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BRITISH TRANSPORT POLICE

INTERNAL AUDIT ANNUAL REPORT 2011/12

Report issued:	May 2012

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. SBA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Internal Audit Annual Report

- EXECUTIVE SUMMARY -

INTRODUCTION

1. This is the 2011/12 Annual Report by the Head of Internal Audit to the Accounting Officer on my opinion of the overall adequacy and effectiveness of the British Transport Police (being both the British Transport Police Authority and the British Transport Police Force) risk management, control and governance processes.

BACKGROUND

2. My opinion is based on the underlying internal audit programme of work, designed to address the specific assurance requirements of the British Transport Police, and focussed on areas of risk identified by management. The planned internal audit programme, including revisions to the programme during the course of the year, has been reviewed and endorsed by the Audit Committee. Results of internal audit work, including action taken by management to address issues included in audit reports, have been regularly reported to management and the Audit Committee.

3. My opinion is a key element of the assurance framework, which the Accounting Officer needs to inform their annual Governance Statement. My opinion can, however, only be reasonable in the sense that no opinion can ever be absolute and is a reflection of the evidence available. My opinion detracts in no respect from the Accounting Officer's personal responsibility for risk management, governance and control processes.

OPINION

4. **On the basis of the evidence obtained during 2011/12, I am able to provide an overall adequate assurance rating on the adequacy and effectiveness of BTP's arrangements for corporate governance, risk management, and internal control.**

5. In my opinion, whilst there were a number of local governance and control weaknesses indentified during the year, these had their origins in previous arrangements and were not systematic of failures in the current governance and controls arrangements.

6. This overall opinion is supported by my view on each of the following areas:

Governance

7. The Authority has put in place a Corporate Governance Code which includes a comprehensive set of Financial Regulations and scheme of financial delegation to the Force. This Code provides clarity as to the respective responsibilities of the Authority and the Force. There has been ongoing dialogue with the DfT regarding the level of delegation provided to the Authority in respect to entering into contracts and this matter was still ongoing at the end of the financial year.

Risk Management

8. There are comprehensive risk management arrangements in place.

Internal Control

9 There has been a significant strengthening of the internal control framework throughout the Authority and the Force. Both the Authority and the Force are committed to achieving high levels of transparency and accountability in all aspects of the operations and systems. There is an openness and willingness throughout the Force from senior management to officer and police staff level to ensure that there are up to date control processes in place which enable service delivery at the same time as protecting the assets of the organisation. Internal audit and the NAO are consulted on all significant proposed changes.

SUMMARY OF SYSTEMS OF INTERNAL CONTROL REVIEWED

10. Overall, the system reviews carried out indicate that British Transport Police has procedures in place that are designed and operated to provide effective control (table 1 below). These systems can only provide reasonable and not absolute assurance against misstatement or loss and their effectiveness is reduced if:

- the internal audit recommendations made during the year have not been fully implemented.
- changes are made to operating practices subsequent to the internal audit review, which either reduce the segregation of duties or diminish the effectiveness of the internal controls.

Table 1 - Summary of the Evaluations of the effectiveness of the internal controls

System	SBA grade	Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
	DfT grade	Good	Acceptable	Partial	None
Budgetary Control		✓			
Creditor Payments		✓			
Capital Works – financial management		✓			
Allocation of Overheads – L Area		✓			
Strategic Financial Management			✓		
Debtors			✓		
Expenses			✓		
Payroll			✓		
Privilege Travel			✓		

System	SBA grade	Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
	DfT grade	Good	Acceptable	Partial	None
EPSA			✓		
Government Procurement Cards			✓		
ICT Network Controls			✓		
Assets				✓	

RESPONSIBILITY

11. It is responsibility of the British Transport Police to maintain effective internal controls. The Audit Committee is invited to note the contents of this report.

RELEASE OF REPORT

12. The table below sets out the history of this report.

Date report issued:	**22nd May 2012**

- DETAILED REPORT -

OBJECTIVES OF THE ANNUAL REPORT

13. GIAS requires internal audit to provide an annual report of its activities to the Audit Committee. This report is designed to assist British Transport Police in making its annual statement on internal financial control.

14. This report provides an overall opinion on the adequacy of design and effective operation of the systems of risk management and internal control(s) reviewed supported by:

    (a) audit work conducted in the year together with comparison with approved plan.

    (b) other areas of work during the year.

    (c) main findings arising from internal audit work, together with a status report on key control weaknesses identified together with a status report on management action to improve the treatment of risks, and weaknesses in internal control and assurance systems.

15. It was agreed that we would use the DfT template HIA opinion which is used across the DfT agencies. The DfT uses a different classification for their control ratings ("Good", "Acceptable", "Weak" or "Unacceptable") and consequently we have included the equivalent DfT gradings in Table 1 in the Executive Summary and paragraph 19 below.

