BRITISH TRANSPORT POLICE

Report to:	**Audit Committee**
Agenda item:	**7**
Date:	**26 September 2012**
Subject:	**Corporate Governance**
Sponsor:	**Deputy Chief Constable**
For:	**Information**

1. PURPOSE OF PAPER

1.1 To provide an overview of the wider measures implemented to improve corporate governance and embed a culture of compliance within BTP.

1.2 To provide a summary of lessons learned and actions taken to address three matters previously reviewed by Audit Committee:

- WAN project
- Pensions unauthorised payments
- Pensions write off

2. BACKGROUND

2.1 Previous Audit Committee meetings have focused on the effectiveness of arrangements in place to ensure that BTP complies with BTPA's Corporate Governance Code and Scheme of Financial Delegation. While the focus has been in respect of the three specific cases listed above, these reviews have highlighted areas of improvement for BTP to ensure that governance and control is strengthened across the Force. The Chief Constable and Deputy Chief Constable are determined that corporate governance matters will be subjected to the highest level of scrutiny and focus, and that a culture of compliance is developed and embedded throughout the Force. This paper sets out how this will be achieved.

2.2 The ownership for corporate governance across the Force will now be held by the Deputy Chief Constable to ensure executive oversight and drive for improvement.

3. EXECUTIVE SUMMARY

3.1 BTP recognises the importance of effective corporate governance and the need to embed an ethos of compliance within the organisation. To achieve this BTP has developed the following approach over the short and medium term:

- Review, control, audit and performance management
- Education, awareness and personal responsibility

3.2 In the short term, BTP has implemented a range of new measures which focus on governance, control and performance management. These are being achieved through an enhanced structure and enforced procedures which are described in more detail later in the paper. It is recognised however that the medium term goal is to achieve a position where performance management measures are less necessary. This will be achieved by improving awareness of corporate governance across the Force through effective education measures that emphasise the personal role that all staff have for ensuring compliance.

3.3 At an organisational level, improvements will be achieved through a significantly enhanced structure of governance meetings. The Strategic Command Team (SCT) has introduced a number of new meetings - Service Improvement Board, Integrity and Compliance Board, Technology Board, Corporate Delivery Board and Information Management Board. These will provide a focus for the senior leaders of the Force to concentrate more effectively on areas of significant spend or corporate risk. These Boards will report back to the new Force Executive Board, which will be chaired by the Chief Constable on a four weekly basis.

3.4 In addition, BTP has undertaken an initial review of existing corporate governance and financial manuals as part of a process to develop better briefing material for managers. The documents are complex, having been subject to periodic revision, and are about to

be further amended to take account of additional governance requirements imposed by the Department for Transport and the Treasury.

3.5 This presents an important opportunity for a full review to be carried out and to create a streamlined Corporate Governance Code, supported by case studies, which in turn can form the basis of training material for managers across the organisation.

3.6 The BTPA Chief Executive and Deputy Chief Constable have agreed to take this forward as a project jointly undertaken between the BTPA Finance Director, internal auditors and BTP's Head of Finance. It is envisaged that the product of this activity will be presented to Audit Committee on 4 December 2012. A simplified and updated Corporate Governance Code will enable BTP to more effectively communicate requirements of the code ahead of the Chief Constable's delegation letter to budget holders early in 2013. This will be an important element of the steps to better embed corporate compliance as a core requirement of the way BTP operates.

3.7 To achieve this, the Chief Constable and SCT colleagues will reinforce the message through seminars and other Force level meetings, in addition to more formalised and structured training input.

4. LEARNING THE LESSONS

4.1 There have been three examples where arrangements to ensure good corporate governance could have been more robust. BTP is committed to learning lessons from these incidents and implementing improvements where required.

Wide Area Network (WAN) Project

4.2 BTP has commissioned a full post implementation review of the WAN project to identify lessons learned and to improve future project management and governance. The full report will be submitted to SCT on 25 September and BTPA Finance Group on 17 October. However, the emerging findings are as follows:

4.3 The issues:

- While the project expenditure will be less than the project budget and business case, the seven year cost for the wide area network service will be approximately £2m more than originally planned. This is brought about by two factors:

    1. Approximately £500k in additional VAT resulting from the rate rise to 20% after the business case was agreed.

    2. Approximately £1.5m of additional cost brought about because projected savings in the business case were not achieved as early as planned. This is a direct result of significantly longer than expected dual running of the legacy system and the new WAN.

- This was caused by a project overrun resulting from BT, the supplier, incurring a 5 month slippage due to an internal ordering issue within the BT Group.

- BT subsequently reduced the slippage to 2½ months but BTP were unable to source the internal resources required to match BT's extra resources and revised timetable.

