

Minutes

Audit Committee

Date: Monday 28 March 2011, 11.00am

Venue: G3, FHQ, 25 Camden Road, London NW1 9LN

Present: Sir David O'Dowd (Chair)
Colin Foxall
Michael Holden
James King (by telephone)

Apologies:
Jeroen Weimar

In attendance:

Paul Crowther, Deputy Chief Constable
Sharon Burd, Director of Finance and Corporate Services
Andrew Clarke, Acting Director of Finance & Corporate Services
Simon Hart, Head of Finance
Marie Daniels, Head of Strategic Development
Paul Day, Head of Information and Business Support
Martin Fry, Head of Professional Standards
Kay Black, Head of Risk Management and Insurance
Vanessa Delices, Secretariat Manager

Nick Bateson, NAO
Jo Taylor, NAO

Andrew Townsend, Tribal Business Assurance
Steven Lake, Tribal Business Assurance

Liz Pike, Authority Finance Director
Lucy Barrick, Business Manager & Minutes

01/2011 Welcome and Apologies Non-Agenda

The Chair gave apologies from Mr Weimar. Apologies were also given from the DfT. The Chair noted his disappointment that the DfT were not

present and asked that they be contacted to ensure they would have representation at the June meeting and thereafter.

The Committee welcomed back Mrs Burd and noted that it was Mr Clarke's last meeting. The Committee expressed their thanks to Mr Clarke for all his hard work and input over the last few years.

02/2011 Minutes of Meeting 16 December 2010
Agenda Item 1

The minutes were approved as an accurate record.

03/2011 Matters Arising
Agenda Item 2

All matters had been discharged.

04/2011 Finance Position - Summary Report
Agenda Item 3

The Force updated that budget monitoring was going well and forecasting had been consistent. Preparation for the year end was also making good progress and the NAO confirmed that so far no significant control issues had been uncovered by their interim audit.

There had been a restructure within the Finance and Corporate Services portfolio, with a reduction in permanent staff from 80 to 75 and the intention to move to a permanent workforce with no temporary staff. The restructure had gone live on 19 March and would deliver an annual saving of £340k.

The Committee was advised that budget challenge meetings would be taking place on 29 and 30 March. The aim of these meetings was to have budget holders and leads demonstrate that they had a realistic basis for their budget and to ensure they had absolute clarity regarding what is expected of them in the management of the budget.

The Committee noted that the Force had procured software to check for duplicate payments. The question was raised as to what the result of this had been. The Force responded that the system had been running for six months and no duplicate payments had been noted so far. The Committee asked if the system was a proportionate response, particularly considering that no duplicate payments appeared to have been made. Additionally, the system should not replace proper process to reduce the chance of a duplicate payment being made. The Force answered that the system ran overnight and was not onerous. It had not affected standards and was seen as good practice by the Treasury. It was noted that regard should be had to this software in the Fraud Policy.

There had been some work carried out on the banking arrangements. It was considered that the cash balances in the BTP accounts were low but appropriate.

On the travel and accommodation process audit that had been reported to the last meeting, the Deputy Chief Constable updated that all the actions were being taken forward but the work was not yet complete. However, he offered reassurance that measures were in place to ensure that appropriate controls were in place to prevent any unauthorised activity.

The Committee noted that a lot of the actions that remained outstanding from previous audits were marked with a completion date of March 2011. The Force advised that these were in hand and should be completed by the end of the week. The only significant concern arising from the outstanding actions was around disaster recovery and this would be discussed later on the agenda. The privilege travel issue had been dealt with and monthly reconciliations now took place to ensure that people were removed from list as soon as possible. The allocation and attribution of the costs related to this were also coded and could be tracked.

Agreed

- The Fraud Policy to include mention of the duplicate payment finder software.

05/2011 BTPA Quarterly Strategic and Operational Risk Report Agenda Item 4

A number of the risks had been reduced to as low as reasonably practicable (ALARP). This included the risk regarding transfers between the BTP and Home Office 30 year pension schemes. This was considered less of an issue than previously as a result of the Hutton Inquiry and cuts in police budgets reducing recruitment numbers. The Committee was also updated that the police officer pension scheme valuation risk had now been closed as the recovery plan had been agreed. The settlement with Arriva Trains Wales had also been signed the previous week with the money due to arrive on 29 March meaning that this risk could also be closed. The risk relating to the charges for 2010/11 would be closed and reopened for the 2011/12 charges.

It was suggested to the Committee that a risk be added regarding the investment risk around the pension schemes and a further risk to cover the police staff pensions scheme valuation. These additions were agreed.

It was suggested that the risk which covered the chance of a challenge to a new charging regime (ASR52) was understated and that it should be in

the probable category. It was agreed that this would be reviewed by the BTPA Senior Management Team (SMT).

