

Leicestershire Police Authority

Fixed Assets

05.08/09

Internal Audit Report

February 2009

FINAL



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Debrief meeting:	19 September 2008	Auditors:	Chris Harris - Partner
Draft report issued:	17 October 2008		Jerry Barton - Client Manager
Responses received:	04 February 2009		Rob McCulloch - Auditor
Final report issued:	10 February 2009	Client sponsor:	Paul Dawkins - Force Financial Director
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This review has been performed using RSM Bentley Jennison's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1 Executive Summary

1.1 Introduction

An audit of Fixed Assets was undertaken as part of the approved internal audit periodic plan for 2008/09. Our review confirmed that there is an adequate framework of control in place to ensure that there are appropriate procedures for the recording, accounting and disposal of assets. Our review assessed whether there are formally approved procedures for the recording of fixed assets and confirmed that assets are depreciated in accordance with the Authority's accounting policies. Fixed assets are accurately and timely recorded and accounted for in accordance with financial regulations.

The specific risks considered as part of this audit were:

- The organisation's assets may be at risk of loss or theft if appropriate controls are not established and communicated.
- There may be a failure to set and monitor an appropriate capital budget.
- Items acquired may not be identified and appropriately recorded as assets.
- Incorrect asset values may be recorded.
- There may be ineffective control over assets due to incomplete or inaccurate details being recorded in the register, including depreciation values.
- There may be unauthorised input or amendment to data.
- There may be system failure resulting in the loss of data.
- There may be loss of data due to ineffective security.
- The asset registers and inventory lists may not accurately reflect actual assets held.
- Asset values may not be recorded accurately in the organisation's financial statements.
- Budget expenditure may not be monitored.
- The disposal of assets may not be authorised.

These risks relate to the objective of ensuring that the Force adequately records, tracks, manages and accounts for its fixed assets.

1.2 Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Control activities relied upon:

- N/A

Limitations to the scope of the audit:

- The audit will be limited to reviewing management controls and processes in place as outlined in the scope of the review, and our conclusions will be based on these and the outcomes of sample testing undertaken of transactions relevant to the current financial year to date. In addition, our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was Key Controls Testing and included the following:

- Establishing the controls for which external audit intends to place reliance on internal audit testing
- Reviewing the adequacy and application of the controls in place to mitigate the risks or testing to assess the extent or cause of problems identified

1.3 Conclusion

Taking account of the issues identified, in our opinion the Authority can take substantial assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
EFFECTIVENESS OF CONTROL FRAMEWORK			
DESIGN OF CONTROL FRAMEWORK	X		
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK	X		
OVERALL OPINION	X		

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- That the controls implemented are well designed and applied throughout this area of the Authority's financial systems; there are no significant or fundamental recommendations.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

RISK	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
THE ORGANISATION'S ASSETS MAY BE AT RISK OF LOSS OR THEFT IF APPROPRIATE CONTROLS ARE NOT ESTABLISHED AND COMMUNICATED.	0	0	0
THERE MAY BE A FAILURE TO SET AND MONITOR AN APPROPRIATE CAPITAL BUDGET.	0	0	0
ITEMS ACQUIRED MAY NOT BE IDENTIFIED AND APPROPRIATELY RECORDED AS ASSETS.	0	0	0
INCORRECT ASSET VALUES MAY BE RECORDED.	0	0	0
THERE MAY BE INEFFECTIVE CONTROL OVER ASSETS DUE TO INCOMPLETE OR INACCURATE DETAILS BEING RECORDED IN THE REGISTER, INCLUDING DEPRECIATION VALUES.	0	0	0
THERE MAY BE UNAUTHORISED INPUT OR AMENDMENT TO DATA.	0	0	0
THERE MAY BE SYSTEM FAILURE RESULTING IN THE LOSS OF DATA.	0	0	0
THERE MAY BE LOSS OF DATA DUE TO INEFFECTIVE SECURITY.	0	0	1
THE ASSET REGISTERS AND INVENTORY LISTS MAY NOT ACCURATELY REFLECT ACTUAL ASSETS HELD.	0	0	1
ASSET VALUES MAY NOT BE RECORDED ACCURATELY IN THE ORGANISATION'S FINANCIAL STATEMENTS.	0	0	0
BUDGET EXPENDITURE MAY NOT BE MONITORED.	0	0	0
THE DISPOSAL OF ASSETS MAY NOT BE AUTHORISED.	0	0	1
TOTAL	0	0	3

Recommendations implemented since the previous audit in this area:

DATE OF PREVIOUS AUDIT: 21 August 2008

RECOMMENDATION CATEGORIES	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
NUMBER OF RECOMMENDATIONS MADE DURING PREVIOUS AUDIT	0	0	3
NUMBER OF RECOMMENDATIONS IMPLEMENTED	0	0	0
RECOMMENDATIONS NOT YET FULLY IMPLEMENTED:	0	0	3

We are disappointed that none of our three recommendations made at the previous audit have been implemented, although we appreciate that you only agreed to consider these. We have thus reiterated these recommendations in this year's report.