- The wider financial impact of the project slippage was not adequately analysed by the project and therefore the financial implications were not understood until late in the day. Project expenditure reported to BTP's Programme Board did not take account of additional dual running costs. This is because the additional dual running costs appeared in business as usual budgets of the IT Department rather than the project. They were not projected in budget forecasts or raised in the form of purchase orders. As a result, the financial implications were not therefore adequately picked up in routine or project financial reviews.

    - One of the main contributing issues to this position was that the project to implement WAN was managed by a specialist external project management

consultancy because of its technical nature. While the project controls were well executed, the arrangement meant that wider knock on impacts such as additional business as usual costs were insufficiently considered in wider financial monitoring.

- This could have been better managed with more direct BTP project management and routine financial scrutiny by management accountants. In addition, benefits identification and realisation need to be more effectively linked back to the original business case and tracked in Programme Board reporting.

4.4 Action taken to address gaps:

- Recruitment of additional management accountant resource to improve financial monitoring, reporting and forecasting.
- Enhanced programme management procedures to track benefits realisation and scrutinise project reporting.
- Establishment of individual cost codes for each project.
- IT projects to follow standard Force project management procedures.
- More effective resource planning across IT led projects.
- Appointment of dedicated financial professional to specifically track governance and compliance issues.
- Strict enforcement of purchase order procedures through Integrity and Compliance Board monitoring.
- Establishment of Technology Board to oversee expenditure and better manage distribution of IT resources.

Pensions unauthorised payments

4.5 The issues:

- BTP processes failed to identify legislative changes that took affect in April 2010. These legislative changes introduced a condition of ‘protected pension age’ for employees retiring under a new national pension age of 55. Changes contained

within the Finance Act 2004 were not specifically communicated to BTP by specialist advisors retained by the Force. The lack of a dedicated pensions professional within the Force also meant the changes were not identified until a later stage by BTP. The changes were also missed by many other police forces within England and Wales.

- This led to a number of BTP employees being reemployed outside of rules set by the legislation, causing the payments made to them by the pension provider to be unauthorised. This in turn has the potential to attract punitive taxation penalties.

4.6 Action taken to address gaps:

- More effective and clearly documented arrangements have been established with pension advisors to ensure legislative changes are identified and acted upon.
- BTP recruitment and re-engagement procedures have been reviewed and revised with the benefit of external expert advice.
- All BTP Standard Operating Procedures which include reference to pensions and/or taxation legislation will now be submitted for annual review by an external expert in the relevant area.
- A review of all major HR Standard Operating Procedures and business critical processes will be undertaken as part of the HR improvement plan under Operation Enterprise.
- BTP has created a Reward and Recognition Manager post that acts as a single point of contact for all pension related matters within BTP. The Reward and Recognition Manager is responsible for maintaining a close working relationship with the pension management company and identifying legislative changes that impact employee pay, pensions and benefits.
- The pensions management company has improved the level of communication about forthcoming pension related changes, including the introduction of a new website dedicated to providing information to BTP superannuation fund members.

Pensions write off

4.7 The issues:

- A significant area of work undertaken during the last financial year has led to the introduction of an electronic interface to ensure payroll information provided to BTP's pension provider is accurate and timely. This electronic interface work is now complete.

- During this exercise a number of instances were identified where individual members had either over or under paid pension contributions. A decision was taken on a number of individual cases to write off unrecovered amounts. While individually the amounts were not considered significant, the aggregated sum to be considered for write off ought to have been subject to a more formal procedure of authorisation and referred to the BTPA.

- It is clear that the correct procedure within the Corporate Governance Code should have been better understood.

4.8 Action taken to address gaps:

- Controls have been strengthened and all members of the Senior Management Team within Finance and Procurement further briefed on the requirements of the Corporate Governance Code.

- Further work is being undertaken regarding the Corporate Governance Code to ensure it can be easily understood and communicated effectively to staff in the Chief Constable's letter of delegation. Part of this project will seek to raise the awareness of budget holders of their responsibilities under the code.

- There are a very limited number of circumstances where the need to make write offs could arise. In all future cases the Head of Finance, as Lead Finance Professional for BTP, will ensure the Chief Constable as additional accounting officer formally

approves cases within his delegated authority and is fully apprised of others requiring BTPA referral. In all cases the emphasis will be on transparency and notification even where formal approval by the BTPA is not required by the code.

- The revised executive meeting structure implemented within BTP (referred to later in this report) will ensure early notification of potential write offs are brought to the attention of the Force Executive Board via the exception reports from each Board meeting.

