

# BRITISH TRANSPORT POLICE AUTHORITY

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**Report to:** Police Authority

**Date:** Tuesday 6<sup>th</sup> May 2008

**Subject:** Financial Scrutiny

**Sponsor:** Deputy Chair

**For:** Decision

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## 1. INTRODUCTION

- 1.1 At the Audit and Corporate Governance Committee meeting held on 18 March 2008, the provision of the future financial information was discussed. The initial view of the Committee and the Director of Finance and Corporate Services was that the detailed financial information should go to the SB&PM Committee whilst the A&CG Committee satisfied itself that the internal controls were in place, which in essence is what happens now. This approach is supported by the Treasurer and the Chief Executive & Clerk.
- 1.2 The main issue was whether the A&CG Committee could be expected to approve the year end published accounts if it had not been party to regular financial updates. As there was a difference of view within the Committee and because of the potential impact on other committees' responsibilities; it was agreed that the issues be deferred and discussed at the full Authority in time for the July A&CG meeting.

## 2. BACKGROUND

- 2.1 There are two distinct processes in place to monitor and report upon the budget arrangements (and in particular, monitoring spending patterns against the agreed budget) and audit arrangements. As an **executive**, the Force have regular four weekly finance meetings at which each individual budget area is scrutinized, variations noted and explained, and forecasts made against the totals allocated. These meetings are chaired by the Deputy Chief Constable, with active input from the Director of Finance and Corporate Services. An open invitation is extended to either the Treasurer or the Chief Executive. These meetings subject performance against the budget to detailed and searching scrutiny.

- 2.2 At a **non executive** level, Members of the Authority scrutinise financial performance. Ultimately, the Authority must be in a position to review the annual accounts, before the Chief Constable (as the “Accounting Officer”) signed the account. Thus the processes undertaken throughout the year to ensure that there has been effective performance against budget is a crucial part of the arrangement.
- 2.3 When the governance arrangements were being developed we wanted to keep scrutiny of operational performance and scrutiny of financial performance together. The rationale was that as the two interlinked, a strategic overview was needed.
- 2.4 Currently the Authority’s Corporate Governance arrangements include the following extract of financial regulations and the abridged terms of reference for A&CG and SB&PM:

**Extract of Financial Regulations:**

*FR1 Revenue Budget*

- 1.1 *By the end of March of each year the Authority shall agree the total revenue budget for the following financial year.*
- 1.2 *The revenue budget shall be presented in two parts, i.e.*
- a) *the budget for the Force, responsibility for the management of which lies with the Chief Constable; and*
  - b) *the budget retained by the Authority, which shall include provision for expenditure directly related to the functions of the Authority, the management of which shall be the responsibility of the Chief Executive and Clerk.*
- 1.3 *The Chief Constable shall submit monitoring reports to the Authority at each ordinary meeting, but more frequently if requested by the Authority, dealing with income and expenditure against the budget.*
- 1.4 *The Chief Executive and Clerk shall submit monitoring reports on the budget retained by the Authority to each ordinary meeting of the Authority (or its appropriate Committee), but more frequently if required.”*

## **Strategy, Budget & Performance Monitoring**

*Purpose - To set the strategic direction for the Authority and the Force, ensuring that there is adequate funding, that finance and performance are linked and that resources are properly and effectively allocated and managed.*

*To determine and recommend to the authority action in respect of:*

- *The overall strategy for the Authority and Force*
- *The 3-year Policing Strategy*
- *The Medium Term Financial Strategy*
- *The annual Revenue and Capital Budgets*
- *The annual Police Plan*
- *The links made between financial performance and operational performance*

*To decide/agree*

- *Actions to be taken following the scrutiny of the Force's performance against:*
  - *The annual Revenue and Capital Budgets*
  - *The objectives and targets set out in the annual Policing Plan*
- *The programme of Management or other reviews designed to promote efficiency, effectiveness and economy, and the improvement programmes arising from them*
- *The Authority's Business Plan*
- *Detailed scheme approvals arising from projects within the approved capital programme which require Authority approval."*

## **Audit and Corporate Governance**

*Purpose - To keep under review and advise the Authority on all matters relating to the internal and external audit of the Authority. To provide an opinion on the effectiveness of the monitoring processes and whether reliance can be placed upon all internal control systems.*

