



*Building Pride in Cumbria*

# **MANAGEMENT AUDIT UNIT**

## **INTERNAL AUDIT REPORT**

**A REPORT FOR:  
CUMBRIA POLICE AUTHORITY**

**A REPORT ON:  
TREASURY MANAGEMENT  
CAPITAL PROGRAMME MANAGEMENT / ASSET REGISTERS  
IMPREST ACCOUNTS**

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

## 1.0 INTRODUCTION

- 1.1 Management Audit undertook an audit review of the systems in place concerning treasury management, capital accounting and imprest accounts as part of the 2006/07 internal audit plan.
- 1.2 The following Cumbria Constabulary employees provided information during this review:
- Teresa Whitehurst, Technical and Accounting Manager
  - Roger Marshall, Head of Financial Services
  - Alison Hunter, Assistant Payroll and Pensions Manager

## 2.0 AUDIT SCOPE

2.1 The following table indicates the associated risks and sample of information reviewed by Management Audit for each individual area:

2.2

KEY CONTROL AREA	KEY POTENTIAL RISKS	SAMPLE REVIEWED
Treasury Management	<ul style="list-style-type: none"> <li>• Investments with high-risk organisations.</li> <li>• Over/under investment of funds.</li> <li>• Undetected problems due to insufficient / inaccurate reporting</li> </ul>	Bank information 2006/07 Sample of investments in 2006/07
Capital Programme Management	<ul style="list-style-type: none"> <li>• Assets purchased outside of Constabulary's needs / resources.</li> <li>• Capital programme not monitored allowing costs and completion dates to slip.</li> <li>• Acquisitions / disposals not stated on Balance Sheet</li> <li>• Failure to maximise receipts from disposals</li> <li>• Assets not fully / accurately recorded in Register</li> <li>• Assets not revalued in line with accepted accounting practices.</li> </ul>	Capital programme 2006/07  Asset Registers 2005/06
Prudential Indicators	<ul style="list-style-type: none"> <li>• Failure to provide indicators, leading to poor management of debt</li> </ul>	Statement of Prudential Indicators 2006/07.
Imprests	<ul style="list-style-type: none"> <li>• Inappropriate expenditure</li> <li>• Non recovery of VAT</li> <li>• Unsupported expenditure</li> </ul>	Central monitoring and HQ Petty Cash

### 3.0 OVERALL EVALUATION, CONCLUSION & RECOMMENDATIONS

#### 3.1 EVALUATION

3.1.1 The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Internal 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.

3.1.2 Table A: Evaluations of controls following testing carried out during this audit review:

AREA REVIEWED	EVALUATION	RECOMMENDATIONS			REPORT REF
		GRADE			
		1	2	3	
Treasury Management	Good	-		-	5.1
Capital Programme Management	Good	-	0	2	5.2
Imprests	Good	-	-	-	5.3

#### 3.2 CONCLUSIONS

3.2.1 Sound systems of control are in place for all three areas reviewed.

##### Treasury Management

3.2.2 Procedures are well established by the Constabulary and are adhered to. Appropriate documentation is retained to support the systems in place. The only concern identified is that investments and interest recorded on the investment register have not been reconciled to Oracle due to long-term sickness. A temporary member of staff was appointed after the audit, whose responsibilities will include bringing the reconciliation up to date.

##### Capital Programme Management

3.2.3 A capital programme is in place, detailing proposed expenditure during the year. Monitoring reports are presented to the Police Authority on a quarterly basis. A new capital growth bid template has been developed and issued to relevant Managers as part of the planning process for the 2007/08 capital programme, which incorporates a review of potential capital and revenue costs.

3.2.4 Balance sheet figures for 2005/06 are supported by accurately maintained asset registers. Where applicable this has been reconciled to independent information. The only minor concern raised is there is no formal certification of the accuracy of asset registers by relevant departmental managers. It was confirmed that Central Finance work closely with departmental managers when preparing the asset registers and are assured of their accuracy. This issue was raised during the previous audit review in January 2006.

##### Imprests

3.2.5 Suitable processes are in place for the administration of the HQ petty cash account.

### 3.3 RECOMMENDATIONS

3.3.1 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.

3.3.2 A total of two recommendations have been made as a result of testing carried out (one of which arose from the follow-up of the previous year’s recommendations), which are included to this report as:

- Appendix A – Summary of Recommendations and Action Plan (for the attention of Cumbria Constabulary).