The Force raised a concern regarding accepting the current situation in regards to transferability between BTP and Home Office pension funds as it was seen as a significant disadvantage. The Committee asked where this work had got to. It was noted that it had been on the Authority Chairman's list to discuss with the Secretary of State but that this meeting had not yet taken place. It was suggested that if something was to be done with pensions following the Hutton Report then there may be an opportunity to add this on.

Agreed

- A risk be added regarding the investment risk around the pension schemes.
- A risk to cover the police staff pensions scheme valuation be added.
- The BTPA SMT to review the risk regarding a potential challenge to a new charging regime.
- An update to be provided on progress against the transferability issue between BTP and Home Office 30 year pensions schemes following the Chairman's meeting with the Secretary of State.

06/2011 BTP Quarterly Strategic Risk Report Agenda Item 5

The Force updated that a new risk had been added to the agenda regarding the failure to manage the expectation of the rail industry in relation to cable theft. Two risks had been closed including the previous risk regarding a potential increase in copper theft with an increase in the copper price. This risk had been succeeded by the risks described above. The other closed risk related to a limited ability to achieve strategic and policing plan objectives in light of a budget reduction. This had been closed following the budget settlement for 2011/12.

Significant progress had been made on the duty of care for detainees risk. Learning and Development had developed training plans and a contract for Force Medical Examiners (FMEs) in Manchester mirroring that in place in Liverpool was under development. There had been some delay in agreeing an independent custody visiting contract with Merseyside Police Authority but the Authority Executive was progressing this.

The Force advised that disaster recovery arrangements were in place for the two key systems of command and control and Airwave currently. This would mean that in the event of a disaster, such as a fire or flood at FHQ or other buildings, they would be able to continue to operate as a police force but administration functions could be severely impaired. A project was underway looking at the possible server virtualisation which

would allow the Force servers to be recreated at another site. A site in Birmingham had been considered for this but the costs had come in around £1m when a budget of only £200k had been allocated to this work. Therefore, a contingency plan was being progressed in which the other two key Force systems were having disaster recovery arrangements developed. These were the HR ORIGIN system as this would be directly linked to payroll shortly and the CRIME system.

Whilst this work was underway options were being reviewed for complete disaster recovery solutions. However, it was noted that there would be no IT work within six months of the Olympics so this was a tight timescale. The Committee supported the approach being taken but added that it could be worthwhile spending more as this was such an important piece of work. It was also suggested that looking at areas other than Birmingham may result in a saving.

The Committee was updated that London North custody facility was due to open on 4 April having been handed over to BTP by the builders. The Committee was also reassured that the Freedom of Information (FOI) issues had been resolved with significant improvements and the commentary would be updated to reflect this.

The question was raised as to whether the Force had picked up enough on the potential need for arming at the Commonwealth games. The Force responded that there was no specific risk currently and this would depend on intelligence at the time.

Agreed

- The commentary at SR55 to be updated to reflect the improvements made in the management of FOIs.

07/2011 Draft Management Assurance Document Agenda Item 6

The Chair advised that this document was used as a benchmark across the whole of Government and as such must be given the appropriate attention. The Force said that this point had been emphasised within the Strategic Command Team (SCT) and with Heads of Department ensuring that all understood what the document was for and where it was going.

The document provided at least partial assurance for all sections. The Committee commented that the Bribery Act needed to be mentioned under the Fraud section. Additionally, the question was raised as to why assurance was not stronger for equality duties. The Force responded that it felt the equality duty reassurance reflected current practice.

There was some nervousness regarding the document within the Committee as it was suggested that some of the questions did not fit

BTP. It was agreed BTPA, BTP, and the auditors would discuss this with the DfT. The Chair acknowledged the point but added that it had been recognised at the Chair's Committee at DfT that there were differences for BTP as it was a police force. However, it was further noted that these differences should be included at the appropriate points in the document for clarity.

The Committee approved the document, subject to ensuring that it was as up to date as possible.

Agreed

- The Bribery Act to be mentioned under the Fraud section on page 5.
- BTPA, BTP, and the auditors to discuss with relevance of the document for BTP with the DfT
- The document was approved for submission, subject to ensuring that it was as up to date as possible.

08/2011 Draft Statement on Internal Control

Agenda Item 7

The Force advised the Committee that the document had been widely consulted on. There was a concern that the document was too lengthy but it had reduced since last year. It was requested that the approval of the final version of the document be delegated to the Chair of the Audit Committee, Chief Executive and Director of Finance and Corporate Services.

The NAO noted that the format of the document would be changing for 2011/12 with less guidance and specificity being available.

Agreed

- The Committee approved the version of the document attached to the report and the delegation to the Chair of the Audit Committee, Chief Executive and Director of Finance and Corporate Services for approval of the final version.
- The Committee noted the completion of the areas identified for improvement in the 2009-10 SIC.