5. MEASURES TO IMPROVE WIDER CORPORATE GOVERNANCE ARRANGEMENTS

5.1 In advance of the review of the Corporate Governance Code, significant work is already underway to improve corporate governance arrangements across BTP. As well as the improvement measures set out in this paper in response to the three issues previously considered by Audit Committee, the following improvements are being implemented to embed compliance with corporate governance across BTP.

5.2 The requirements of the revised Corporate Governance Code will be set out in the Chief Constable's Budget Delegation and Responsibilities Letter, which is issued each February in advance of the new financial year, along with the business rules which must be adhered to. This will include a comprehensive communications plan to raise awareness of corporate governance not only to budget holders but to all managers across the Force.

5.3 In order to tighten financial controls around corporate governance a new financial compliance and governance lead is being recruited. This individual will report directly to the Head of Finance and will be responsible for the audit and review of financial controls, particularly around projects and areas of corporate risk.

SCT portfolios

5.4 The revised SCT portfolios, which take effect on 1 October 2012, will support an enhanced clarity of governance and responsibilities held by each member of the

Strategic Command Team. The revised structure will be supported by the new Force meeting arrangements to ensure the highest level of scrutiny is achieved at Force Executive Board level. The revised SCT portfolios will be presented to Police Authority on 27 September by the Chief Constable.

Force Governance Meeting Structure

5.5 A new Force governance meeting structure, shown on the following page, has been developed which rationalises the process of reporting information to the strategic leadership of the Force and BTPA.

5.6 The structure is intended to improve information sharing and decision making between delivery level meetings and the Force Executive Board. The meeting process reports by exception to ensure that the Force Executive Board has effective oversight and governance of issues, and the necessary information to drill down into any issues and / or risks.

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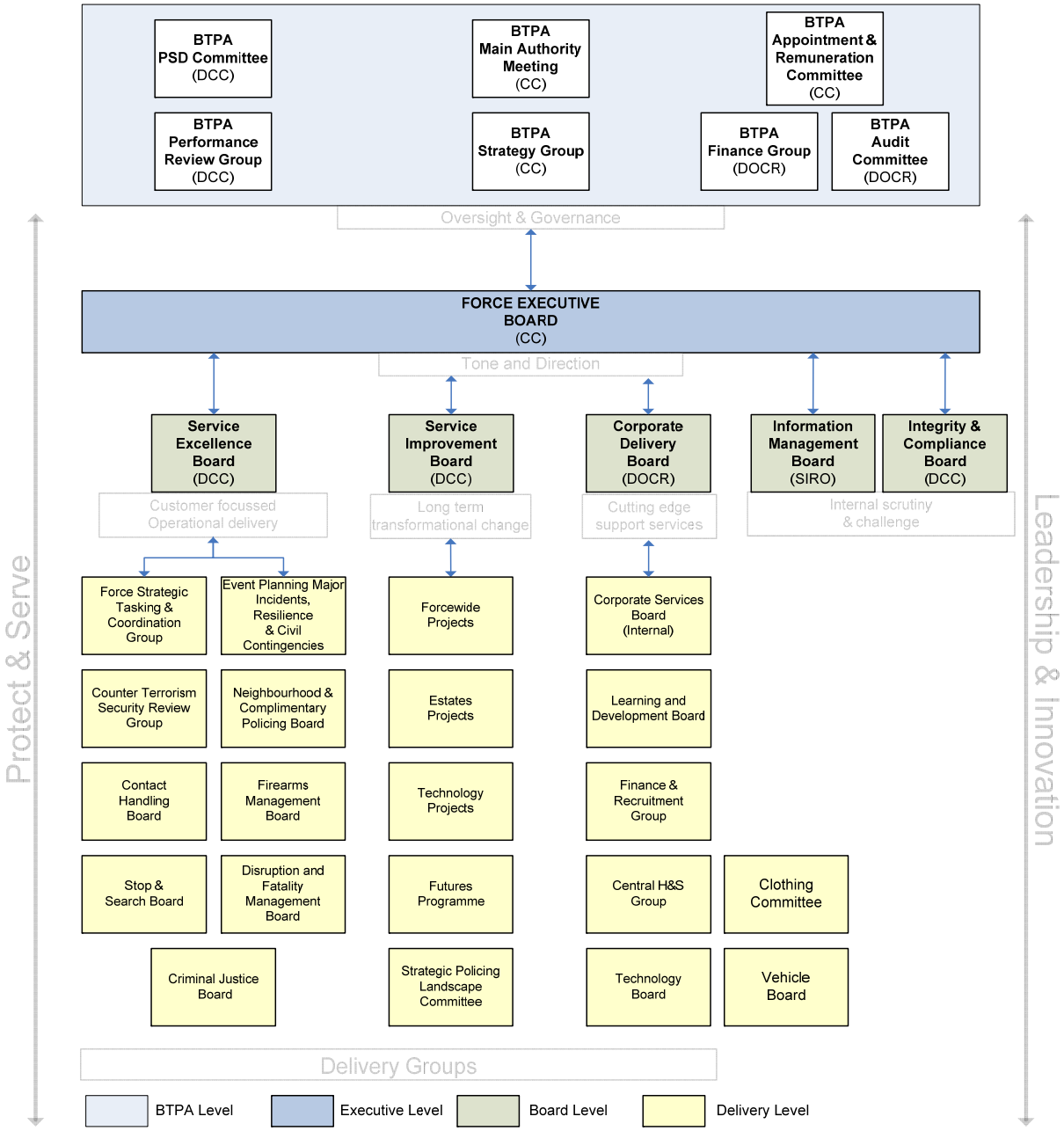
Force Governance Meeting Structure



