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Date: 02 March 2017

## **AGENDA**

**TO: THE MEMBERS OF THE JOINT AUDIT AND STANDARDS COMMITTEE**

### **CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT AND STANDARDS COMMITTEE**

A Meeting of the Joint Audit & Standards Committee will take place on **Wednesday 15<sup>th</sup> March 2017** in **Conference Room Two**, Police Headquarters, Carleton Hall, Penrith, at **10:00am**.

**S Edwards**  
**Chief Executive**

**Note:** Members are advised that allocated car parking for the meeting is available in the Visitors Car Park.

Please note – there will be a private members meeting from 9.30am – 10.00am and a development session from 2.00pm – 4.00pm

### **COMMITTEE MEMBERSHIP**

Mrs Fiona Daley (Chair)  
Mr Jack Jones  
Ms Fiona Moore  
Mr Malcolm Iredale

## **AGENDA**

### **PART 1 – ITEMS TO BE CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC**

**1. APOLOGIES FOR ABSENCE**

**2. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC**

To consider (i) any urgent items of business and (ii) whether the press and public should be excluded from the Meeting during consideration of any Agenda item where there is likely disclosure of information exempt under s.100A(4) and Part I Schedule A of the Local Government Act 1972 and the public interest in not disclosing outweighs any public interest in disclosure.

**3. DISCLOSURE OF PERSONAL INTERESTS**

Members are invited to disclose any personal/prejudicial interest, which they may have in any of the items on the Agenda. If the personal interest is a prejudicial interest, then the individual member should not participate in a discussion of the matter and must withdraw from the meeting room unless a dispensation has previously been obtained.

**4. MINUTES OF MEETING AND MATTERS ARISING**

To receive and approve the minutes of the committee meeting held on 24 November 2016.

**5. ACTION SHEET**

To receive the action sheet from previous meetings.

**6. CORPORATE UPDATE**

To receive a briefing on matters relevant to the remit of the Committee

**7. HMIC REPORTS**

Members have been provided with electronic versions of the following reports. This agenda item is an opportunity for members to raise any concerns/issues in relation to governance arising as a result of their review of these reports:

- PEEL Police Efficiency - A National Overview
- PEEL Police Efficiency – An Inspection of Cumbria Constabulary
- PEEL Police Legitimacy - A National Overview
- PEEL Police Legitimacy – An Inspection of Cumbria Constabulary
- National Child Protection Inspections – Cumbria Constabulary July 2016
- PEEL Police Leadership – An Inspection of Cumbria Constabulary

**8. STRATEGIC RISK REGISTER**

To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy.

- (i) To consider the COPCC strategic risk register as part of the Risk Management Strategy *(To be presented by the Chief Executive or the Governance & Business Services Manager)*
- (ii) To consider the CC strategic risk register as part of the Risk Management Strategy *(To be presented by the Deputy Chief Constable) – Paper to follow*

**9. RISK MANAGEMENT STRATEGY**

To provide the annual review of the COPCC and Constabulary Risk Management Strategies.

- (i) To provide the annual review of the COPCC Risk Management Strategy *(To be presented by the Chief Executive or the Governance & Business Services Manager)*
- (ii) To provide the annual review of the Constabulary Risk Management Strategy *(To be presented by the Deputy Chief Constable) – Paper to follow*

**10. TREASURY MANAGEMENT ACTIVITIES**

To receive for information reports on Treasury Management Activity - Quarter 3 *(To be presented by the Deputy Chief Finance Officer)*

**11. INTERNAL AUDIT – PROGRESS REPORT**

To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. *(To be presented by the Audit Manager)*

**12. INTERNAL AUDIT REPORT(S)**

To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. *(To be presented by the Audit Manager)*

- (i) Audit of Code of Corporate Governance (OPCC)
- (ii) Audit of Code of Corporate Governance (CC)
- (iii) Audit of Stop and Search (CC)

The following Internal Audit reports have also been completed within the last quarter and have been reviewed by the Committee members. Copies of these audit reports will be available to view on the OPCC website.