### 4.0 FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

4.1 The previous review of each area was performed as follows:

- Treasury Management – August 2005
- Capital Accounting – January 2006
- Imprests – June 2005

4.2 No recommendations were made as part of either the treasury management or imprest reviews. Two recommendations were made as a result of testing carried out concerning Capital Accounting, which were followed up as part of this audit review, as detailed below:

RECOMMENDATION & GRADE	POTENTIAL RISK IF NOT ACTIONED	ACTION TAKEN / COMMENTS
The Fleet, IT and Estate Managers should review the annual statements of asset holdings to ensure records are a true and fair view of actual holdings.	2 Fixed assets not accurately reflected.	<b>In part</b> During closure of the 2005/06 accounts the Technical and Accounting Manager liaised closely with the Estates and Fleet managers to ensure that the accounts accurately reflected actual assets. This approach is not possible for IT assets – see 5.2.8 for further details.. In 2005/06 asset registers were not formally signed off by asset managers.
Procedural / information notes should be produced to provide an overview of the process citing data sources, contacts, relevant guidance etc.	3 No guidance available in event of absence of key individuals.	<b>In-Part</b> The Technical and Accounting Manager has prepared draft procedure notes concerning Capital procedures. Current procedures do not include reference to the maintenance of asset registers.

## 5.0 DETAILED FINDINGS & RECOMMENDATIONS

### 5.1 Treasury Management

- 5.1.1 The Constabulary has produced an Annual Treasury Management Strategy for 2006/07 in line with CIPFA Code of Practice, which was approved by the Police Authority in February 2006. The operation of the Treasury Management function complies with the Constabulary's Treasury Management Practices.
- 5.1.2 A cashflow spreadsheet is maintained to predict available balances for investment. A spreadsheet record of all outstanding investments is reviewed by the Head of Financial Services on a weekly basis. Monitoring reports of treasury management activity, including details of uninvested bank balances and interest earned are presented to the Police Authority on a quarterly basis. Significant variances against the target uninvested bank balance of +/- £2K are explained within the reports. The cashflow spreadsheet was found to be an accurate representation of transactions within the Constabulary's bank account.
- 5.1.3 Limits are placed on the value of investments with individual counterparties, with further restrictions placed on maximum deposits held in one category of banking institutions for any period over six months. As from 1<sup>st</sup> April 2006 limits previously placed on maximum investments within particular groups of counterparties at any moment in time have been relaxed, as the risks involved were considered minimal. A sample of investments was reviewed and found to be within the limits specified in the Strategy.
- 5.1.4 Payments to counterparties are made via an automated link ("bankline") to the bank. Transactions are arranged by telephone and input to the bankline system, creating a payments module, which is independently checked prior to approval by the Head of Financial Services. All new investments (i.e. Not a rollover from a previous investment) were traced to appropriately actioned, confirmed and authorised investments.
- 5.1.5 A reconciliation of investment sums and interest earned/due is usually carried out on a monthly basis from the investment register to Oracle, however the responsible officer is currently on long term sick leave. No reconciliations had been performed in the current year at the time of the audit visit. No formal recommendation has been made as since the time of the audit a temporary member of staff has been appointed, whose responsibilities will include getting this reconciliation up to date.

### 5.2 Capital Programme Management

#### Acquisitions

- 5.2.1 Rolling asset replacement programmes are in place for vehicles and IT equipment. Additionally the Estates & Facilities Manager prepared an Estates strategy in March 2005. A standard template is in place for all capital bids that ensures appropriate analysis such as option appraisals and risk assessments are performed. Updated templates have recently been issued to relevant managers as part of the 2007/08 budget setting process, the format of which is based on best practice by the OGC (Office of Government Commerce) and follows Prince 2 methodology.
- 5.2.2 A Capital programme for 2006/07, including schemes brought forward from previous years was approved by the Police Authority in February 2006. A limited programme was produced for the year due to the proposed merger with Lancashire Constabulary. Following the cancellation of the merger, the capital programme is expected to increase in 2007/08.
- 5.2.3 The Technical and Accounting Manager has prepared draft capital procedure notes. The current procedures were found to be well detailed and incorporate the monitoring of individual projects as well as updating of financial information. Procedures currently contain no reference to the maintenance of asset registers. The Technical and Accounting Manager informed Management Audit that procedures are to be developed on an ongoing basis.

