BRITISH TRANSPORT POLICE AUTHORITY

MINUTES
AUDIT & CORPORATE GOVERNANCE COMMITTEE
WEDNESDAY 2nd JULY 2008 10.00AM
at
HOLIDAY INN CAMDEN LOCK

Present: **Sir David O'Dowd (Chair)**
Suzanne May
Mr M Holden
Mr J Weimar

Apologies: **Mr C Foxall**

In Attendance: **Mr A Trotter, Deputy Chief Constable**
Mrs S Burd, Director of Finance and Corporate Services
Mr S Thomas, Assistant Chief Constable London & Olympics
Ms M Davies, Deputy Head Strategic Development
Ms K Black, Force Insurance and Claims Manager
Ms J Dowding, Principal Accountant
Mr A Clarke, Interim Head of Finance
Ms K Want, PA

Mr I McBrayne, DfT

Mr N Gale, NAO
Ms T Barker, NAO

Mr D Braithwaite, PwC
Ms A Humayun, PwC
Mr S Dellow, PwC

Mr R Francis, Mercer

Mr R Hemmings, Chief Executive & Clerk
Miss L Barrick, Business Support Manager & Minutes

10/2008 **APOLOGIES**

The Chair gave apologies from Mr Foxall, who was unable to attend the meeting following the date change as he had a previous commitment.

11/2008 **MINUTES OF MEETING 18th MARCH 2008**
Agenda Item 1

The minutes were agreed as an accurate record.

RICHARD HEMMINGS, CLERK TO THE BTP AUTHORITY
THE FORUM, 5TH FLOOR NORTH, 74-80 CAMDEN STREET, LONDON NW1 0EG
Tel: 020 7383 7708 Fax: 020 7383 2655
richard.hemmings@btp.pnn.police.uk

12/2008 **MATTERS ARISING**
Agenda Item 2

All matters had been discharged.

Mr Hemmings updated that a letter had been received form the DfT confirming that the DfT would meet the Authority's pension liabilities should they ever arise. The interim evaluation of the police staff fund had also arrived.

Mr Weimar asked if confirmation had been received that the short and longer term pension changes would have a neutral impact on the BTP Pension Scheme. Mr Hemmings said that he had received assurance from Pensions Management on this point. Mr Weimar requested that this be circulated.

Agreed:

- **Mr Hemmings to circulate the assurance from Pensions Management regarding the impact of the pension changes on the fund.**

13/2008 **STRATEGIC RISK MANAGEMENT**
Agenda Item 3

Ms Black spoke to the report. She updated that three risks had been closed since the previous report, as the actions had been completed mitigating the risk. Three risks had reduced in their residual rating as actions to mitigate these had progressed. Action plans for all other risks were being progressed. Five new risks had been added.

The Chair said that the risk register was a good dynamic document.

Mr Foxall had sent in comments by email for the meeting and was concerned that the risk register was becoming too large for it to be meaningful.

The Deputy Chief Constable said that he shared Mr Foxall's concern regarding the number of risks. He said that he would be reviewing the register to ensure that only those risks that were strategic were included.

The Deputy Chief Constable said that the risk relating to the management of police information (MOPI) was one of the biggest challenges at present to the service as a whole. He added that the potential costs could be considerable. Also, BTP may be part of the vanguard for this due to the Force's role in the Olympics.

Mr Hemmings said that the pension valuation was showing a small potential deficit which could lead to a marginal increase in contributions. The Chair asked what the prudent action was. Mr Hemmings said that an action plan had to be agreed with the Trustees and the Trustees could impose an action plan if one could not be agreed.

Mr Weimar said he was surprised that BTP involvement in the Olympics was still shown as a medium risk, when funding had been received and the memorandum of understanding signed. Assistant Chief Constable Thomas said that this remained as there was still a risk regarding the funding for 2012 itself. Mr McBrayne said that the DfT did not see this as an issue as funding would be provided. The only issue there may be if there was a disagreement with regard to the figure for 2012.

The Committee asked for more information on the five new risks. The Deputy Chief Constable said that these risks were up for discussion within the Force and that a more detailed commentary would be provided where the risk was determined to be strategic.

The Chair said that Mr Foxall had questioned if it was the appropriate way to record risk SR25. Mr Weimar seconded this.

Mr Holden said that he did not understand SR29. The Deputy Chief Constable said that he did not see that SR29 was a strategic risk and it was likely to be removed. The Chair recommended caution around this from previous experience.