- (i) Audit of Mobile and Digital (CC)
- (ii) Audit follow up of Duty Management System
- (iii) Audit of Self-Service Travel Expenses and Overtime

- 13. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS**

To receive an updated summary of actions implemented in response to audit and inspection recommendations.  
*(To be presented by the CC Chief Finance Officer)*
- 14. TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES**

To review the annual Treasury Management Strategy incorporating the policy on investment and borrowing activity and treasury management practices.  
*(To be presented by the Deputy Chief Finance Officer)*
- 15. VALUE FOR MONEY**

To receive an annual report on Value for Money within:
  - (i) The Office of the Police and Crime Commissioner *(To be presented by the Deputy Chief Finance Officer)*
  - (ii) The Constabulary *(To be presented by the Director of Corporate Improvement)*
- 16. ANNUAL WORK PROGRAMME: ASSURANCE FORMAT**

To review and approve an annual work programme covering the framework of assurance against the Committee's terms of reference.  
*(To be presented by the Deputy Chief Finance Officer)*
- 17. EXTERNAL AUDIT PLAN AND UPDATE REPORT**

To receive from the external auditors the Joint Annual External Audit Plan and an update report in respect of progress on the external audit plan.  
*(To be presented by Grant Thornton)*
- 18. PROPOSED INTERNAL AUDIT PLAN/ INTERNAL AUDIT CHARTER**

To receive a report from the Internal Auditors on the proposed Internal Audit Annual Plan and any proposed revisions. To receive a copy of the internal audit charter from the Internal Auditors.  
*(To be presented by the Audit Manager)*
- 19. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement.  
*(To be presented by the Audit Manager)*

**Future Meeting Dates (For Information)**

- 24 May 2017 @ 10:30 - Conference Room 2
- 21 July 2017 @ 10:30 - Conference Room 2
- 13 September 2017 @ 10:00 - Conference Room 2
- 22 November 2017 @ 10:00 - Conference Room 2



**Agenda Item 4**

**CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY**

**JOINT AUDIT & STANDARDS COMMITTEE**

Minutes of a Joint Meeting of the Joint Audit & Standards Committee and the Police and Crime Commissioner held on Thursday 24<sup>th</sup> November 2016 in Conference Room 2, Police Headquarters, Carleton Hall, Penrith, at 1.00 pm

**PRESENT**

Mrs Fiona Daley (Chair)  
Mr Jack Jones  
Ms Fiona Moore  
Mr Malcolm Iredale

**Also present:**

Audit Manager, Cumbria Shared Internal Audit Service, Cumbria County Council (Emma Toyne)  
Senior Manager, Grant Thornton (Richard McGahon)  
In-Charge Auditor, Grant Thornton (Laurelin Griffiths)  
Constabulary Chief Finance Officer (Roger Marshall)  
Deputy Chief Finance Officer (Michelle Bellis)  
Deputy Chief Constable (Michelle Skeer)  
Head of Partnerships & Commissioning (Vivian Stafford)  
Governance & Business Services Manager (Joanne Head)  
Financial Services Assistant – Systems (Shelagh Miller)

**PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC**

**282. APOLOGIES FOR ABSENCE**

Apologies for absence were received from the Grant Thornton Associate Director (Robin Baker), Chief Executive (Stuart Edwards) and Commissioner's Chief Finance Officer (Ruth Hunter).

**283. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC**

There are no items of urgent business or exclusions of the press and public to be considered by the Committee.

**284. DISCLOSURE OF PERSONAL INTERESTS**



There were no disclosures of any personal interest relating to any item on the Agenda.

## **285. MINUTES OF MEETING AND MATTERS ARISING**

The minutes of the meeting held on 7<sup>th</sup> September 2016 had been circulated with the agenda. The minutes were first reviewed for factual accuracy and approved as a true record of the meeting by the committee.

**RESOLVED,** that, the minutes of the meeting held on 7<sup>th</sup> September 2016 be approved.

## **286. ACTION SHEET**

The action sheet of the meeting held on 7<sup>th</sup> September 2016 had been circulated with the agenda. The following comments were made.

- Action 224 – Member's unable to locate paper from Stuart Edwards and requested that this was re-sent via email.
- Action 239 – Response to audit recommendation regarding responsibility for safeguarding of IT assets – it has been established which department within the Constabulary has responsibility for this, two posts have clear responsibility for this, discussions are being held to establish if job descriptions need amending to explicitly include this. The action should be completed by the next meeting.

