

**CORPORATE GOVERNANCE COMMITTEE – 24 JUNE 2010****INTERNAL AUDIT ANNUAL REPORT 2009-10****REPORT BY CHIEF EXECUTIVE, CHIEF CONSTABLE AND TREASURER****Introduction**

- 1.1 The 2009-10 internal audit plan, agreed by the Corporate Governance Committee in March 2009, contained a series of targets in terms of audit work to be completed during the year. This report sets out a summary of the audit work carried out during 2009-10.
- 1.2 A summary of the agreed planned audit coverage for 2009-10 is shown below.

<b>Audit Type</b>	<b>Days 2009-10</b>
Core systems	66
Systems	77
Computer	20
Establishment	45
Contract	25
Review projects	30
Management time	15
<b>Total</b>	<b>278</b>

**Audit Opinion**

- 2.1 Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance.

The annual audit plan is prepared to take into account key areas of risk and was approved by the Corporate Governance Committee.

The level of assurance provided by Internal Audit is based upon:

- All audit reviews undertaken during 2009-10.
- Follow up of actions against audit recommendations made in 2008/09.
- Management responses to findings and recommendations
- Effects of significant changes to the financial systems; and
- The extent of resources available to deliver the audit plan.

Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. Whilst no assurance can ever be absolute, on the basis of audit work completed, it is our opinion that Sussex Police has an effective framework of

control that provides a reasonable assurance regarding the economic, efficient and effective use of resources in achievement of its objectives.

## 2009-10 Report

### 3.1 Systems Audits (Core)

Work for the 2009-10 core systems (66 days planned) has been undertaken throughout the year. As in previous years, internal audit has liaised closely with external audit to ensure that audit effort is not duplicated. The approach to carrying out assurance work on the core financial systems is designed to meet Audit Commission requirements relating to the documentation of key controls to ensure compliance with International Standards on Auditing.

The core systems for Sussex Police were considered to be:

System	2009-10 (Days)	Audit Opinion
Main Accounting System	10	Satisfactory assurance
Bank	3	Full assurance
Payroll	7	Satisfactory assurance
Budgetary Control	5	Satisfactory assurance
Pensions	5	Satisfactory assurance
Treasury Management	3	Satisfactory assurance
Accounts Receivable	5	Full assurance
Accounts Payable & Procurement	20*	Satisfactory assurance
Capital Asset Management	3	Satisfactory assurance
Capital – Payments & Monitoring	3	Satisfactory assurance
SAP Access Control	2	Satisfactory assurance
<b>Total</b>	<b>66</b>	

\* indicates systems review in addition to compliance testing

**Core systems compliance testing:** Annual compliance testing undertaken on core financial systems found that the majority of key controls were operating effectively. A number of recommendations were made in respect of the various systems. These include:

- Improvements in accounting for the capitalisation of vehicle assets.
- SAP access monitoring arrangements.
- Allocation of appropriate user groups for staff accessing IT systems.
- Regular reconciliation of pensions database to SAP.
- Improvements to authorisation of treasury management payments.

**Accounts Payable & Procurement:** Audit findings concluded that controls were operating on a satisfactory basis. The SRM system was found to be well designed and providing an effective control framework for the ordering, receipting and invoice payment system. Five recommendations were made in respect of access control, clarity and compliance with Financial Regulations, accuracy of master data and stock control of cheques.

### 3.2 Other systems audits

Details of planned and other work undertaken for 2009-10 are shown below:

System	2009-10 (Days)	Audit Opinion (where applicable)
IS Budgetary Control	10	Limited assurance
HR systems	15	Completed
Procurement Cards	10	Postponed to 2010/11
Insurance Claims Handling	15	Satisfactory assurance
Vehicle Recovery Scheme	10	Satisfactory assurance
Operation Otter	Unplanned	Satisfactory assurance
National Fraud Initiative	2	Completed
Follow Up	15	Completed
<b>Total</b>	<b>77</b>	

**IS Budgetary Control:** This audit looked at the arrangements for budget setting, monitoring and forecasting within the IS Department. A review had previously been undertaken by the central finance team and the audit confirmed that issues identified during that review were relevant and being progressed. Key findings found that:

- Budgetary control is weak within the department; there are significant variations in the month to month forecast.
- A large proportion of the monthly forecast is based on historical 'extrapolated' figures, rather than applying knowledge of the financial needs of the business.
- Errors had been made within the financial returns to Finance, the result of which were not financially material but did show a reliance on spreadsheets to produce a forecast.

Due to the complex nature of the spreadsheets used for budget monitoring and forecasting, there is insufficient time for the Finance Team and the Business Support Manager to undertake a thorough budgetary control process. There is significant scope for improving processes within the department through the alignment of the cost centres, which will provide additional time to undertake a thorough budget monitoring and forecasting process.

**HR Systems:** It was originally intended to carry out an audit review of the Attendance Management system. However, at the time of the review the system was being revised and it was therefore agreed that audit input would provide advice and guidance, based on the processes in place at the time, to inform the new processes. No audit opinion was provided.

All other completed work was reported to the Committee in November.

**Follow up work:** Of the recommendations made on system audit reviews and the annual core financial systems compliance testing, carried out as part of the 2008-09 audit plan, 22 out of 29

recommendations have now been fully implemented. Of the outstanding recommendations made, 6 relate to the review of partnerships and 1 to accounts receivable. The partnership recommendations relate to policy issues. The policy is in draft pending clarifications and sign off from Legal Services. All outstanding recommendations will be reviewed as part of the 2010-11 internal audit plan.