ANNUAL PLAN – WORK CARRIED OUT

16. The Annual Plan, which was agreed with British Transport Police, provided for 235 days (including the Force contingency) in the internal audit programme for 2011/12. Subsequently this was increased to 294 days. All the planned work has been carried out and the reports have been issued (table 2 below). The changes to the planned work were agreed in advance with British Transport Police.

Table 2 - Actual against planned Internal Audit Work 2011/12

System	Area of Review	Type	Planned Days	Actual Days	Comments
	Strategic Financial Management	Compliance	10	10	Report issued
	Capital Works - financial management	Governance	10	10	Report issued
	Management Assurance Statement	Governance	5	5	Report issued
Area Compliance Checks	Scotland	Compliance	15	15	Report issued
Area Compliance Checks	North East	Compliance	15	15	Report issued
FHQ	Compliance Checks – MIT	Compliance	5	5	Report issued
		C/F	60	60	

System	Area of Review	Type	Planned Days	Actual Days	Comments
		B/F	60	60	
FHQ	Compliance Checks – ICT	Compliance	5	5	Report issued
Police Service Agreements	EPSA – contract compliance	Assurance	10	10	Report issued
Human Resources	Privilege Travel	Assurance	5	5	Report issued
ICT	Network Controls	Assurance	10	10	Report issued
Finance	Governance Procurement Cards	Assurance	10	10	Report issued
Finance	Assets	Assurance	10	10	Report issued
Finance	Budgetary Control	Assurance	10	10	Report issued
Finance	Creditor Payments	Assurance	10	10	Report issued
Finance	Payroll	Compliance	10	10	Report issued
Finance	Expenses	Assurance	10	10	Report issued
Finance	Debtors	Compliance	4	4	Report issued
Finance	Payroll – Transfer to Birmingham	Appraisal	10	10	Report issued
Finance	Payroll – Transfer to Birmingham – Phase 2	Appraisal	0	4	
Finance	Payroll NAO – additional testing	Assurance	0	4	Completed
	Re-engagement of retired officers	Appraisal	0	14	Report issued
	WAN Overspend	Investigation	0	16	Report issued
	Pension Control Accounts Reconciliations	Compliance	0	16	Report issued
	Allocation of Overheads – L Area	Appraisal	0	8	Report issued
	Fraud Policies	Consultancy	0	3	Completed
	Re-engagement of Retired Officers	Investigation	0	28	Report issued
	Appointments – Tax Avoidance	Compliance	0	6	Report issued
Follow up		Follow-up	5	5	Report Issued
		C/F	169	268	

System	Area of Review	Type	Planned Days	Actual Days	Comments
	Contingency (Force)	B/F	169	268	
			30	0	Allocated to reviews above
Audit Strategy/ Annual Plan		Plan	3	3	Report issued
SICAs/Annual Report		Rpt	3	3	Report issued
Audit Management		Rpt	20	20	Report issued
		Totals	225	294	

OTHER WORK CARRIED OUT

17. There was no non-audit work carried out which was in addition to the controls assurance work set out in the Annual Plan:

STATUS REPORT ON KEY CONTROL WEAKNESSES IDENTIFIED AND MAIN FINDINGS ARISING FROM INTERNAL AUDIT WORK

18. For each system review the key control objectives were identified. To assess whether the key control objectives are being met each review identified and tested the controls that are being operated by British Transport Police. Assessments of the effectiveness of the controls in meeting the key control objectives were provided in each report (table 1 in the Executive Summary). The definitions of the assessments are:

SBA grading	SBA definition
Substantial Assurance	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
Reasonable Assurance	reasonable number of internal controls in place, however may not be operated all the time.
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
No Assurance	fundamental breakdown or absence of core internal controls.

19. We have adopted the DfT assurance assessments to assist with the DfT's clear line of sight agenda. Whilst there are differences in the wording of the definitions between the current ones used by SBA and the DfT gradings we are satisfied that they are in essence broadly comparable. To maintain continuity and clarity it is agreed that the DfT gradings will be introduced from the start of 2012/13, but that in the summary tables in our Annual Report for 2011/12 we will show both the SBA and the comparator DfT gradings. A reconciliation of our assessments to the DfT gradings is shown in table 3 below.

