

To: Audit Committee
Date: 12th December 2011
By: Graeme Clarke, Director, Mazars LLP
Title: Internal Audit Progress Report

Purpose of Report/Issue:

To update the Audit Committee of Internal Audit's progress in achieving the 2011/12 Internal Audit Plan since the last meeting of the Committee.

Recommendation

The Committee is invited to comment on Mazars progress to date in achieving the Internal Audit Plan.

Contact details -

Name: Graeme Clarke
Job Title: Director, Mazars LLP
Telephone number: (0)23 8023 2428
Email address: graeme.clarke@mazars.co.uk



Internal Audit Progress Report

Presented to Audit Committee Meeting: 12 December 2011



Contents

	Page
1. Introduction	1
2. Summary of internal audit activity since the last Audit Committee meeting	1
3. Key issues arising from the internal audit programme to date	1
4. Comparison to Detailed Audit Timetables for 2011/12	6

In the event of any questions arising from this report please contact Graeme Clarke, Director, Mazars LLP graeme.clarke@mazars.co.uk

Status of our reports

This report is confidential and has been prepared for the sole use of Surrey Police Authority and Surrey Police.

This report must not be disclosed to any third party or reproduced in whole or in part without the prior written consent of Mazars LLP. To the fullest extent permitted by law, no responsibility or liability is accepted by Mazars LLP to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. Introduction

- 1.1 The purpose of this report is to update the Authority and Force as to the progress in respect of the Internal Audit Operational Plan ending 31 March 2012. The Plan was presented and approved by the Audit Committee on the 21 March 2011.

2. Summary of internal audit activity since the last Audit Committee meeting

- 2.1 Four reports have been finalised since the last Audit Committee meeting. These relate to:-
- Officer/Staff Overtime (01.11/12);
 - Pensions (02.11/12);
 - Payroll and Expenses (03.11/12); and
 - Deed Management (04.11/12).
- 2.2 One report is at draft report stage, awaiting management comments. This relates to Core Financial Controls (05.11/12) (issued 30 November 2011).
- 2.3 Planning meetings were undertaken for the forthcoming audit of ICT and Use of Consultants on the 17 October 2011.
- 2.4 Fieldwork for the review of Corporate Governance commenced on the 28 November 2011.
- 2.5 At the request of the Force we undertook a summary review of arrangements for cash handling at the Stonebridge depot. The results of which have been reported to the Force Commercial Asset Manager.
- 2.6 A Quarterly Audit Review meeting was undertaken with Authority and Force representatives on the 22 November 2011.

3. Key issues arising from the internal audit programme to date

- 3.1 Further to section 2 of the report, there have been four reports finalised since the last meeting of the Audit Committee.

Officer / Staff Overtime (01.11/12)

- 3.2 This audit was originally intended to be reviewed as part of the 2010/11 Audit Plan, however this was deferred as the Force had undertaken its own review of arrangements and it was felt beneficial for changes arising to be implemented prior to review by Internal Audit. Overall we provided a 'Substantial' assurance and made two recommendations in total. One was categorised as 'Significant' and related to in preparation for the transfer to of the process for staff overtime claims to the eXclaim system, a review of all authorising signatories should be carried out to ensure that they are appropriate and are assigned the correct authorisation levels and groups. The remaining recommendation was categorised as 'Housekeeping'.

Pensions (02.11/12)

- 3.3 This audit was undertaken at the request of the Treasurer and Surrey Police Authority due to the identification of errors in pension payments made by Xafinity Paymaster in a neighbouring force. As part of the audit we undertake a site visit to Xafinity's offices to review their files to assess the robustness of records held. We also liaised with the Authority's external auditors, the Audit Commission, and undertook sample testing of 60 commutations and lump sum retirement benefits of staff/officers who have retired between April 2010 and March 2011 in order to enable them to place reliance on our work.
- 3.4 We noted during our audit that since the errors had been identified by a neighbouring force, Xafinity have implemented enhancements to their internal control framework including: introducing a revised Retirement Paperwork Received form which acts as a checklist and includes a check relating to whether the maximum commutation applies or not; introducing monthly checks and audits on the Surrey Police Pension Scheme carried out by a member of staff from the team which deals with the Metropolitan Police Pension Scheme; and, building-up the relationship between the team responsible for the Surrey Police Pension Scheme and the Metropolitan Police Pension Scheme in order to share good practice and knowledge.
- 3.5 Overall we provided a 'Substantial' assurance over this area and made five recommendations in total, one was categorised as 'Significant' and the remainder 'Housekeeping'. The one 'Significant' recommendation related to Xafinity providing Surrey Police with a periodic report detailing any career breaks. This was due to several instances being identified as part of testing where the length of pensionable service per Xafinity records differed from the length of pensionable service detailed on the Surrey Police Notice of Retirement Forms. In the main these were small differences arising from rounding, although in some cases these arose where pensioners had had a career break which were accurately recorded in the Xafinity Paymaster records but not on the Notice of Retirement Forms from Surrey Police. Whilst there was no financial impact as the pensionable service had been capped at 30 years, there was one case where the length of pensionable service was below the 30 years cap and there was a difference of 10 days in the pensionable service per the Surrey records and per the Xafinity calculation. It was unclear why this difference arose.