09/2011 BTPA Gifts and Hospitality Register

Agenda Item 8

The Committee noted a concern regarding the lateness of some of the papers as some of the members had not seen this paper in advance of the meeting.

The report was noted.

**10/2011 Payroll Project Update
Agenda Item 9**

The payroll project consisted of a number of work streams and addressed the Tribunal audit recommendations. A total of £74k had been identified as overpayments following the audit of the employee files for pay and allowances over the last 6.5 years. The Force was proceeding to reclaim these but added that a number were very complex and difficult to unpick.

The Committee suggested that the amount was immaterial in terms of the overall quantum of budget for those years and suggested that this could be written off in the accounts. This would not prevent the Force from collecting the money should they wish to pursue this. The Deputy Chief Constable confirmed that the Force's policy was always to recover.

The NAO advised that it was likely that the Force had sufficient delegations to write £74k off in the accounts, but that the Force should check the position in the BTPA framework. The only audit issues to consider were disclosure under losses and special payments, the precedent this could set and to ensure that the write-off was done appropriately.

The other work streams, which included relocating payroll to Birmingham and moving to electronic systems for payslips, expenses and time sheets, were progressing well with efficiencies to be achieved. There were some risks with moving to electronic systems but these would be tested fully before going live.

The NAO confirmed that this work would not form part of their 2010-11 audit as it would be happening after the financial year end.

Thanks were recorded to Mr Hart and Ms Hickman and their teams for the good progress made on this project.

**11/2011 Asset Management
Agenda Items 10**

The Committee was advised that significant work had been undertaken and the inventories were now all complete. All redundant equipment had been dealt with and disposed of appropriately. There was a process in place to ensure that the inventories remained up to date.

All capital items purchased were placed on the fixed asset register with smaller items purchased through procurement cards placed on inventories. The Chair commented that the capital level needed to change but he understood the reasons why this had not happened thus far.

In regards to the Airwave radios, the Committee was reassured that all had been accounted for, some had been broken and some fallen into disuse.

12/2011 IT Network Controls Update

Agenda Item 11

This report updated on the action taken following the Tribal audit.

There had been a recommendation to ensure that passwords were sufficiently strong, particularly for those with access to the Active Directory at Group Policy level. The Force updated that a single sign-on function had now been enabled and the employees would be reminded of the password SOP.

The procurement of IT was now only through IT and a SOP had been drafted to this effect that was currently going through consultation and was expect to be rolled out in June. The SOP was designed to allow the workforce some autonomy in buying smaller purchases that did not require to be linked in to the network but all network machines would need to be procured through IT.

The Vigilance Pro software had now been installed on all machines and was being switched on gradually across the Force. This would detect those using non-BTP storage devices which posed a security and virus risk.

In regards to patch management, all emergency patches that related to security were downloaded immediately but general upgrade patches were tested first as they could have unintended consequences for other systems. The disaster recovery processes would link into this work.

Leavers accounts were now closed as part of business as usual following notification from HR. In terms of server monitoring the Force had identified an appropriate system which would log who was gaining access and who was trying to gain access to the servers.

It was noted that there were still some vacancies in IT which had not been filled to help save money.

Tribal advised that they were happy with the progress made.

13/2011 Anti-Fraud and Corruption Policy

Agenda Item 12

The Force updated that policies had been exchanged with BTPA and the standard operating procedure (SOP) was being developed by the Strategic Development Department. The Bribery Act had been delayed

and the policy and SOP would be amended to take cognisance of this once it came into force.

14/2011 L Area Governance Arrangements Agenda Item 13

The Committee noted that it had been unhelpful that the paper had been received so late particularly given the complex subject matter and its importance. The Members did not consider that this work was for the Audit Committee and suggested that it be remitted to the Charging Group. However, in an effort to help move this forward they searched for clarity on the following:

- The requirements to satisfy the NAO in auditing the Financial Statements.
- What additional work is required to conclude this.

The Committee were advised that the DfT had informed the Chief Executive that there were licence exemptions for London Underground Ltd (LUL) but they were required to have a licence for parts of the network, which was largely those areas that intersected with Network Rail.

The solicitors had advised that the PSA was right but it appeared that there had been variations to the schedules in the PSA which had not been formally captured, as such current processes did not match those included in the PSA. The Committee asked if there was a risk as a result. They were advised that no significant risk was anticipated. Work was taking place reviewing the LUL overhead contribution and how it was calculated according to the Model and the formula in the PSA, to see if there was a significant difference, but a substantially different figure was not expected. The NAO advised that during the interim audit they had come to a similar conclusion and were materially satisfied.