2 Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL

ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET

SIGNIFICANT

REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.

MERITS ATTENTION

ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
8.1	It is considered best practice that valuable, easily removable items, such as computers and other electronic equipment should be security marked to assist in their recovery in the event that they are lost or stolen.	Merits Attention	Y	Security marking of PCs is currently underway via UV pen. Smartwater is being purchased and will be used for further marking. We are negotiating with our suppliers to determine whether they would be able to use Smartwater to mark some of the internal components of the computers.	March 2009	Head of IT
9.1	Best practice identifies that assets recorded on the fixed asset registers should be regularly verified.	Merits Attention	Y	A review of internal asset management processes has been undertaken and a number of actions relating to record keeping in relation to movement of assets have been identified on the Force electronic risk register (Orchid). Implementation of these actions will be monitored via Orchid.	March 2009	Head of IT
12.1	We recommend that for all vehicle disposals, there	Merits Attention	Y	We are currently preparing lists of equipment from our inventory. These lists will be distributed by the end of February to MSOs for physical checking. The Deputy Transport	February 2009	Fleet Manager

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
	should be written authorisation, signed or initialled as evidence of such authorisation by the Fleet Manager or Deputy Fleet Workshop Manager,			Manager has agreed with the auditor that the current Vehicle Disposal Form, used to list and advise the auction company of vehicles to be consigned for disposal from the Fleet Asset List, be used for compliance with the recommendation. A snap check was made on the 30/10/08 and compliance was indicated from the sample. Completed by Ray Adkins		

3 Findings and Recommendations

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
1.1	<p>RISK 1: THE ORGANISATION'S ASSETS MAY BE AT RISK OF LOSS OR THEFT IF APPROPRIATE CONTROLS ARE NOT ESTABLISHED AND COMMUNICATED.</p> <p>The Financial Regulations and Procedures state the controls required over assets and inventory items, including the records to be maintained, security marking, the limits for recording and capitalisation, the checks to be performed, depreciation policy and write off procedures.</p> <p>The Financial Regulations and Procedures are made available to all staff, and those staff with specific responsibility for asset control and management have their duties and responsibilities clearly defined in their job descriptions.</p>	Yes	<p>Financial regulations and procedures are in place which cover the following areas:</p> <p>Definitions; Capital programmes; Controls and monitoring; Acquisitions and disposals, including disposal of surplus equipment; Responsibility for maintaining asset registers for all assets valued at over £6,000, and reconciliation with general ledger balances; Depreciation; Revaluation; Safeguarding of assets, including security marking of portable items; Data security.</p> <p>These adequately cover the main aspects of the system and are made available to all relevant staff. We were informed that the Financial Procedures are currently being reviewed and an updated set could be issued in the near future, although this is likely to be mainly changes in presentation rather than content.</p> <p>The job description relevant to the finance officer who is mainly responsible for the fixed asset function was obtained and this clearly sets out the duties required.</p>	None.	

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	RISK 2: THERE MAY BE A FAILURE TO SET AND MONITOR AN APPROPRIATE CAPITAL BUDGET.				
2.1	The Authority sets a capital budget for each financial year within a rolling 4 year programme which is monitored monthly by the Finance Director.	Yes	<p>It was confirmed that a capital budget has been set for the current financial year and a copy of this, as incorporated in the 2008/09 capital programme, has been filed; capital expenditure of £7.3m has been budgeted for 2008/09 within a capital programme for the period 2007/08 to 2010/11.</p> <p>It was also confirmed that this is monitored on a monthly basis and a copy of the monthly report for June 2008, from the Finance Director, has been filed, which includes 'spend to date' compared to budget and balance outstanding for each capital category.</p>	None.	
	RISK 3: ITEMS ACQUIRED MAY NOT BE IDENTIFIED AND APPROPRIATELY RECORDED AS ASSETS.				
3.1	<p>All capital items are coded to a capitalisation account upon purchase.</p> <p>At the end of the financial year a review is conducted on all expenditure over £5,000 to ensure that it has been capitalised where appropriate.</p> <p>All capital assets have an appropriate useful life assigned to them to ensure that the capital account truly reflects the value of assets held, and this is periodically reconciled with the finance ledger.</p>	Yes	<p>From a sample of 15 items tested, it appears that capital purchases are correctly capitalised and recorded on the asset registers. One of the items tested had not been recorded on the asset register but this was deliberately omitted as an asset 'not increasing value'.</p> <p>At the year end, a review of expenditure over £5,000 is carried out to ensure that all material capital items have been capitalised, further details of which have been tested. It was noted at the previous audit that the intention was to carry out this review quarterly in future; this has not happened due to pressure of work but the client is still hopeful that this will be achieved this year.</p> <p>It was confirmed with the Assistant Accountant, that all capital assets have an appropriate useful life assigned to them upon acquisition to ensure that the capital</p>	None.	