**RESOLVED,** that, the report be noted

## **287. CORPORATE UPDATE**

The Constabulary Chief Finance Officer (CFO) gave an update on the revenue budget. Unusually for the Constabulary a predicted overspend is being shown of about one million pounds. There are a number of reasons for this; accounting treatment, special policing duties, some elements are indicative of recurrent pressures within the budget. The overspend principally relates to police pay which is to be expected as it is the biggest element of the budget. Changes in accounting treatment agreed earlier in the year has meant there has effectively been two Easters in the financial year leading to an overspend on overtime. Some special policing duties have been undertaken which has incurred additional expenditure. Staff shortages in specialist areas has given rise to additional expenditure, ways are being looked at to address these skills shortages in the medium to longer term. National and local training in response to HMIC recommendations. A number of ICT projects, some nationally mandated have led to increased expenditure. These pressures are being looked at to ensure they can be proactively managed. The budget was deliberately set to be less risk adverse due to underspend position in previous years. There was an awareness of potential exposure to risk in the budget with contingencies set to cover these. If necessary reserves will be looked at being drawn down in collaboration



with the Commissioner's CFO at the end of the year, pressures accommodated within the budget for future years and reserves replenished in the next financial year.

The Deputy Chief Constable (DCC) updated on the governance surrounding this. This has been taken to informal Chief Officer Group (COG), formal COG, the Police and Crime Commissioner as well as working closely with the two CFO's. It was known that this was a potential risk, additionality had been taken out of the budgets during the Star Chamber process. The budget pressures are tight due to the 22 million taken out leading to some readjustment having to be made in terms of risk.

A member was interested in what the skills shortages were and if it was specific to Cumbria. The DCC confirmed that it was a national problem surrounding specialist skills. Nationally there has been an uplift in certain specialist skills, national recruiting has led to some staff moving to the bigger forces. The member asked if an investment is made in training to upgrade skills, are there contractual requirements and if not why not. The DCC confirmed that this could not be done due to police regulations and officers cannot be precluded from transferring to another force. The Constabulary CFO commented that prior to the Windsor review of police terms and conditions special allowances were made for specialist skills but these were removed meaning there is no incentive to undertake these duties. The DCC confirmed that this had been picked up nationally and the impact on the forces. A member asked if this gave any impetus to collaboration with other forces to relieve some of these pressures. The DCC confirmed that in terms of operationally there is collaboration with North West making it as efficient as possible but that certain core skills were required within the force.

The Chair asked about the projection for the year end position, as contingencies had been referred to, would the budget be in balance by the year end due to these contingencies. The Constabulary CFO confirmed that the overspend would be much smaller. The Chair asked what the PCP had said about the predicted overspend. The DCC confirmed that they would probably wait until the year end before commenting. The Chair commented that the logical consideration would be about the precept but it was confirmed that this was being considered.

The Constabulary CFO gave an update on the funding formula which was postponed. The new policing minister announced his intention that it was a high priority for him to review the funding formula. Technical and strategic working groups have been set up with the aim to produce proposals for the formula in spring 2017 with a planned implementation of 2018/19. Cumbria is represented on the Strategic Group by the Chief Constable. The uncertainty over the funding formula makes it difficult to plan for the future in terms of the medium term financial forecast.

A member asked if for 2017/18 there was any indication of a cash uplift for the current arrangements. The Constabulary CFO confirmed that policing was a protected service for 2017/18 meaning, to a large degree, they are protected from the cuts although not completely. Therefore the Constabulary has allowed for a small reduction. The DCC commented that transition arrangements have been discussed so there won't just be a cut off in the first year.



A member asked for an update on the Bridgeway, a new arrangement for victims of sexual offences. The DCC confirmed this had been running for nearly eleven months and had been very successful.

The member commented that feedback had been received that the legislation for blue light collaboration was not in force yet but may potentially come into force from April next year. The DCC confirmed this was still being worked on as well as looking at wider collaboration.

## **288. ANNUAL REVIEW OF GOVERNANCE**

### Role of the PCC's Chief Finance Officer

The Deputy CFO presented the report advising that the methodology adopted for reviewing both of the CFO roles was the same. The roles have been reviewed against the CIPFA code, in April 2016 CIPFA issued revised guidance for the role but historically there has been some specific police guidance issued. CIPFA are in the process of reviewing that document and advised to use the police specific guidance. The exercise will be repeated when the new guidance is issued. Due to this there is little change as the roles have been reviewed against the existing police specific guidance. References have been changed throughout the document to standardise them. A member has provided a comprehensive list of typos and some clarifications which will be incorporated into the document before finalisation.

A member commented on the colour of the headings as they were the same. It was confirmed that this was an error.

The Chair asked if the process had been started from scratch or if the previous version had been taken. The Deputy CFO confirmed that the previous version had been checked to see if it was still correct. A member commented that it would have been useful as the process involved amending a previous version for the paper to be provided with tracked changes.

The Chair commented on 3.16 about the arrangements for effective management of cash flows, borrowing and investments of funds and that the arrangements were not consistent with those stated in the financial regulations as the day to day management is down to the deputy CFO. There is an inconsistency with what is stated in the financial regulations.