The Chair congratulated the Force on a high quality and balanced document.

The report was **noted.**

Agreed:

- **The document to be reviewed to ensure that all risks included were genuine strategic risks.**
- **Further information to be provided on those of the five new risks that were determined to be strategic following further discussion within the Force.**

14/2008 **FOLLOW-UP TO PREVIOUS AUDIT REPORTS**

Agenda Item 4

Mrs Burd spoke to her paper. She updated that three of the recommendations had been completed since the last meeting, whilst work on the remaining recommendations was progressing.

Mr Holden was concerned by some of the planned completion dates. He felt that these did not demonstrate an urgency to complete the recommendations.

Mrs Burd said that targets had been set that were seen as achievable and they were being dealt with. She conceded that there may not have been as much urgency as there should have been until recently.

The report was **noted.**

INTERNAL AUDIT REPORTS

15/2008 **ESTATES DEPARTMENT**
Agenda Item 5

Mr Braithwaite gave an oral update. He said that PwC had been requested to review the procurement controls relating to the estates department.

The review had identified some risks that could have led to abuses and these would need testing to see if the controls needed strengthening.

The Chair said that the Committee wanted to ensure that controls were in place whilst not interfering with any internal investigations.

Mr Braithwaite said that by the next meeting there would be a report ready for the Committee and in the meantime, if he felt it necessary, he would advise on the findings outside of the meeting structure.

The Deputy Chief Constable said that the Force was doing all it could to ensure that controls were adequate and tracking systems were in place.

16/2008 **REGIONAL VISIT SCOTLAND**
Agenda Item 6

Ms Humayun reported that high assurance had been given to the Scottish Area following testing of its core financial processes.

The report was **noted.**

17/2008 **REGIONAL VISIT NORTH EAST**
Agenda Item 7

The North East Area had been given moderate assurance with two medium priority risks and six low priority risks identified. The medium priority risks related to the authorised signatory list for timesheets being out of date. Also, when looking at procurement card statements it was found that some were not authorised by a budget holder, whilst others were missing receipts. Ms Humayun said she was aware that the authorised signatory list had already been updated.

The report was **noted.**

18/2008 **COMMAND AND CONTROL SYSTEM – SECURITY REVIEW**
Agenda Item 8

Mr Dellow reported that there had been one high priority, seven medium priority and one low priority risk identified, which had resulted in moderate assurance. The high priority risk related to the number of people with administrator access to the system. There had been around 20 at the time of the audit, but Mr Dellow said that he was aware that this had now been reduced to seven.

The medium priority risks related to audit logging facilities, strengthening operating system controls and user maintenance procedures, and considering intrusion detection systems.

Mr Dellow said that the note on the report regarding the management response was not due to disagreement but the gap there had been between the fieldwork being carried out and the report being distributed.

The Deputy Chief Constable said that he had been discussing the Force's response time to audits with PwC. It had been noted that the Force tended to try and fix the issues raised before responding, when they should be responding as they are implementing the recommendation rather than waiting to fulfil it.

Mr Gale asked if there was still a person with the capability to turn off the system and its security features. Mr Dellow said this was the case but this was a prevailing theme with all IT systems. He added that this could be policed to some extent by looking for such things as time gaps in audit logging, people logging on at unusual times and similar themes.

The report was **noted.**

19/2008 CALL HANDLING SYSTEM – IMPLEMENTATION REVIEW

Agenda Item 9

Mr Dellow updated that just one medium risk had been identified. This was that there was no risk register in place throughout stage one of the implementation but this was being addressed for stage two.

Mr Dellow said that there was now not a lot more for the auditors to do until the new system was installed and tested.

20/2008 RISK MANAGEMENT REVIEW

Agenda Item 10

Mr Braithwaite reported that moderate assurance had been given as there was room to develop the system. He added that this was the case for all risk management systems.

Three medium risks had been identified. The first of these related to a lack of cross-checking between business planning and risk management. The second was around the management of risk with regard to BTP's partnerships and how the risks to the objectives should be identified so they can be proactively managed. The third was that those risks that were not deemed strategic by the Corporate Assurance Group (CAG) were not further considered from a corporate-wide perspective.

The Deputy Chief Constable said that he agreed with the risks identified and that the Force was working towards reducing these.

Ms Black said that the recommendation around partnership had been identified prior to the audit as there were no formal arrangements.

Mr Holden said that he was concerned that risk management should not turn into an overly bureaucratic process. The Chair agreed saying the current arrangements worked well and the Committee was not asking for an overly bureaucratic process.