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			<p>accounts accurately reflect the value of the assets held. A review of the fixed asset registers showed that all assets had an estimated life assigned to them except for vehicles which are all depreciated over the same period.</p> <p>It was confirmed with the Assistant Accountant that reconciliations of the fixed asset registers with the nominal ledger accounts were carried out at the year end. Copies of the IT, Operational equipment and vehicle reconciliations have been examined. In addition, the Corporate Accountant carries out an overall reconciliation, and a copy of this has also been examined.</p>		
4.1	<p>Assets should be recorded at their purchase or acquisition cost with any item subject to a finance lease being annotated accordingly and the value adjusted. Repair and maintenance expenditure is differentiated from enhancement expenditure.</p>	Yes	<p>It was confirmed by the Assistant Accountant, from our work on test 3.1, and specifically a review of the asset registers, that assets are recorded at cost, and that repairs and maintenance expenditure is not capitalised.</p> <p>The Assistant Accountant stated that there are no assets acquired under finance leases so this is not applicable at present.</p>	None.	
5.1	<p>The asset and inventory registers should record suitable details of the assets, including description, serial number, date of acquisition, capital cost/value, expected useful life, depreciation rate and location. It is recommended that each asset</p>	Yes	<p>The fixed asset registers show complete and accurate details for all assets held. In particular, the asset description, date of purchase, asset index number, cost, estimated life and thus depreciation rate (see separate filed schedule for vehicles), and net book value are all recorded.</p>	None.	

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	<p>is given a unique register number which would assist in identification. The register should also clearly distinguish between capital and non-capital assets, capital assets subject to depreciation and those that are fully depreciated.</p>				
	RISK 6: THERE MAY BE UNAUTHORISED INPUT OR AMENDMENT TO DATA.				
6.1	<p>Logical and physical access to the asset register is restricted to authorised staff. Access is through personal passwords, which are changed on a regular basis.</p>	Yes	<p>It was confirmed with the Assistant Accountant, and by review of the finance system access records on screen, that only Corporate Finance staff have access to the fixed asset register.</p> <p>Access is restricted by user names and individual passwords which are required to be changed every 30 days and must contain at least 6 characters.</p>	None.	
	RISK 7: THERE MAY BE SYSTEM FAILURE RESULTING IN THE LOSS OF DATA.				
7.1	<p>Regular back ups of the register are undertaken which are periodically tested for completeness.</p>	Yes	<p>We spoke to the IT Team Leader, who confirmed that the procedures noted last year were still in force. He specifically confirmed that full backups of each system are taken on a daily basis; that there are fireproof safes in the Admin. 2 block and Comms. block where the tapes are stored; that there is a cycle of 14 tapes with backups taken initially to disk and then transferred to tape; that once a quarter, an entire set of tapes is taken out of the cycle and replaced which are kept indefinitely, and that the IT Helpdesk perform daily checks, which include the success or failure of the backup tapes.</p> <p>He also noted that they had introduced an</p>	None.	

