

Report to: **Audit Committee**
Agenda item: **7**
Date: **31 May 2012**
Subject: **BTP Compliance Action Plan**
Sponsor: **Interim Director of Corporate Resources**
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For: **Information / Decision**

1. PURPOSE OF PAPER

- 1.1 This report informs the Audit Committee of developments within BTP to develop a Compliance Action Plan. The report outlines the work being done to:
- address specific areas where compliance needs to be improved in respect of a number of issues reported to the Committee in 2011/12;
 - strengthen internal governance arrangements;
 - improve compliance to business rules and processes in non-operational areas

2. BACKGROUND

- 2.1 Members will be aware that during 2011/12 a number of areas where compliance needs to be improved were reported to the Audit Committee. The Chair of the Authority has in addition written to the Chief Constable asking for an update on the Compliance Action Plan work that was already underway in BTP.
- 2.2 The Strategic Command Team (SCT) considers compliance to business rules to be an essential part of the way BTP does business. The SCT recognise that there is a cost of non compliance, not just in terms of potential financial loss but also in the potential for reputational damage. Compliance to business rules is at the heart of an efficient and effective business operation and while progress has been made in this area over recent years there remains some scope for further improvement.

- 2.3 The specific areas reported to the Committee where compliance needs to be improved have been treated with the utmost seriousness and immediate action has been taken to deal with any specific issues identified and also to ensure that any lessons learned have been applied more broadly to ensure improvements are sustainable and have been applied across the service as required.
- 2.4 Notwithstanding the specific issues reported to the Committee, 2011/12 has seen some significant advances in governance and internal control. The 2011/12 Accounts are on course to be delivered one month earlier than in previous years, and BTP's revenue and capital outturns are within a very small margin of budget and forecast and deliver the surplus required by the Authority to strengthen the Balance Sheet and improve financial resilience. A number of Internal Audit reports have shown a substantial level of assurance and follow up reviews have been positive. The Payroll Team is now co-located with the HR Business Centre and this is improving both the quality of service and accuracy of payroll records. Also electronic payslips are available to every member of staff and this has further strengthened payroll controls by ensuring any errors are identified and resolved more quickly than previously.
- 2.5 The SCT are determined to build on these achievements to even further improve compliance. This report highlights developments to achieve this in three areas:
- actions taken to address specific concerns on the three areas of non compliance reported to Audit Committee,
 - actions taken to strengthen internal governance,
 - actions taken in each part of the Corporate Resources Department to improve compliance to business rules.

3. ACTIONS TO ADDRESS SPECIFIC AREAS WHERE COMPLIANCE NEEDS TO BE IMPROVED

Wide Area Network Project

3.1 Members will recall that the WAN project was undertaken because the previous system, supplied by Global Crossing (GC), was coming to the end of contract, and could not be extended, for procurement reasons. It was in any case no longer fit for purpose, nor did it offer best value for money. After a full OJEU procurement process, which included GC as a prominent bidder, the contract was placed with British Telecom (BT). The new solution offers:

- a more resilient service (dual, independent links to larger sites - essential to guard against road-digger events),
- bigger links to all sites to provide the bandwidth needed for modern systems,
- a more flexible solution (links can be easily increased in bandwidth, and also we can close sites without financial penalties, to an agreed limit).

3.2 The new service combines data and telephony, and is secure to Restricted Level, so that there is no concern that our system could be 'hacked' and voice calls intercepted. This is a leading-edge technical capability, never deployed on this scale before.

3.3 The system also offers us the ability to monitor call costs in fine detail, down to the level of individual telephones, so that costs can be tightly controlled in the future.

3.4 The overall solution saves approximately £1m per annum in running costs compared to the old GC solution.

3.5 The WAN project roll out has experienced some delays. BT failed to meet the original completion date of end of December 2011 for several reasons. There were technical difficulties during summer 2011 in creating the dual ultra-high bandwidth links that connect FHQ and Birmingham Axis (site of our new DR centre), and problems getting the whole system approved to Restricted Level. These were eventually resolved, and

then BT experienced problems with getting physical links into a number of our sites, so-called 'wayleave' issues, whereby local authorities, landlords, and in some cases Network Rail and their agents all have to agree to roads being dug up, cables routed across land and through buildings etc.