The report was **noted.**

21/2008 CORE FINANCIAL SYSTEMS

Agenda Item 11

The conclusion following the audit was an opinion of moderate assurance. Mr Braithwaite said that this reflected the continued strengthening of procedures and controls in the areas tested. The audit had resulted in one medium and one low priority finding.

The medium priority finding related to the purchase order system. The list of exemptions for purchase orders was quite broad and as a result many invoices that were received did not have a purchase order. Ms Humayun said that she aware that a review of the exemptions list was planned.

The Deputy Chief Constable said that a list of those who did not comply with the purchase to pay system was regularly compiled so the Force knew where the weak areas were.

The report was **noted.**

22/2008 ANNUAL AUDIT REPORT FROM PwC

Agenda Item 12

Mr Braithwaite spoke to his report which overviewed the audits that had taken place in 2007/8. He said that overall the opinion was one of moderate assurance. He highlighted those areas that had been regarded as high risk. These included:

- Weaknesses in business continuity arrangements
- The security at administrator level of the financial systems database and operating system
- The controls in place at an administrator level for network security

Mr Dellow said that the main issue with the finance systems was the administrator access. There was a generic account which meant that anyone could log on to this and there would be no audit trail for who it was. Mr Dellow said it was his understanding that there was a two phased approach to reduce the number of people with administrator access.

Mr Braithwaite said there had been some delays in receiving responses to reports whilst the Force had fixed the issues that had been identified in the report recommendations.

Mr Braithwaite said he was pleased to see a much more robust process for tracking and clearing recommendations. He added that the issues identified had been used to feed into the 2008/09 audit plan.

Mr Braithwaite said that he and his team needed to be sharper on delivering draft reports but added that PwC had completed their audit work within the audit days.

23/2008 HEAD OF INTERNAL AUDIT UPDATE REPORT

Agenda Item 13

Mr Braithwaite spoke to his report. He noted that the first quarter was light on audits, and added that this was usually the case, as the NAO were carrying out their audit of the accounts in this time and PwC did not want to overload the Force.

Mr Braithwaite said that PwC would be focusing on core assurance work and some projects in 2008/09. He added that all the audit days were not being allocated from the beginning of the year to allow PwC to be more responsive to the Force's needs.

Mrs Burd said that there was a lot on the audit plan but it was all important and a lot of the work was following through from previous audits.

Mr Hemmings asked Members if they were happy with the new style audit reports.

Mr Holden said that he would like to see the management response but he was satisfied aside from this. Mr Braithwaite said that management response was shown for those findings that were considered high priority.

Agreed:

- **In future a fuller management response to be added, where appropriate.**

24/2008 FINAL STATEMENT OF ACCOUNTS 2007-8

Agenda Item 15

Mrs Burd introduced the Accounts. She said that the SB&PM Committee had comprehensively looked at the management accounts and the final position. She added that there would be a more formal assurance link between the Committee's in future. She said that the product of the SB&PM review had gone into the Accounts.

The cover paper showed the framework of the Accounts and the result of the audit. Mrs Burd said that the interim close had been very beneficial and she was grateful to the NAO for their input in this process.

Mrs Burd said that the outturn had changed slightly from the management accounts and this was a lesson for the Force to ensure that the management accounts linked with the financial accounts.

A note had been included in the Accounts to cover the disputes from 1997. Mrs Burd said that assurances had been received that the issue of recovery of this money by the DfT would not be raised whilst the current disputes were ongoing.

Mr Hemmings said that assurances had been received that any cash flow issues arising as a result of the current disputes would be covered by the DfT. He added that the defence to the Judicial Review was being finalised and that there would a further £500k shortfall every four weeks until the Judicial Review was heard on top of the £7.42M that had already amassed.

The net liability of the pension scheme had increased by £159.7M to £189.9M. Mrs Burd said that a letter of assurance had been received from the DfT on FRS 17, to the effect that the DfT would meet any pension liabilities of the Authority in the event that it could not. She added that the swing that happens as a result of this does not affect the charge to the PSA holders.

The Committee asked for further explanation of this large swing.

Mr Francis of Mercer explained that the main driver of the swing had been the investment return. He said that assets had fallen quite considerably. He added that the investment strategy adopted was not an uncommon one but it was being reviewed. There had been a slight net outflow in contributions.