The chair commented that taking the two CFO roles together members needed to decide whether the assessment provides evidence that is consistent with the member's knowledge of the organisation and compliant with the CIPFA requirements. The members were happy to confirm this.

### Role of the Chief Constables Chief Finance Officer

The Chair asked if the Chief Constables CFO had anything further to add. He confirmed that the process was as described by the Deputy CFO and he had nothing further to add.





A member asked when the new guidance was anticipated. The Deputy CFO said that in October CIPFA had said it would be in a couple of months. The members were happy for this to be reviewed again in November 2017 unless the new guidance showed that the roles were obviously no longer compliant. The Deputy CFO confirmed that when the new guidance was received the review would be completed, if the role was still compliant this would be reported verbally to a future meeting and the full document would be brought to the November 2017 meeting.

### Scheme of Delegation / Consent

The Head of Partnerships and Commissioning introduced the paper for the Scheme of Delegation which had been updated to reflect the current position. Minor changes have been made. The Police and Crime Bill is expected to become an act in early 2017 which means it is likely the scheme of delegation will have to be amended following this. The changes made are mainly in relation to staff changes. A new paper could be presented in March. The Chair confirmed that if any substantive changes are required to this document then this needs to come back to members by exception.

The Chair queried that on page 17 in the delegations to the Commissioners CFO there was the annual review of the financial and procurement regulations and that it was not clear if this was the annual review, the cyclical review or the biennial review. The Deputy CFO confirmed that the members would receive a biennial review of the regulations. The Deputy CFO intends to provide a schedule of which documents fall into each year along with the 2017 work plan. The Chair asked if the Commissioners CFO was reviewing the financial regulations on an annual basis. The Deputy CFO confirmed that this was every other year. The Chair confirmed that there was an issue with the scheme of delegation as that clearly states the review will take place annually. The Constabulary CFO confirmed that the same was true of procurement regulations they are biennial as well. It was confirmed that this was not consistent with the regulations.

### Financial Regulations

The Deputy CFO presented the review of the financial regulations which had taken place alongside the review of the Financial Rules with the formatting being amended to try to make the documents easy to read and clearly communicated to a variety of stakeholders. Tried to emphasise the key controls in each particular area and emphasise the key responsibilities for certain individuals and standardised the list of individuals between the two reports. References have been updated and standardised throughout the document. The Audit Manager has already mentioned that the references to public sector internal audit standards are out of date and these will be updated prior to finalisation. Any changes will be incorporated before going to the Commissioner for formal approval. The Financial Rules were included in the pack so that members could see how the documents worked together. The Constabulary CFO commented that the Financial Rules build on the Financial Regulations and sit alongside them. The Deputy CFO commented that once approved the Regulations will be published on the intranet and training will be provided.



A member commented that he found the grey ink was difficult to read. The member wondered if there was a way of making them more accessible, perhaps by numbering them. The Deputy CFO commented that sections were numbered and felt that if there was further numbering it would run risk of becoming inconsistent but they would look at that.

A member asked if this was a national template. It was confirmed that there was not.

A member commented that there was reference to a Finance Handbook and asked if this sat below the rules. The Deputy CFO clarified that the Finance Handbook was a collection of separate procedures which are known collectively as a Handbook but which is not printed as a full document and distributed. The member asked about Standard Operating Procedures, it was confirmed that this was more in the operational world.

A member commented on a lot of the changes being amendments in terminology or changes in legislation and asked if it was worth having a regulation where minor housekeeping changes could be noted within the two year period that didn't affect the meaning of the regulations. This would save having to go through the authorisation process for all amendments. The member commented that the Finance Handbook is described as containing policies and procedures and asked if that was correct. The Deputy CFO confirmed that all policies are on the policy library on the intranet. These take precedence over the guidance on how to process things. The member asked if while going through this process any gaps were spotted, things which should have been done but perhaps weren't. The Deputy CFO commented that some things were challenged during the process, where it was said that things were done it was questioned exactly how these were done, leading to some formalisation and documenting.

The Chair commented that the amount of work which had gone into this process was commendable. There were a few overarching comments such as the grey ink, in terms of making it user friendly she asked if this had been tested by any users. The Constabulary CFO commented that this had gone to heads of departments but without a very successful response. The Head of Central Services did comment in detail and these suggestions have been incorporated into the document. The Chair commented that making it user friendly and readable is great and the document is quite innovative in the way that it is presented but these regulations are pivotal to the financial management of the organisation. The members are not sure that these provide the level of assurance required due to the way it is worded and as it does not have paragraph numbers to reference. The members suggested that there may be a need to strengthen some elements of the document. The Chair thinks that there are some risks in the approach that has been taken.