Table 3 – Reconciliation of SBA to DfT gradings for assurance assessments

SBA assessment	DfT assessment	DfT Definition
	Full	Systems of corporate governance, risk management and internal control are fully established, documented and working effectively.
Substantial	**Substantial**	Systems of corporate governance, risk management and internal control arrangements are well established and working effectively. Very minor control weaknesses have been identified in a maximum of one or two discrete areas.
Reasonable	**Reasonable**	Systems of corporate governance, risk management and internal control arrangements are generally established and effective, with some minor weaknesses or gaps identified.
Limited	**Partial**	Systems of corporate governance, risk management and internal control are present and operating effectively except for some areas where material weaknesses or significant deficiencies have been identified, aspects of the control arrangements need documenting, or evidence does not exist to demonstrate effective operation.
No	**None**	Systems of corporate governance, risk management and internal control are poorly developed or non-existent or major levels of non-compliance or non-conformance have been identified. Control arrangements are not adequately documented, or evidence does not exist to demonstrate effective operation.

20. Details of the Priority I recommendations (fundamental control issue on which action should be taken immediately) made are set out in Appendix A. Due to these reviews being reported in the last quarter of the financial year it has not been possible to follow up that the actions taken have addressed the control weaknesses.

INTERNAL CONTROL FRAMEWORK

Areas of weakness previously identified

21. The strategy for 2011/12 was to review again the eight areas where the assurance assessment has been previously assessed as 'limited assurance'. We define 'limited assurance' as the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective. We have now reviewed the eight areas where the assurance assessment was previously 'limited assurance'. In seven of the areas the assessments are now either 'substantial' or 'reasonable' assurance and we have been able to establish that the control arrangements and compliance with same in these areas can now be considered to be fit for purpose and we can provide assurance to both the Force and the Authority that the previously identified areas of controls weakness have been effectively addressed.

22. In the eighth area (Assets) the assurance assessment remains at 'Limited'. This report recognises that significant improvements have been made since that time, most notably in relation to the controls surrounding Airwave radios. Although on this occasion, the assurance assessment is again 'limited', this is based on an assessment in relation to controls over certain categories of assets that were not considered as part of the previous review.

23. The table below (table 4) compares the assessments previously given with the assessments given in either 2010/10 or 2010/11.

Table 4 - Reassessments of the adequacy of Internal Control Arrangements

Area	2009/10 or 2010/11 Assessment	Current Assessment	Direction of travel
LU monitoring	Limited	Substantial	⇧
Creditor payments	Limited	Substantial	⇧
Privilege travel	Limited	Reasonable	⇧
Capital Works –financial monitoring	Limited	Substantial	⇧
Expenses	Limited	Reasonable	⇧
EPSA	Limited	Reasonable	⇧
ICT Network Controls	Limited	Reasonable	⇧
Assets	Limited	Limited	⇗

Areas of weakness identified during 2011/12

24. There were five areas where significant control weaknesses were identified. Two of these reviews were investigations and another a compliance review and as a consequence no overall assurance assessment was provided in these three reviews. (table 5 below).

Table 5 – Areas of weakness identified during 2011/12

Area	Type of review	Assessment
Assets	Assurance	Limited
Re-engagement of retired BTP Police Officers	Investigation	n/a
Pensions Reconciliations Arrangements	Assurance	Limited
Financial control and monitoring of the WAN project	Investigation	n/a
Non-compliance with the minimum break before the re-engagement of retired former employees	Compliance	n/a

25. In the last three areas of weakness listed in Table 5, above, we advised that in addition to issues specific to the area there were two collective reasons which had an impact on the robustness of the control arrangements. Both these reasons pre-dated 2011/12:

- The situations and factors that gave rise to the control failures have their origins in a time when the Authority did not hold the Principal Accounting Officer responsibility. Subsequent to the Chief Executive being designated as the Principal Accounting Officer the Authority has put in place a stronger and more transparent monitoring framework. However, during the gestation period when the control failures were beginning to arise this framework was not yet in place.

- During the period covered by the three reviews there was a significant level of turnover in the personnel carrying out of the most senior roles in both Finance and HR as both the permanent postholders were absent for significant periods of time. As a consequence there was no continuity throughout the period which might otherwise have enabled the strategic problems to be identified earlier.

Core financial area - significant change to system during the year

26. During the year the payroll function was transferred to Birmingham and upgraded to the iTrent system. We carried out sample checks on the audit trail for the data input at Birmingham including carrying out pre-emptive work on data integrity for information transferred between the old and new payroll.

OVERALL ASSURANCE

27. As the Head of Internal Audit of British Transport Police, I am required to provide the Authority and the Accounting Officer with an opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Authority is reasonable assurance that there are no major weaknesses in the organisation's risk management, control and governance processes. In assessing the level of assurance to be given, I have taken into account:

- all audits undertaken during 2011/12
- any follow-up action taken in respect of audits from previous periods
- any significant recommendations not accepted by management and the consequent risks
- the effects of any significant changes in the organisation's objectives or systems
- matters arising from previous reports to the Authority
- any limitations which may have been placed on the scope of internal audit
- the extent to which resource constraints may impinge on the head of the internal audit service's ability to meet the full audit needs of the organisation
- what proportion of the organisation's audit need has been covered to date.