### 3.3 Computer audit

Details of planned work undertaken for 2009-10 are shown below:

System	2009-10 (Days)	Audit Opinion (where applicable)
Electronic Data Handling	8	Limited assurance
IS Business Continuity Arrangements	8	Limited assurance
Follow up	2	N/a
Planning/liaison	2	N/a
<b>Total</b>	<b>20</b>	

**Electronic data handling:** A summary of the issues arising from this review were reported to the committee in November 2009. A follow up report was presented to the Committee in March 2010 confirming that many of the identified weaknesses had been addressed and good progress was being made in actioning all recommendations. Further follow up review will be undertaken as part of the 2010-11 internal audit plan.

**IS Business Continuity Arrangements:** The primary focus of audit work was to review arrangements in place to support the Force in the event of the loss of the Force's principal IT systems. The reasons for the limited assurance opinion included:

- Substantial work has been undertaken in completing the Business Impact Analysis (BIA) across the IS teams. However, parts of the BIA still remained to be completed with the relevant Recovery Time Objective (RTO) and Recovery Point Objective (RPO) details. Identified critical business functions needed to be reviewed following the BIA
- A risk register has been developed through informal discussions with the team leaders whilst carrying out BIA. However, formal risk assessments have not been completed by each critical service.
- There is a lack of clarity over third party responsibilities with respect to disaster recovery.
- An overall IS DR Plan is still to be developed, although some progress has been made in developing individual disaster recovery plans for each service/system supported by the IS department.
- A formal testing structure is still to be developed and implemented for Business Continuity.

**Follow up work:** Audit work focused on reviewing action taken against previous recommendations made in respect of the reviews carried out in respect of Data Centres and PC end user controls. Both audits received satisfactory ratings initially and in total 13 recommendations were made. At the time of follow up 7 recommendations had yet to be implemented. The four outstanding recommendations relating to Data Centres are now being progressed as part of the IS modernisation programme infrastructure project due to be implemented in September 2010. Progress in fully implementing outstanding issues will be reported as part of the interim audit report to be received by the committee in November.

### 3.4 Contract Audit

Audit	2009-10 (Days)	Audit Opinion (where applicable)
Lewes	15	Full assurance
Assessment of the financial status of contractors (x completed)	10	N/a
<b>Total</b>	<b>25</b>	

**Lewes Police Station:** A review was undertaken to assess whether the contract was awarded in compliance with Standing Orders and on a fair basis supported by proper tender and evaluation process. The review also looked at mechanisms in place for contract payments including variations and monitoring arrangements. Full assurance could be given on the systems and controls in place and no recommendations were made.

### 3.5 Establishment Visits

45 days were allocated in the audit plan to carry out establishment visits.

Establishment	Audit Opinion
<b>Divisions</b>	
Brighton & Hove division (including 3 station visits)	Satisfactory assurance
East Sussex division (including 7 station visits)	Full assurance
Gatwick division	Satisfactory assurance
North Downs division (including 4 station visits)	Full assurance
<b>Other audit visits</b>	
Clothing Stores	Full assurance
Photographic section	Full assurance
Specialist Search Unit	Full assurance
Air Operations (Helicopter) Unit	Full assurance
Police Authority	Full assurance

All planned work was completed and reported at the November 2009 meeting of this committee. No significant issues or recommendations arose and all but two of the audited areas received a full assurance rating.

### 3.6 Review Projects

Review work is undertaken at the request of the Director of Finance. The programme for 2009-10 was composed of the following work:

Review	2009-10 (Days)	Status
Finance Department Activity Analysis	15	Work completed
Employee Self Service	15	Work completed
<b>Total</b>	<b>30</b>	

**Finance Department Activity Analysis:** Internal Audit was commissioned to ascertain whether the Finance function is operating efficiently and to identify possible duplication of tasks or overlaps in processes. Analytical work was completed to provide an activity report which is being used by the Head of Finance to inform service design.

**Employee Self Service:** Employee Self Service (ESS) is a SAP module that allows employees to maintain their own personal data. This will be extended to include the capture of employee's overtime and the subsequent authorisation and payment. Planned integration will enable SAP to directly process the overtime from the call duty system, calculated by adhering to complex overtime rules. This will remove the requirement for personnel to enter their overtime claims on a separate paper form and for West Sussex County Council to capture the data from the paper form onto SAP. This also has the advantage of a seamless transfer of data from the call duty system, through payroll, into the financial accounts.

The review concluded that satisfactory arrangements were in place in respect of project control, systems documentation, contractor management and planned user acceptance testing methodology. At the time of the review there was project slippage. Recommendations were made in respect of outstanding developments required and the need to define these and extend contractor requirements or put in place skills transfer to ensure that outstanding issues are addressed effectively and efficiently. Maintenance support arrangements were also in need of finalisation. A post implementation review has been scheduled for 2010.

**RECOMMENDED** – that the report be noted

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## Appendix A

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### Standard Definitions – Audit Opinions

<b>Full Assurance:</b>	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found.
<b>Satisfactory Assurance:</b>	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance:</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
<b>No Assurance:</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.