The Senior Manager commented that perhaps a front page was required that explained what each of the documents were for. In general he felt the document was easier to read than a lot of the Financial Regulations he had read in the past.

The Chair asked for some feedback to be scheduled on the training and the role out of the document as it was felt that this was key to the use of the Regulations.



A member commented on the payment of ex gratia payments up to £10,000 as this seemed quite high and felt that it may be masking problems which should be going through another process and identifying areas for improvement. The Constabulary CFO confirmed that this needed clarification regarding whether it is an annual figure or an individual figure.

### OPCC Grant Regulations

The Head of Partnerships and Commissioning (HPC) presented the OPCC Grant Regulations, the review has been carried out along with colleagues from legal services and the Head of Procurement. Minor changes have been made, the biggest change is the decision to remove the small grant scheme form and to use just one form instead as it simplifies the process for users of the scheme.

A member commented that this document was difficult to read due to the light colour of the ink. The member had a number of comments regarding wording which will be fed back in an email. The member commented that within the document there was a schedule entitled 'The Purpose' which had no template underneath it to give guidance on what should be input there. The HPC accepted the point and explained that during the process an application form was completed which would form part of 'The Purpose'. A template would be considered but one template would not fit all circumstances.

A member commented that it is quantitative, the grant may have been spent on the right thing but used in a much narrower field than it could have been. The member would like to see two signatures from the members of the executive committee.

The Senior Manager asked if there was a separate form to complete to show what was delivered as the reputation of the PCC and the Constabulary is at stake due to the use of public money. The HPC confirmed that arrangements were in place for contract management.

The Chair requested that the HPC went back and looked at the document further in relation to strengthening the coverage of the reputational risk to the organisation particularly in regard to delivery of the outcomes and the finance.

**RESOLVED,** that, comments have been passed on the reports.

### **289. ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE**

The Constabulary CFO introduced the Annual Governance Statement which across the different areas set out how to improve the governance arrangements. 26 actions have been identified with 13 completed, 11 ongoing and 2 red as the timescales have been exceeded. Included in the red actions are the management information strategy which has been delayed slightly. Progress has been slower than anticipated relating to the Strategic Alliance with Lancashire Constabulary, a learning and development collaboration is in place. The DCC commented that there is going to be a change of Chief Constable in Lancashire which has slowed the process.



The learning and development collaboration is working well and there is mutual cooperation across the two organisations. A member asked if it might be worth deferring the action to the next financial year. The Constabulary CFO commented that the performance development reviews action has had its date rescheduled. The DCC confirmed that a computerised form has been developed which is an interim as the college of policing have changed the competencies which has not yet been formally launched. The new PDR is formally being launched this month. The 5 and 15 week review will be part of the audit. The 5 and 15 week review appears to be working really well and the PDR has been tied in with this, it is the formal appraisal at the end of the year. The process will be changed next year when the college of policing roll out the new framework.

A member referred to CP1/2 on the OPCC action plan which stated that early development work has started working with Victim Support and key statutory partners but that it was not complying with Victims' Codes of Practice and asked if the date for completion was realistic. The HPC confirmed that the work had been started and it was expected that the framework should be in place by the end of December and pilot work started with the partners. The HPC believed that the date was realistic.

A member asked if CP6/1 on the OPCC action plan was imminent. The HPC confirmed that it was. The Chair asked if there was a revised date. This was confirmed as the 31<sup>st</sup> December 2016.

A member commented that when the members visited the custody suite they thought it was very good that there was 24 hour mental health advice in place. The HPC referred to the 24/7 triage service which has been a large improvement. A member asked if health were funding some of this. It was confirmed that it was a combination. The OPCC had put in the funding for the 24/7 triage service but that it was part of a bigger piece of work.

**RESOLVED,** that, the report be noted

## **290. VALUE FOR MONEY**

This item has been deferred to the March 2017 meeting. The DCC commented that a rating of good had been received from HMIC.

Note – The HPC left the meeting at this point.