In regards to the Accounts for 2010/11 the NAO confirmed the below:

- They could gain sufficient assurance from the documentation in place to support their audit.
- The disclosure of LUL items going through as “other” rather than core needed to be revisited. This would not have a net effect, but could influence the disclosure and impact on other PSA holders.
- There was some concern regarding the allocations of core and non-core that the NAO would like more reassurance on. It was noted that what was core and non-core was difficult to separate in some cases but an approximation should be able to be made. It was expected that the non-core piece would be very small.
- An issue was noted regarding the fixed proportion and which amount these came out of

- A back up of the overhead charge position was required for evidence by the NAO and a letter had been sent to LUL which dealt with this, with back up held in BTP Finance.
- The going concern issue that had been raised previously was likely no longer to be an issue, as the notice period on the contract was two years and other arrangements and mechanisms could be used to support BTP going forward.

In conclusion, Mr Bateson advised that the NAO could gain sufficient assurance over the L Area work for the 2010/11 financial year. The main concern now was what would come out of the current work on the governance arrangements. He requested some assurance be provided from LUL advising that they agreed with the current process.

The Committee concluded that there were two areas that needed to be the focus of the work:

- Settling L Area issues for the 2010/11 Accounts
- Ensuring that an appropriate agreement was in place with LUL for future years

These work streams were remitted to the Chief Executive for the Charging Group. An update paper should also be provided to the May Authority meeting.

Agreed

- Remit the work streams identified to the Charging Group:
 - Settling L Area issues for the 2010/11 Accounts
 - Ensuring that an appropriate agreement is in place with LUL for future years
- The disclosure of LUL items going through as “other” rather than core needed to be revisited. This would not have a net effect.
- There was some concern regarding the allocations of core and non-core that the NAO would like more reassurance on. It was noted that what was core and non-core was difficult to separate in some cases but an approximation should be able to be made. It was expected that the non-core piece would be very small.
- An issue was noted regarding the fixed proportion and which amount these came out of.
- Assurance be provided from LUL advising that they agreed with the current process.
- Report on progress to the May Authority meeting.

15/2011 National Audit Office - Interim Audit Results

Agenda item 14

The NAO updated that the audit was going well so far. There had been a lot of work on staff costs and the NAO was broadly happy with the

evidence provided. On the PSA side a lot of the core work had been completed and as per the previous discussion they should be able to conclude their audit of L Area satisfactorily.

The NAO had also fed back their comments on the Statement on Internal Control and the draft Accounts.

The Chair thanked the NAO and BTP team for their work.

[Mr King left the meeting]

16/2011 Tribal Reports

Agenda Item 15

Summary Internal Audit Progress Report

The progress against the plan was on target. Consistency on Area inspections had been ensured by using the same audit team. The Force had also been sharing best practice from other Areas and doing some preliminary work with Areas before the Auditors went in.

Follow Up Review

Of the 33 priority one and two recommendations that had been outstanding, 30 of these had been completed and the remaining three were in progress.

Review of Expenses Arrangements

This audit had given reasonable assurance and the recommendations were largely around housekeeping issues which had been dealt with quickly. Some follow up work was still to be concluded and any anomalies found would be raised as appropriate

Review of L Area Strategic Internal Control Arrangements

This audit had offered reasonable assurance with six priority two recommendations. The Force reassured the Committee that they were obtaining assurance from Transport for London on internal control processes. The question was raised as to whether this was sufficient, and the answer given by the Force was that it was considered to be.

On the subject of VAT accounting for L Area purposes the Committee as advised that the Force's VAT consultant was expected to submit a report on this in the next few days. In terms of insurance cover for police vehicles provided by LUL it was confirmed that these were covered by BTP insurance.

Compliance Review of the Creditor Payments Arrangements Control

This audit had resulted in only limited assurance. The Force advised that a lot of work had taken place since the audit with the Force being in a much better position as a result. There were now only four people who

had transaction logs outstanding and they had been written to by the Deputy Chief Constable reminding them that they were in breach of policy and if they did not comply they were risking having their cards cancelled and facing management action.

The Force stated that they were trying to find a balance between what was sensible and sufficient control. The Committee agreed that there was an argument for this but that the Force would be vulnerable if the controls were not stringent enough.

The auditors advised that this had been a significant issue but things had moved forward considerably in the last four months. This would be reviewed again in detail in the next financial year.

Draft Annual Audit Plan 2011/12

The NAO had already fed in comments on the draft Audit Plan. The question was raised as to why some audits had been deferred. Tribal advised that this was owing to the number of days available. It was requested that this be included in the text so it was clear.

Agreed

- The reason for deferral of audits to be included in the text of the document to make it clear for anyone looking at the document later why this had taken place.

Date of next meeting: 28 June 2011 10.00 - 12.30 at FHQ

Signed.....

Chairman