*To monitor and recommend to the Authority action in respect of:*

- *The effectiveness of financial management, internal business processes and control systems*
- *The performance, effectiveness of and results from the Authority's audit arrangements, both internal and external*
- *The implementation of agreed audit-based recommendations from any management letters received from internal or external auditors*
- *The accounting policies and the accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.*

- *The Force's plan for risk management, business continuity (including disaster recovery) and the strategic processes for risk, control and governance and the Statement on Internal Control*
- *The corporate governance requirements for the Authority*

To decide/agree

- *The planned activity for internal audit, including the arrangements for and the appointment of the Authority's internal Auditors*
- *The annual Audit Plan*
- *A programme of Member training and development to satisfy corporate governance guidelines*
- *The Force's policies on fraud, irregularity and corruption, and to monitor the effectiveness of such policies.*

2.5 The main area of discussion is where the management accounting information should be presented and if it should go to any forum other than the SB&PM Committee. The argument being that the A&CG Committee review the year end accounts with no review of the management accounts during the year.

2.6 There have been long debates with both our internal and external auditors and different solutions have been discussed. The current arrangements could remain, or all financial monitoring could go through the A&CG meeting, rather than the SB&PM as is currently the case.

2.7 The Force currently prepares a detailed financial pack for each area and each FHQ department. A summary of this is presented to the SB&PM by the Director of Finance and Corporate Services. At present, Members do not see a subjective breakdown of the figures, either across subject headings or by Area. The new Director of Finance and Corporate Services is currently reviewing what financial information can be provided to a regular committee. It is envisaged that a regular reporting timetable will be established providing quarterly management accounting information, for both revenue and capital. This will be developed through the 2008/09 year.

### 3. PRACTICE IN OTHER ORGANISATIONS

3.1 Best practice is that Audit Committees should not become embroiled in the budget monitoring processes. The scrutiny of the budget performance usually sits elsewhere, with the Audit Committees satisfying itself as to the control processes.

3.2 In the private sector typically the whole Board would be party to reviewing the accounts on a regular basis. Enquiry of other NDPBs reveals that the audit committees (which contain **non executive** members) review controls, set internal audit work and oversee the year-end reporting. Budget monitoring is an internal process, with no **non executive** member involved.

- 3.3** There are some factors to bear in mind, which are unique to BTP. There is a clear split between the **executive** function (which lies with the Force and the Chief Constable) and the Authority's duty to ensure efficiency & effectiveness. Also, the expertise and experience of Members of the Authority is not predetermined. The Authority cannot guarantee that its membership will include anyone with significant financial experience and therefore any system that is put in place must be capable of operating irrespective of individual Members' specific background. The Authority's Treasurer will be able to give appropriate assurances to Members.

## **4. PROPOSAL**

### **4.1 Option 1**

The current vehicle for discussion of the financial position and scrutiny continue through SB&PM Committee and the four meetings each year look at the latest set of financial information, already scrutinised by the Force. The spread of the meetings would mean that the management accounts would be reviewed quarterly.

The Committee will satisfy itself that the money is being spent where it was intended by the Authority and approve any virements or recommendations in the report. As a matter of course quarterly reports will be sent to all members of the Authority (not just for SB&PM members) and they will be invited to raise any questions or concerns direct to the Director of Finance and Corporate Services.

In reviewing the year end accounts, the A&CG Committee will be aware of the scrutiny of the budget performance and Members will have had sight of the quarterly reporting to the SB&PM and the opportunity to raise questions via the Director of Finance and Corporate Services. At the A&CG meeting in June/July the 'final out-turn' management accounts for the year should be provided alongside the Statement of Accounts to assist members. Timings of the meetings may need to be changed to reflect this.

### **Option 2**

The Audit & Corporate Governance Committee would monitor all the financial performance data.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications.

## **6. DIVERSITY ISSUES**

- 6.1 There are no diversity issues.

## 7. RECOMMENDATION

- 7.1 It is recommended that the Authority **ENDORSE** the procedure to **continue** to present the management accounts to the SB&PM Committee and that they continue to perform their scrutiny role, namely **option one**. The A&CG Committee can then rely on the Management Information provided to **ALL** Members.