## **291. INTERNAL AUDIT – PROGRESS REPORT**

The Audit Manager (AM) presented a progress report which provided a review of the work of Internal Audit for period up to the 4<sup>th</sup> November 2016. The key points of the report are given below:



- The joint audit of the Cumbria Safeguarding Hub is complete and provides partial assurance. This assessment is based on the governance and risk management arrangements in place within the Hub rather than the arrangements within each organisation. Management Actions have been agreed jointly between the Constabulary and Cumbria County Council's Children & Families Services. The report was well received and actions have been promptly initiated to address the issues raised.
- Progress with the audit plan is on schedule with 45% of planned days delivered (compared to 48% in a similar period in 2015/16) and 28% of audits delivered (compared with 30% completed at the same period in 2015/16)
- Fieldwork is underway on ten audits, including two follow ups.
- Planning meetings for the 2017/18 Internal Audit plan are scheduled and audit will consult on draft plans early in 2017.

A member queried why the audit plan showed more activity in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the year which puts pressure on the organisation coming up to the end of the financial year. The DCC confirmed that it had not caused undue problems as the constabulary is part of the planning cycle. The AM confirmed that the work was spread quite evenly throughout the year although the piece of work may not be completed until much later.

**RESOLVED,** that, the report be noted.

## 292. INTERNAL AUDIT REPORTS

### (i) Audit of Cumbria's Multi-Agency Safeguarding Hub

Internal Audit undertook a review of Cumbria's Multi-Agency Safeguarding Hub, an overall level of assurance of 'partial' was given.

A member commented that some of the recommendations appeared to be very high level and asked if these applied to other activities within the hub. The AM confirmed that the issues found were wider governance issues.

A member commented that some of the actions only seem to be taken following the audit report rather than the HMIC report and asked if there was a delay or issues around that. The DCC commented that it was a combination of things. The DCC confirmed that there has been an action plan running the whole time, sometimes remedial action is put in place whilst HMIC is in if issues have been highlighted. Internal Audit have found issues surrounding the control measures in place rather than the operational day to day business. A member commented that the safeguarding hub was launched with the vision of keeping children and young people in Cumbria safe and the concern is that this is still taking too long. The member did not feel that the comment from the Corporate Director of Children's Services gave any sense of the urgency



of what needs to be done and that the fact that this won't go to the County Councils audit committee until March 2017 and then only in summary is a significant concern. The DCC commented that there is an improvement board to drive the improvements which is fairly robust. The AM commented that due to the process of approval for audit reports the March 2017 meeting was the next County Council audit meeting that this could go to. Audit have engaged with the corporate directors and the assistant directors at the County Council.

The DCC went through the recommendations to provide an update on progress. A member questioned how effective the Programme Board is. The DCC commented that the Programme Board now has a permanent senior manager rather than interim managers. The Chair commented that this is the type of monitoring which is expected to be received as part of the grant funding agreement. The DCC commented that the funding provided by the PCC was in the form of additional staff, the multi-agency manage the posts, staffing cannot be removed as what each agency has agreed to put in is set. Internal audit will be going back in.

The committee would like the PCC to know that the audit report has raised concerns. A member asked a different way of spending the money should be looked at in order to achieve different outcomes. The member asked if it was known if the hub had made one child in Cumbria safer. The DCC felt that it had. The advantages of having the core location looking at a variety of issues outweigh what would be a retrograde step and what would cost more ultimately to revert back to the different styles. It is far from perfect but is a work in progress and is a huge improvement from when it started in 2012.

The Chair commented that they would have expected a more robust response from officers.

**RESOLVED,** that, the report be noted;

Note – The Governance & Business Services manager joined the meeting at this point.

### **293. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS**

The Constabulary CFO presented the updated Audit Monitoring Report. There is a total of 24 actions, 9 of which are new relating to the safeguarding hub, 14 have been completed and 10 are ongoing. The Chair asked if there was a target date for when the action relating to the Code of Ethics would be completed. The DCC confirmed that this would be imminent, a new Superintendent will start on the 5<sup>th</sup> December and will be given this to look at.

**RESOLVED,** that, the report be noted;

### **294. TREASURY MANAGEMENT ACTIVITIES**

The Deputy CFO presented a report on the Treasury Management Activities which have taken place during the period July to September 2016, in accordance with the requirements of



CIPFA's Code of Practice on Treasury Management. The report has been presented in two formats, both the traditional format and a new format both of which meet the requirements.

The Chair commented that they had a session prior to the meeting with Arlingclose on treasury management which was really helpful and does add to the members required ability to provide assurance.

The members preferred the new report format. A member commented that he had felt that the cash balances section is out of proportion as he didn't feel that was such an important part of the activities. The Deputy CFO commented that as it is a performance indicator the section was this size but that it could be reduced. The member commented that some of the text wasn't showing in appendix B and the council tax figure wasn't shown correctly. The Deputy CFO thanked the member for the comments and confirmed that this would be presented to the commissioner and if he agreed the format would be changed to the new one. The Chair commented that they would like to keep Appendix B but that they may need some training in the future. The Deputy CFO confirmed that it is in the strategy so perhaps this could be gone through in more detail when it is brought to the meeting in March.