5.7 The Force governance meeting structure introduces the following:

Service Improvement Board (formerly Programme Board) Held monthly and chaired by the Deputy Chief Constable with responsibility for oversight of major projects and programmes. This will now include responsibility for agreeing the proposed capital programme and reviewing revenue expenditure reports from the monthly finance reviews. All other boards with major capital spend will report into Service Improvement Board such that it retains oversight of all expenditure and financial opportunity.

Integrity and Compliance Board New meeting held monthly and chaired by the Deputy Chief Constable to review audit and compliance matters against prioritised areas of risk and oversee work towards an embedding a culture of compliance within BTP. Good progress has already been made by this board, for example:

- Enforcement of procedures has seen a significant reduction in retrospective purchase orders raised (£11,793 in July 2012 compared to £280,299 in July 2011).
- 36% reduction in Government Procurements Cards across BTP following a review of cardholders.

Technology Board New meeting held monthly and chaired by the Director of Corporate Resources to provide corporate governance over all information technology purchased or used within the Force.

Corporate Delivery Board New meeting held monthly and chaired by the Director of Corporate Resources to provide governance across all Corporate Resources change projects.

Information Management Board New meeting held monthly and chaired by the Director of Corporate Resources to provide corporate assurance regarding information management within BTP and compliance with legislative requirements.

Finance Review meetings

5.8 BTP continues to exercise tight financial grip on the budget through the process of four weekly Finance Review meetings. These are chaired by the Director of Corporate Resources and take place with each budget holder.

5.9 The meetings examine the year to date and full year forecast financial position of every part of BTP's budget. They also provide an opportunity to draw in any FHQ Departmental or Area under spend so that Service Improvement Board can utilise where appropriate to meet strategic operational or organisational priorities.

5.10 In order to improve financial governance by budget holders for 2012/13 all reporting is now in an electronic format. Budget holders can now scrutinise their budget performance to quickly understand the overall financial position. They can also drill down each budget line to individual transactions. This enhancement has greatly improved the efficiency and quality of budget monitoring, and provides the right information to those responsible for financial control.

Resource Approval Panel (RAP)

5.11 The Director of Corporate Resources maintains strategic oversight of the Force establishment through a monthly Resource Approval Panel (RAP). Applications for recruitment and changes to establishment are considered according to organisational need and affordability. The RAP process provides corporate assurance that recruitment of any staff and/or any establishment changes comply with BTP policy and DFT requirements.

Internal audit process

5.12 The Director of Corporate Resources has reviewed current procedures to manage the process of internal audit and management responses. The review has resulted in the following recommendations being implemented:

- Single BTP point of contact assigned to work with the auditors.
- Streamlined and simplified process of managing audits.
- Development of a management response and recommendation tracker.
- Standing agenda item at Integrity and Compliance Board to review management responses and delivery against recommendation timescales.

5.13 These changes have resulted in a 100% return rate for management responses, which have all been provided to the auditor within the 10 day contractual agreement.

5.14 BTP is currently on track to deliver all 2012/13 recommendations against the timescales agreed with the auditors. There are currently 32 recommendations that have been made as a result of audits, 10 of these have already been implemented ahead of agreed timescales.

5.15 There remains one high priority recommendation that has been identified by the auditors in the current audit period that relates to the testing of the Disaster Recovery Centre in Birmingham. The status of this recommendation is currently green and is scheduled for failover testing on 7 October 2012.

6. CONCLUSION

6.1 The Chief Constable and the Strategic Command Team are committed to driving through improvements in the way BTP deals with corporate governance. The measures outlined in this report, together with the transformation programme taking place across the Corporate Resources portfolio (Finance, HR, Corporate Services and Technology) will deliver changes to structures, improvements to business processes, and further embed corporate governance within BTP's daily activities.

6.2 BTP will continue to work towards embedding a culture of compliance within the Force, and a further report will be provided at Audit Committee on 4 December to keep members apprised of progress.