- 5.2.4 The Technical and Accounting Manager maintains asset registers for the following assets, based on information within capital cost centres within Oracle.
- Land & Property
  - Vehicles
  - IT Equipment
  - Intangible - Software (Not reviewed)
- 5.2.5 It is the responsibility of individual Project Budget Holders to ensure capital is appropriately charged within the accounting system, as advised by Finance.
- 5.2.6 Information within the vehicles register is reconciled to independent records held by the Fleet Department. Records were agreed by Management Audit.
- 5.2.7 The Estates and Fleet managers are required to certify that the asset registers reflect a true and fair view of the Constabulary's assets. However this was not formally actioned during 2005/06. The Technical and Accounting Manager informed Management Audit that all reconciliation work to align financial and departmental asset systems had been completed in conjunction with the relevant departments, meaning the risk of material misstatement was slight.
- 5.2.8 In relation to IT assets, verification is limited to ensuring the accuracy of expenditure for the current year with individual project managers, as the asset register maintained by the IT Department is prepared on a different basis to the asset register maintained by Finance. Information in the asset register of IT equipment maintained by Finance aggregates costs together which cannot easily be reconciled back to individual items on the asset register maintained by the IT Department.

### **Disposals**

- 5.2.9 Disposals are formally recorded in the asset registers. The disposal of vehicles is based on a rolling replacement programme. Vehicles no longer required by the Constabulary are sold by British Car Auctions, who have a national contract with the Police Service. All vehicles recorded as sold in 2005/06 were traced to source documents. Records of sold and written off vehicles were traced to independent information held by the Fleet department.
- 5.2.10 Property is sold via the Constabulary's Estate Agent (Capita). During 2005/06 only one police house was sold by the Constabulary. Management Audit are currently pursuing supporting documentation from Capita via the Police Estates department.
- 5.2.11 IT Equipment is replaced on a four yearly basis and is generally obsolete after this period. IT Equipment containing potentially confidential data is destroyed upon disposal. Capital receipts were agreed to appropriate codes within Oracle.

### **Revaluation**

- 5.2.12 An issue regarding the update of land and building asset valuations for police houses within the five year prescribed period by the Statement of Recommended Practice was raised by the Audit Commission in their Audit of the Authority's Statutory Accounts and has subsequently been resolved.
- 5.2.13 All assets revalued as part of the 2005/06 financial accounts were traced back to revaluations performed by Capita.

### Prudential Indicators

- 5.2.14 The Prudential Code has been adopted and a series of prudential indicators were approved by the Police Authority in February 2006. Working papers were provided to support calculations of the net revenue stream and the incremental effect the capital programme will have on Council Tax.
- 5.2.15 The current set of indicators are calculated on a limited capital programme, based on the planned merger with Lancashire Constabulary. The capital programme was restricted to rolling programmes such as vehicle and IT and a small number of other projects. Capital expenditure over the next three years was projected to decrease for Cumbria, as all new projects were to be incorporated into the new merged Constabulary.
- 5.2.16 The Technical Accounting Manager informed Management Audit that in accordance with the terms of the Prudential Code the indicators would be re-stated to reflect the renewed capital plans of the Authority as a single entity as part of the preparation of the capital programme for 2007/08 and beyond.

RECOMMENDATION		
Ref	Recommendation & Grade	Risks if not Actioned
R1	Capital procedures should be updated to incorporate maintenance of the asset registers and that departmental managers review and authorise these as being accurate and complete. (Grade 3)	No guidance available in event of absence of key individuals.
R2	Following their review the Fleet, and Estate Managers should formally certify the annual statements of asset holdings to confirm records are a true and fair view of actual holdings. (Grade 3)	Fixed assets not accurately reflected.

### 5.3 Imprests

- 5.3.1 Responsibilities for the monitoring and administration of petty cash accounts are appropriately assigned. The petty cash is held securely. Individual accounts are reviewed as part of financial reviews at the BCU's. This review focused on the Headquarters Imprest Account. Expenditure records were complete, accurate and appropriately authorised.
- 5.3.2 The petty cash imprest of £6,000 was reconciled. The account is regularly reconciled on reimbursement.

**CUMBRIA CONSTABULARY  
TREASURY MANAGEMENT / CAPITAL ACCOUNTING / IMPRESTS**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN  
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)**

REPORT REFERENCE	AREA	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	Capital Accounting	Capital procedures should be updated to incorporate maintenance of the asset registers and that departmental managers review and authorise these as being accurate and complete.	3	Technical and Accounting Manager and relevant departmental managers	Capital procedures will be updated as recommended	June 2007
R2	Capital Accounting	Following their review the Fleet and Estate Managers should formally certify the annual statements of asset holdings to confirm records are a true and fair view of actual holdings.	3	Fleet and Estates Managers	Relevant managers will certify asset registers as at the closure of the 2006/07 accounts.	June 2007

<b>ACTION PLAN AGREED BY:</b>	<b>Michael Thompson, Director of Finance &amp; Resources</b>	<b>DATE:</b>	<b>22 Nov 2006</b>
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