## **295. STRATEGIC RISK REGISTER**

The DCC requested presenting the Constabulary risk register first.

### **(ii) Constabulary**

The DCC shared with the committee the Constabulary's strategic risk register. There has been very little change apart from a change requested by JASC at the last meeting.

A member commented on risk 2 regarding the Change Programme and that it may be useful to have an explanation of why the latest score was higher than the initial score. The DCC confirmed the reason was that 22 million had been taken out by the Change Programme and the ability to drive out more savings is becoming more limiting. The Chair asked if there was anyway of relieving the ICT pressures. The DCC confirmed that there wasn't, the ICT work stack is constantly reviewed.

Note – The DCC left the meeting at this point.

### **(i) COPCC**

The Governance & Business Services Manager (GBSM) shared with the committee the COPCC's strategic risk register. The Operational Risk Register changes more frequently but the more recent changes have been highlighted.

The Chair commented that they appreciated seeing the operational risk register. A member asked if the new financial regulations may help with the budget management risk. The Deputy



CFO did not think that the new financial regulations would help with this. The Constabulary CFO confirmed that they were continually looking at ways to make sure that the budgets can be modelled and forecasted accurately but that pressures were increasing and the ability to deliver savings is becoming more difficult.

A member asked if every risk was on the register or just the higher rated ones. The GBSM confirmed that it could be done in whatever way was more helpful to the committee. A member commented that it would be good to see it in this format again.

The Chair commented that in the covering report it may be helpful to say where there has been movement in the risk score.

**RESOLVED,** that, the reports be noted

The Chair passed on thanks for the member's induction day which was found to be really helpful and they were impressed with what they saw.

**Meeting ended at 15.40 pm**

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_



# Joint Audit & Standards Committee – Action Sheet

Minute Item	Action to be taken	Person Responsible	Target Date	Comments	Status
<b>DATE OF MEETING: 9<sup>th</sup> March 2016</b>					
224	Item 10 – Joint Audit and Standards Committee update To look into why the HMIC report on Local Criminal Justice Partnerships is not on the HMIC inspection list	Stuart Edwards	September 2016	Paper circulated to members 7 <sup>th</sup> September 2016 to be read after meeting. Member’s unable to locate paper – sent via email 25.11.16	Complete
224	Item 10 – Joint Audit and Standards Committee update Richard McGahon to liaise with Stuart Edwards and Roger Marshall regarding the HMIC report on Local Criminal Justice Partnerships and if this is going to be taken forward in their audit	Richard McGahon / Stuart Edwards	March 2017	Will be looked at as part of 2016/17 value for money conclusion risk assessment with results brought to committee in March 2017 as part of audit plan.	Complete
<b>DATE OF MEETING: 3<sup>rd</sup> May 2016</b>					
233	Item 6 – Corporate update Performance management statistics to be provided for 2016/17 and put in audit plan for 2017/18	Michelle Skeer / Emma Toyne	April 2017	The Business Improvement Unit (BIU) will monitor performance management in relation to the 5/15 week reviews. The statistics for 2016/17 will be provided to JASC at the 24 May 2017 meeting. In November/December 2016 the planning meetings for the internal audit plan for 2017/18 will be held, 5/15 week reviews will be included as a suggested area for audit activity.	On-going

236	Item 12 – Effectiveness of Joint Audit and Standards Committee Request a formal comment in writing from internal audit, external audit the PCC and the CC regarding feedback on the effectiveness of the committee	Michelle Bellis	March 2017	Will be provided as part of the review of effectiveness report which is scheduled for committee in May 2017. The draft report is currently being prepared and will be circulated to the Chair of JASC in late March/April.	On-going
<b>DATE OF MEETING: 24th November 2016</b>					
288	Item 7 (i) & (ii) – Wording of 3.16 regarding the effective management of cash flows, borrowings and investments to be amended so that there is consistency between the role and the financial regulations	Michelle Bellis	May 2017	The wording has been updated in the master version of the report that will be completed as part of the 2017 review of governance documents.	Complete
288	Item 7 (iii) – Wording on page 17 regarding frequency of review of financial and procurement regulations needs to be amended to be consistent with the wording in the financial regulations	Stuart Edwards	May 2017	The OPCC Scheme of Delegation has been amended to mirror Financial Regulations, ie bi-annual reviews.	Complete
288	Item 7 (iv) – Feedback to members to be scheduled following training and the role out of the financial regulations	Michelle Bellis	July 2017	Feedback will be provided once training has been provided.	On-going
288	Item 7 (iv) – Wording on last page of regulations to be clarified regarding ex gratia payment amounts – is this an individual figure or an annual figure?	Roger Marshall	May 2017	The wording in respect of D7 ex-gratia payments has been clarified and updated. The limit has been changed to £2k per claim to be approved by the Chief Finance Officer or Director of Legal Services. Amounts between £2,001 and £9,999 are to be approved by the DCC and any amounts above £10k must be approved by the PCC.	Complete
288	Item 7 (v) – To look further at the document in relation to coverage of reputational risk to the organisation particularly in regard to delivery of the outcomes and finance (2 signatures). Consider including a template as part of schedule 1 the purpose.	Vivian Stafford	May 2017	Consideration has been given to the JASC feedback. Two signatures will be required in relation to finance and a template will be devised as part of schedule 1 to ensure that outcomes are accurately captured.	Complete