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			<p>additional procedure whereby every week a complete set of the tapes within the 14 tape cycle is taken to the Disaster Recovery Site</p> <p>We may thus conclude that the procedures in respect of system failure are adequate.</p>		
8.1	<p>RISK 8: THERE MAY BE LOSS OF DATA DUE TO INEFFECTIVE SECURITY.</p> <p>All assets should be permanently and visibly security marked, although we understand that this is not necessarily the case and is currently being considered; items of value that could easily be removed, e.g. PCs, should be secured to desks/walls where possible.</p> <p>The organisation has appropriate physical security for all areas, such as coded doors, alarms and motion detectors.</p> <p>Appropriate procedures and controls have been established in respect of assets taken off site.</p>	No	<p>Access to the Authority's buildings is restricted by coded doors and electronic door locks; we can confirm that this is in place at the Force's headquarters as our audit site work was carried out there.</p> <p>We recommended at the previous audit that assets should be permanently security marked and that the client agreed to consider this. No progress appears to have been made in respect of this with no clear decision yet made. This is mainly applicable to IT equipment, and the Head of the IT department told us that this was still being discussed; he noted that they did monitor the number of connected monitors electronically and on replacement of IT equipment but this is only a limited control.</p> <p>In respect of assets taken off site, it was confirmed that it is each department's responsibility to ensure that appropriate steps are taken to safeguard them. Assets are allocated to specific staff members who have responsibility for the assets.</p> <p>The Financial Regulations stipulate that assets should be 'properly maintained and securely held', that there should be 'safe custody of all documents of title', and that for assets removed from the premises 'a record of such removal will be maintained at the establishment concerned'.</p>	<p>It is considered best practice that valuable, easily removable items, such as computers and other electronic equipment should be security marked to assist in their recovery in the event that they are lost or stolen.</p>	Merits Attention

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
9.1	<p>RISK 9: Assets recorded on the asset register should be regularly verified with the holders and be subject to an independent annual check, which should include spot checks to confirm the existence of the asset. Items held on the master/local inventory databases should also be subject to periodic reconciliation. We understand that this may not be consistently carried out however.</p>	No	<p>The member of staff responsible for IT inventories confirmed that there has been no complete verification of the IT register for several years, and no such check is planned at present. As with test 8.1 in respect of the permanent marking of assets, the Head of the IT department told us that this was still being discussed; he noted that they did monitor the number of connected monitors electronically and on replacement of IT equipment but this is only a limited control. Again, we noted last year that you would assess this recommendation in respect of IT equipment, and we urge you to consider this as soon as possible.</p> <p>In respect of operational fixed assets, the Assistant Accountant stated that he sends out memos to the respective departments requesting that they confirm operational assets held by them or advise him of any discrepancies; an example of a returned memo has been filed.</p> <p>As last year, it was confirmed with the Fleet Administration Officer that no physical verification of vehicles takes place, and that it would be impractical to verify over 500 vehicles. However vehicles are reconciled with the Fleet 'Tranman' system and this is used to collate individual vehicle costs and recharge them to the respective departments each month as illustrated by an example which has been filed; if a department was being charged for a vehicle they did not possess they would soon bring this to Fleet's attention.</p>	<p>Best practice identifies that assets recorded on the fixed asset registers should be regularly verified.</p>	Merits Attention

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	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			<p>departments to 'maintain inventories of all equipment and furniture and must ensure that in the event of any movement it is recorded on the inventory' and that managers 'must maintain their own records sufficient to provide the Finance Department with capital additions and disposals when requested', but there is no specific requirement to verify these records.</p>		
10.1	<p>RISK 10: ASSET VALUES MAY NOT BE RECORDED ACCURATELY IN THE ORGANISATION'S FINANCIAL STATEMENTS.</p> <p>The value of all assets should be depreciated annually in accordance with the authority's depreciation policy, reconciled to the general ledger and verified by an officer independent of the asset register.</p>	Yes	<p>Our tests confirmed that fixed assets are being depreciated in line with the Authority's policies and are recorded accurately in the fixed asset registers.</p> <p>Our work on test 3.1 confirmed that the fixed asset registers are reconciled to the nominal ledger at the year end.</p>	None.	
11.1	<p>RISK 11: BUDGET EXPENDITURE MAY NOT BE MONITORED.</p> <p>The organisation sets a capital budget for each financial year within a rolling 4 year programme which is monitored monthly by the Finance Director.</p>	Yes	<p>It was confirmed that the capital budget is monitored on a monthly basis by the Finance Director and a copy of the report for June 2008 has been examined, which includes 'spend to date' compared to budget and balance outstanding for each capital category.</p>	None.	
12.1	<p>RISK 12: THE DISPOSAL OF ASSETS MAY NOT BE AUTHORISED.</p> <p>Obsolete or surplus assets should be identified and appropriate authority to dispose of the item obtained in writing in accordance with financial regulations and procedures.</p> <p>Appropriate procedures should be documented to</p>	Yes	<p>Fixed asset disposals follow the Authority's regulations, but, as noted last year, there is no signature or initials as evidence that vehicle disposals are authorised, and we again recommend that this is introduced.</p>	<p>We recommend that for all vehicle disposals, there should be written authorisation, signed or initialled as evidence of such authorisation by the Fleet manager or Deputy Fleet Workshop Manager.</p>	Merits Attention

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	account for situations where there is potential for the item to be sold. Write offs should be reported to the Finance committee or Authority at least annually.				