McKay and DCI P Carter) are authorised to commit expenditure up to £5,000 each, but not against the training budget, which requires the Chief Superintendent’s approval.</p> <p>Training expenditure is expected to equal the revised budget amount of £136,149.</p> <p>Turnover factor An amount for savings accrued as a result of Police and Police staff turnover is included in the preparation of the budget. The payroll and on-cost budgets are therefore shown net of required savings from vacancies.</p>	<p>Satisfactory</p>	<p>R1 R2</p>
RECOMMENDATIONS			
R1	A system for reviewing unavoidable costs arising from essential training at an early stage should be developed, so that these costs can be committed as a first call on the budget. (Grade 2)		
R2	The Scheme of Financial Delegation should be amended to reflect the delegation of commitments against the training budget to the OS Training Panel. (Grade 3)		

CONTROL	COMMENT	EVALUATION	REC. REF.
Scheme of financial delegation	<p>The Scheme of financial delegation has been documented as agreed following the previous review.</p> <p>This clearly shows who can commit and approve expenditure against budget areas, and to what value. No single individual can both order goods/services and approve payment for these.</p> <p>The Scheme also reflects the sub-delegation of budgets to the three Section managers.</p> <p>The Scheme is to be agreed and signed off by Chief Superintendent Smith and the Head of Financial Services.</p>	Good	
Equipment Inventory.	<p>Equipment inventories are required per the Constabulary's Financial Regulations. It was previously agreed with the Director of Finance & Resources that these would be compiled on the following basis:</p> <ul style="list-style-type: none"> • All individual items with a cost of £250 or above; • Any other items that are considered desirable and which are portable. • To exclude equipment recorded in IT register (held at HQ) <p>A draft inventory of high value items has been prepared, primarily with a view to ensuring that insurance arrangements are adequate. Whilst not wholly meeting the formal inventory requirement this represents a significant improvement on what has previously been available, and credit is due for the significant effort that has gone into achieving the current position.</p> <p>Further development of the inventory is suggested as follows:</p> <ol style="list-style-type: none"> 1. Items should be described adequately so that they can be identified when checked; 2. A system should be put in place so that inventory items are added when payment is made for the relevant piece of equipment; 3. A system should be put in place to check the inventory periodically; 4. A procedure for disposal or write-off of obsolete items should also be developed. 	Satisfactory	R3
RECOMMENDATIONS			
R3	The draft inventory should be reviewed and updated to incorporate relevant issues as set out above (Grade 2).		

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN
(TO BE COMPLETED BY POLICE FINANCIAL SERVICES)**

REPORT REFERENCE	GRADE	RECOMMENDATION	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	2	A system for reviewing unavoidable costs arising from essential training at an early stage should be developed, so that these costs can be committed as a first call on the budget.	OS Budget and Accounting Officer in conjunction with the OS Personnel Adviser and the training dept.	A review of the training plan will be instigated with the objective of identifying essential training needs for the 2007/08 budget.	31 March 07
R2	3	The Scheme of Financial Delegation should be amended to reflect the delegation of commitments against the training budget to the OS Training Panel.	Head of Financial Services and OS Budget and Accounting Officer	Agreed the scheme of Financial Delegation will be reviewed with respect to Training.	31 December 06
R3	2	The draft inventory should be reviewed and updated to incorporate the following: <ul style="list-style-type: none"> • Items should be described adequately so that they can be identified when checked; • A system should be put in place so that inventory items are added when payment is made for the relevant piece of equipment; • A system should be put in place to check inventory periodically; • A procedure for disposal or write-off of obsolete items should also be developed. 	OS Budget and Accounting Officer	The OS Budget and Accounting officer will co-ordinate an exercise to further improve the OS inventory and develop processes to maintain it.	31 March 07

ACTION PLAN AGREED BY: Michael Thompson, Director of Finance & Resources

DATE: 22 November 2006