Payroll and Expenses (03.11/12)

3.6 We have undertaken a review of the controls and processes for the payment of salaries and expenses to Authority staff, Force officers and staff due to the significance of expenditure on salaries and given there has been a number of staff changes across the Force in the past 12 months. This payment of Authority staff is also an area not previously subject to internal audit review. Overall we provided a ‘Substantial’ assurance over this area and made three ‘Housekeeping’ recommendations in total.

Deeds Management (04.11/12)

3.7 In support of the Authority’s arrangements for the handover of assets to an elected Police Commissioner in 2012 we have undertaken a review of the arrangements for the identification, recording and secure storage of the Authority’s land and property title deeds.

3.8 Overall we were only able to provide a ‘Limited’ assurance over this area due to the difficulties encountered trying to identify and verify deeds held by SCC on behalf of the Authority. During the audit we were also informed the Authority is considering bringing the management of deeds ‘in-house’ in the future which we have taken into account in making recommendations for improvement in this area. We made four ‘Significant’ recommendations in total, relating to:-

- Ensuring if the management of deeds is brought in-house to ensure there is a clear timetable of actions to achieve this;
- undertaking a full reconciliation of existing property and land lists held to records held by SCC and investigating any queries as appropriate;
- the documentation of procedures for the identification, recording and secure storage of deeds; and
- the introduce a simple spreadsheet/database to record details of all land and properties and the management of respective deed.

3.9 The following table provides a summary of assurances and the number and categorisation of recommendations in reports finalised to date.

Ref	Auditable Area	Audit Approach	Level of Assurance (If appropriate)	Recommendations				Total agreed by Management
				Fundamental	Significant	Housekeeping	Total	
01.11/12	Officer/Staff Overtime	Systematic	Substantial	-	1	1	2	2
02.11/12	Pensions	Systematic	Substantial	-	1	4	5	5
03.11/12	Payroll and Expenses	Systematic	Substantial	-	-	3	3	3
04.12/12	Deeds Management	Systematic	Limited	-	4	-	4	4
Totals				0	6	8	14	14
%				0%	43%	57%		100%

3.10 We use the following levels of opinion and recommendation classifications within our audit reports:

<i>Levels of Opinion</i>	<i>Control Environment</i>	<i>Effectiveness of Controls</i>
Full Assurance:	There is a sound system of control designed to achieve the system objectives.	All controls operate effectively promoting the achievement of system objectives.
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk.	While controls are basically sound, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Weaknesses in the system of controls are such as to put the system objectives at risk.	Weaknesses in the application of control put the system objectives at risk.
No Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

<i>Recommendation Classifications</i>	<i>Description</i>
Fundamental (Priority 1):	Recommendations represent fundamental control weaknesses, which expose the Authority and/or Force to a high degree of unnecessary risk.
Significant (Priority 2):	Recommendations represent significant control weaknesses which expose the Authority and/or Force to a moderate degree of unnecessary risk.
Housekeeping (Priority 3):	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

4. Comparison to Detailed Audit Timetable for 2011/12

Auditable Area	Planned Days	Actual Days*	Target Review Start Date	Actual Review Start Date	Target Audit Committee	Actual Audit Committee	Comments
Corporate Governance	3	0.3	Q3/4	28 November 2011	March 2012/ June 2012		See 2.4. Fieldwork commenced.
Risk Management	6	-	Q3/4		March 2012/ June 2012		
Deeds Management	3	4.2	Q1 Q2	17 October 2011	September 2011 December 2011	12 December 2011	See 2.1. Final Report issued.
Information Communications Technology	8	0.8	Q2 Q4	16 January 2012	December 2011 Mach 2012		See 2.3. Planning meeting held.
Police and Staff Overtime	6	7	Q2	25 July 2011	December 2011	12 December 2011	See 2.1. Final Report issued.
Use of Consultants	8	0.4	Q3	12 December 2011	March 2012		See 2.3. Planning meeting held.
Force Medical Examiners	5	-	Q3		March 2012		
Capital Programme Management	4	0.1	Q3		March 2012		
Core Financial Systems	23	20.8	Q3	24 October 2011	March 2012		See 2.2 Draft Report issued.
Payroll and Expenses	10	10	Q2	27 September 2011	December 2011	12 December 2011	See 2.1. Final Report issued.
Follow Up	12	0.6	Ongoing		To each meeting		
Audit Management	20	6.6	N/a	N/a	N/a	N/a	
Contingency	10	9.2	Pensions Arrangement – Q2	1 August 2011	September 2011 December 2011	12 December 2011	See 2.1. Final Report issued.
		2.2	Cash and Banking (Stonebridge)	24 October 2011	Not applicable	Not applicable	See 2.5.
Total	118	62.2					