Mr Francis said that a large majority of the fall was due to the stock market. The Chair asked if the situation was mirroring what was happening elsewhere. Mr Francis said that it was a big shift but again confirmed that the strategy adopted was not uncommon when compared to other pension arrangements.

Mr Gale said that there was a big distinction between what is recorded in the accounts and the actuarial valuation. He said the question was at what point the pension scheme reacts to a medium term adverse market. He said this would be an issue for the Accounts if the Trustees wanted to increase contributions.

Mrs Burd said that it was useful for there to be an understanding of what was happening with regard to pensions within the Authority. This was remitted to the SB&PM Committee.

Members noted a few amendments to the Accounts, including dates of appointment and descriptions of Members.

Mr Gale said that the Force might want to consider putting something in their statement of internal control around information management.

Mr Braithwaite said an audit if information management was on the 2008/09 audit plan. Mrs Burd said that she would look at this.

Mr Holden asked why so much had been included for Employment Tribunals. Ms Dowding said this had been calculated from the list provided by the HR department. The Deputy Chief Constable said that these were expensive as they included back pay as well as legal costs if the Force lost. He said the Force was pursuing the point that at present officers could go to an employment tribunal under a claim of discrimination as well as a police appeal tribunal.

Mr Holden noted that the reserves table appeared to have some errors in it. Ms Dowding said that there had been some typos identified in this table. Ms Dowding explained that the £83k in the *'transfer to/(from)'* column related to a list of items that had been written off from previous years. She agreed that the title of the column was misleading.

It was noted that Amey plc was listed as a related party. The Committee asked why this was when there was no expenditure with them. Mrs Burd said that a senior BTP employee had disclosed that they had a close relative who was in a senior position at Amey plc and due to Amey's connections with London Underground it was felt prudent to note this.

Mr Gale said that he had no major issues with the Accounts aside from a few formatting and typing errors.

The Committee **approved** the Accounts for 2007/08.

Agreed:

- **The SB&PM Committee to receive a presentation on the pension situation and updates thereafter.**
- **Mrs Burd to consider putting a line in the statement of internal control for 2008/09 with regard to information management.**

25/2008 NAO REPORT

Agenda Item 14

Mr Gale invited questions on his report.

Mrs Burd said that with regard to fixed assets, the timetable for this left it too late in the year. She said that the Force was looking at how to improve this. She anticipated that by the same time next year there would have been an improvement but as this was such a large piece of work she expected there would still be some work to do.

The Deputy Chief Constable said that the approach to fixed assets needed to be project based. He said the size of the task should not be under-estimated.

The Chair said that the control of seized assets whilst basic and time-consuming needed to be improved. However, he said in all he had no major concerns and could see that there had been a lot of hard work.

Mr McBrayne said he was happy with the report.

The report was **noted.**

Agreed:

- **The Force to improve its controls around seized assets.**

26/2008 BUSINESS CONTINUITY

Agenda Item 16

Assistant Chief Constable Thomas updated on the business continuity arrangements. He informed the Committee that the new Business Continuity Manager was in place and work in this area was progressing. He distributed a detailed work programme (copy in the minute book).

The Chair said the Committee wanted to know what work was left to do and the timeframes for this.

Assistant Chief Constable Thomas said that the major work was the business impact analysis, which was ongoing. This had indicated that IT systems were vital to business continuity and as such additional software had been purchased to strengthen this function. Area coordinators were updating plans and plan holders were being briefed on the new software.

Assistant Chief Constable Thomas said that the target date for completion of the work was 22nd October 2008. He updated that the work was on target with all remaining actions being dependent on the outcome of the business impact analysis.

The Chair said that he would like to see a further audit opinion at the Committee's December meeting.

The report was **noted.**

Agreed:

- **A further audit opinion on business continuity to be presented to the December A&CG meeting.**

27/2008 MANAGEMENT OF FRAUD ISSUES

Agenda Item 17

Mrs Burd informed Members that this paper was to bring assurances to the Committee as the 2007/08 accounts were closed.

The report was **noted.**

28/2008 AOB

Agenda Item 18

An assessment of the auditors' performance had taken place prior to the meeting. A paper collating responses had been distributed between Members and the management team who had met prior to the meeting to discuss this. Mr Hemmings had been authorised to feed the outcomes of this back to the auditors.

The Members met with the auditors following the meeting to discuss their performance over the last year and give them the opportunity to give any feedback to Members.

DATE OF NEXT MEETING:

Thursday 4th September 2008 at 10.00am – G1 & G2 FHQ 25 Camden Road

Signed…….

Chairman