- 3.6 The last few sites have been the toughest, and huge focus has been put into resolving the issues, including using Area Commanders to influence local stakeholders and escalation via DCC to senior management in Network Rail. The current status is that BT now have 15 sites to finish of the 137 total sites in-scope. They will hand over all but 3 by the end of May, and the final ones shortly thereafter. Once BT hand a site over to BTP, the IS&BS team do some final in-building work to connect telephones and data links. Our prediction is that if BT deliver on schedule, all our sites will be migrated before the end of June.
- 3.7 The slippage in the project has lead to a significant cost overrun. The May 2012 Finance Group were presented with a detailed report on the financial position of the WAN project, which concluded that while the slippage on the project has meant that costs will exceed the budget and business case requirements, this is because the costs being attributed to the project include the business as usual costs of GC to provide the existing communications service. The WAN project is estimated to be £1.5m above the 7 year business case, however if the costs of GC are excluded the project is £1.6m below the estimated costs set out in the business case. Internal Audit have reviewed this detailed reconciliation which supported this paper and confirmed the calculation and conclusion.
- 3.8 A review of the financial management of the WAN project has identified a number of weaknesses which have been addressed. These are:
- 3.8.1 Improvements in budget management in this area
- Detailed records of expenditure were being maintained by the WAN project manager however the extent of the cost overrun resulting from the project slippage wasn't reported until relatively late in the financial year. Budget management performance generally across BTP in 2011/12 has been very good with all budget holders, with the



exception of this area, complying fully with the Chief Constable's Budget Delegation letter. To ensure that budget control is strengthened in this area a number of specific measures have been taken:

- a Senior Management Accountant has been appointed with the responsibility to provide focused financial support to Corporate Resources,
- the 2011/12 Chief Constable's Budget Delegation Letter specifically names the Heads of Department within Corporate Resources as the budget holder to whom the delegation has been made, therefore removing any potential ambiguity about responsibility to manage budgets in accordance with BTP's budget rules,
- a new budget reporting tool has been introduced that will allow for very detailed scrutiny of all areas of the budget including project spend.

3.8.2 Improvements in project oversight

While the roll out and financial position on the WAN project was being reported to Programme Board, which has oversight of major projects, the reporting could have been more explicit about slippage in the project and potential cost overrun. A number of improvements have already been put in place to improve Programme Board's scrutiny of projects including:

- the financial position on all projects reported to Programme Board will be provided by the Finance Team and Project Managers must ensure that they are able to reconcile their financial records to this corporate position. This will ensure that the corporate position has primacy and that all parts of the business are working to a 'single version of the truth'
- an exercise has been carried out to ensure that Programme Board is focusing on the key projects within the Force and that interdependencies between projects are known and managed

3.8.3 Improvements in purchasing compliance

While the WAN project was subject to a thorough OJEU compliant procurement process individual Purchase Orders were not raised for all specific items of expenditure. Had Purchase Orders been raised there would have been more visibility of the financial



commitment that was being made and it would have been much easier to see that a significant cost overrun was emerging. BTP has a 'NO PO NO PAY' policy meaning that payments to suppliers will not be made unless the supplier has a valid Purchase Order; this policy was not being complied with. BTP already has a major review of Purchase to Pay processes underway, one outcome of this is that compliance to the 'NO PO NO PAY' policy will be monitored and enforced. This will greatly improve the visibility of spend across BTP and will allow early action to be taken if budget overspends are emerging. It will also ensure that all purchases are made in a compliant way.

Pensions Reconciliation Work

- 3.9 Members will be aware that a significant area of work during 2011/12 has been the introduction of an electronic interface to ensure payroll information provided to BTP's pension provider is accurate and timely. As part of this work a number of instances were identified where individual members had either over or underpaid pension contributions. The interface work is now complete and electronic records are being provided to RPMI and work is in hand to refund over payments and deal with arrears subject to approval of the Authority's Chief Executive.

- 3.10 The primary failure of non-compliance on this issue was a failure to adhere to the newly introduced Corporate Governance Code issued by the Authority during 2011/12. This required significant write-offs to be approved by the Authority prior to being actioned. While there is some question over the adherence to this requirement by the then Interim Director of Finance and Corporate Services it is clear that the Authority should have been involved in the decision to write-off these balances.

- 3.11 Control has been strengthened in this area by ensuring that all of the Senior Management Team within Finance and Procurement have been reminded of the requirements of the Code of Corporate Governance to ensure there is no recurrence of this event. There are very limited number of circumstances in which the need to make these write-offs could arise and the Head of Finance as Lead Finance Professional for BTP will ensure that all proper approvals are sought in future.