28. My opinion is based on the underlying internal audit programme of work, designed to address the specific assurance requirements of the British Transport Police, and focussed on areas of risk identified by management. The planned internal audit programme, including revisions to the programme during the course of the year, has been reviewed and endorsed by the Audit Committee. Results of internal audit work, including action taken by management to address issues included in audit reports, have been regularly reported to management and the Audit Committee.

29. The Head of Audit's opinion takes into account the management assurance process and other relevant information brought to the attention of internal audit.

30. The Head of Audit's opinion has not been limited by any shortfall in resources, absence of skills, or any significant limitation of scope of internal audit activity which would adversely affect my ability to form an opinion.

31. On the basis of the evidence obtained during 2011/12, the Head of Audit is able to provide an overall adequate assurance rating on the adequacy and effectiveness of BTP's arrangements

for corporate governance, risk management, and internal control. The Head of Audit's opinion can, however, only be reasonable in the sense that no opinion can ever be absolute and is a reflection of the evidence available.

COMPLIANCE WITH GIAS

32. The internal audit work was carried out in compliance with the Government Internal Audit Standards.

INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDIT

33. There were no limitations or restrictions placed on the internal audit service which impaired either the independence or objectivity of the service provided.

LIAISON MEETINGS

34. During the financial year we have met with the NAO and separately with the Head of Audit at the DfT and have worked closely with them to ensure there is no duplication of work.

QUALITY ASSURANCE PROGRAMME

35. Ongoing quality assurance work was carried out throughout the year.

PERFORMANCE TARGETS

36. In accordance with the Audit Charter we are pleased to report that during 2011/12 we successfully met all the agreed Performance Targets (table 6 below).

Table 6 – Internal Audit Performance Monitoring 2011/12

	Target	Achieved	Target met
Achievement of the plan			
Completion of Planned Jobs	100%	100%	Yes
Jobs Completed in Time Allocation	100%	100%	Yes
Reports Issued			
Draft issued within 10 working days of exit meeting	95%	100%	Yes
Final issued within 10 working days of receipt of responses	95%	100%	Yes

AUTHORITY RESPONSIBILITY

37. The Authority is responsible for ensuring that appropriate action has been taken on audit findings. All the internal audit reports produced for 2011/12 have been presented to the Audit Committee and any matters of significance that impacted on internal controls assurance were drawn to the Audit Committee's attention at the meetings at which the reports were presented.

Appendix A

Summary of Priority 1 findings

System	Recommendation
Assets	As annual stock checks are mandatory, steps be taken to ensure a check is undertaken as soon as possible.
WAN Project	Action be taken to establish what opportunities there are to reduce the forecast costs of the WAN project and the operational risk exposures that may arise from taking the actions necessary to achieve these reductions.
Pension Reconciliations	The current liability to the Force on any underpayments in respect of BRASS be established as soon as possible.
Pension Reconciliations	Written confirmation be obtained from rpmi as to their exact requirements of what is required to avoid any future imposition of a manual administration charge and the necessary action be taken to ensure that rpmi is consistently provided with the required pensions data in agreed the format and timescales.
Pension Reconciliations	Arrangements be put in place which ensure that the Head of Finance is provided with positive assurance that all the payroll reconciliations have been being properly carried out in a timely manner.
Pension Reconciliations	A policy for effecting resolution of the over and under payments be agreed and implemented as soon as possible.
Tax Avoidance	Where service contracts are likely to exceed EU thresholds for tendering the Force needs to progress these arrangements to comply with European legislation.
Government Procurement Cards	The GPCs for staff who are consistently late or who do not always return logs with receipts be cancelled or suspended until such time all overdue logs with receipts have been presented and scrutinised. A deadline be placed for receipt of these overdue logs with receipts and any staff who do not meet the deadline be reported to PSD for investigation.
FHQ Compliance Checks – ICT Department	The GPCs for staff who are consistently late or who do not always return logs with receipts be cancelled or suspended until such time all overdue logs with receipts have been presented and scrutinised. A deadline be placed for receipt of these overdue logs with receipts and any staff who do not meet the deadline be reported to PSD for investigation.
FHQ Compliance Checks – ICT Department	Force-wide asset management policies and procedures be drawn to the attention of the ICT Department.
FHQ Compliance Checks – ICT Department	ICT Department to maintain a database of attractive and/or high value items and to carry out annual stock checks.
FHQ Compliance Checks – MIT	Clarification be sought as to which members of MIT hold GPCs.
ICT Network Controls	A mechanism be implemented to ensure that machines are correctly organised within the Active Directory structure to ensure that Force Policies are correctly applied.
ICT Network Controls	A full Disaster Recovery testing and documentation be undertaken as soon as feasibly possible to ensure recovery can be achieved with the minimum disruption to service delivery.