Re-engagement of retired police officers

3.12 As with a large proportion of police forces a number of BTP officers who were re-engaged following retirement are now facing the prospect of their pension payments being deemed unauthorised and therefore subject to punitive level of tax. Papers elsewhere on the agenda deal with this matter in greater detail but in terms of actions taken to ensure that there is no recurrence of this issue, three main actions have been taken:

1. Immediate action was taken at the time the issue was identified to ensure that BTPs Standard Operating Procedure were clarified and action was taken to ensure that appropriate breaks in service are taken were employees are reengaged following retirement.
2. The Human Resources department are exploring options for increasing internal capacity to ensure specialist pensions skills are available in-house.
3. Action has been taken to ensure proper records are kept concerning recruitment to ensure that an audit trail of recruitment decisions can be evidenced should they be required.

4. ACTIONS TO STRENGTHEN INTERNAL GOVERNANCE

4.1 BTP will be introducing an Audit Board with the objective of playing a key role in the direction and control of internal and external audit and inspection activities. Following direction from the BTPA Audit Committee, the Audit Board will set out the framework of the audit schedule for BTP. It will advise on best practices and recommend improvements in control to help management ensure compliance with national guidelines and legislations, reduce organisational risk and prevent fraud and abuse.

4.2 This will be achieved by focusing on the following:

- Monitoring audit based recommendations from management responses received from internal or external auditors.



- Identifying opportunities for disseminating good working practices in line with management responses to audit recommendations.
- Agreeing planned and unplanned audit activity to be undertaken.
- The effectiveness of internal business processes and control mechanisms.
- Commissioning ad-hoc audits / inspections.

4.3 The Board will meet on a quarterly basis and will be chaired by the Deputy Chief Constable. The regular membership will be: Director of Corporate Resources, who will also act as the deputy chair; Head of Finance; DCS Professional Standards; Head of Audit & Compliance; Audit & Compliance Manager; Head of Risk Management & Insurance and Chief Superintendent Territorial Policing (operational representation). As and when required Business Unit Heads / Management Information Leads will be requested to attend.

4.4 The Board will consider the following information and provide corporate assurance on this. This is not an exhaustive list and other items will be presented as the need arises.

- Organisational strategic objectives and priorities
- Financial Audit Reports, including Tribal and National Audit Office
- Strategic Risk Register
- Management Assurance Return
- External / Internal Auditors Reports, including Her Majesty's Inspectorate of Constabulary, Information Commissioners Office
- Departmental Audit Activity Reports

5. IMPROVE COMPLIANCE TO BUSINESS RULES AND PROCESS IN NON-OPERATIONAL AREAS

5.1 The Interim Director of Corporate Resources has asked each Head of Department in Corporate Resources to develop an action plan to improve compliance for the areas in which they are the professional lead.



5.2 These action plans will be managed by each Head of Department but will be brought together under the direction of the Interim Director of Corporate Resources who will ensure the programme of work is managed as a whole.

5.3 Each Action Plan will focus on three main areas:

Business Rules – to ensure that the business rules relating to non-operational areas are clear and accessible to end users. This will require a move away from detailed SOPs to manage day to day business to more ‘user friendly’ manuals and user guides. In Finance and Procurement this has been achieved by fundamentally reviewing the key BTP Finance and Procurement policies to ensure they are fit for purpose and then translate these into a Finance and Procurement Manual. The role out of this manual is to be supported by a co-coordinated programme of Finance and Procurement awareness training which will be delivered to new and existing employees at all levels.

Business Processes – action plans will also focus on improving business process to ensure that these are clear and easily complied with. The overarching aim is to ensure that BTP’s processes make it ‘easy to do the right thing and impossible to do the wrong thing’. Again using Finance and Procurement as an example, there is currently an extensive review of the BTP’s Purchase to Pay arrangements to ensure that any goods and services must be bought in compliance to business rules. This will ensure that there is no risk of breaching procurement rules and it will also give budget holders complete transparency over the costs they are incurring and the commitments they have made. It will also mean that invoice payment is efficient and we can achieve nearer 100% on time invoice payment.

Compliance Management – once the strong foundation of clear and accessible business rules supported by efficient business processes are in place, BTP will be in a much stronger position to ensure there is absolute compliance. Non-compliance will need to be reported and action taken including the introduction of a scheme of sanctions for non-compliance. Other organisations which have achieved major success in this area have introduced an escalating scheme of sanctions for non-compliance, starting with



management intervention and discussion with individuals through to disciplinary action. Such a scheme of sanctions needs careful introduction and discussion with the Federation and Staff Associations but it has been achieved in most public sector organisations.

- 5.4 Progress on developing these individual action plans and the overall Compliance Action Plan will be reported to Audit Committee.

6. RECOMMENDATIONS

- 6.1 Members are asked to note the contents of this report and offer their support to the work that is in hand to improve compliance