289	Amend date on OPCC action plan CP6/1 to the 31 <sup>st</sup> December 2016	Vivian Stafford	May 2017	Updated	Complete
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# Joint Audit & Standards Committee

## Title: OPCC Risk Management Monitoring

**Date:** February 2017

**Agenda Item No:** 8 (i)

**Originating Officer:** Joanne Head

**CC:**

### **Executive Summary:**

The Office of the Police and Crime Commissioner (OPCC) is responsible for providing policing services within Cumbria. This takes place in a constantly changing and challenging environment and the OPCC must ensure that it has robust systems and processes in place to monitor and react appropriately to risk.

### **Recommendation:**

That, the committee notes the changes regarding the OPCC's strategic risk register, the oversight undertaken of the Constabulary's risk management; and the front sheet of the OPCC's operational risk register.

## **1. Introduction & Background**

1.1 The Office of the Police and Crime Commissioner (OPCC) is responsible for providing policing services within Cumbria. To enable it to carry out this function effectively it must monitor and react appropriately to risks. The Joint Audit and Standards Committee as part of their role, ensures that the OPCC is actively managing strategic risks and one member of the committee has been appointed as the lead member for risk.

## **2. Issues for Consideration**

2.1 Appended to this report at [Appendix 1](#) is the OPCC's strategic risk register which has been reviewed and updated since the last meeting of the Committee. There is one identified risk which is:

- Strategic Finance

- 2.2 The OPCC has also reviewed its operational risk register, rationalising it to appropriately reflect the operational risks it faces. The front sheet of the operational risk register is presented to the Committee to provide assurance that other areas of risk are being considered and regularly monitored. A copy of the front sheet is attached at [Appendix 2](#).
- 2.3 The Governance and Business Services Manager met with the Constabulary's Performance Consultant who had responsibility for Risk Management, on Monday 27 February 2017. This was as part of the OPCC's quarterly oversight of the Constabulary's strategic risks.
- 2.4 Discussions took place in relation to the two separate risk registers, the risks identified therein and any risks which may impact upon the other organisation which may need to be recorded within the relevant strategic risk register if it does not already appear.
- 2.5 The Constabulary will report further on their strategic risk register at the meeting. There remained six strategic risks identified by the Constabulary. These related to the Funding Formula; the NuGen nuclear development on the West coast of Cumbria; the Emergency Services Mobile Communications Programme; police officer integrity following national media focus; capacity within the Constabulary to deliver and support the Change Programme; and Constabulary Performance being affected due to the adverse effect of the amount of change.
- 2.6 The new Funding Formula is yet to be announced by the Government and would have an impact on both the OPCC and the Constabulary in their ability to provide policing services within Cumbria. The extent of the impact and any further savings required was yet to be developed once the announcement was made.

### **3. Implications**

- 3.1 Financial - the inability of the OPCC to successfully identify and manage its organisational and strategic risks could impact financially on not only the OPCC but Cumbria Constabulary and other partner organisations which are financially dependent.
- 3.2 Legal - the OPCC could face legal challenge on some areas of its business, therefore it is essential that these are identified at an early stage and effectively mitigated and managed.
- 3.3 Risk - if the OPCC does not identify and mitigate risks then it may mean that the OPCC cannot carry out its statutory function efficiently and effectively.

## OFFICE OF THE POLICE & CRIME COMMISSIONER – STRATEGIC RISK REGISTER

Risk Mitigation Strategies:	
<b>Avoid</b>	Stop the risk completely or stop it having an impact.
<b>Reduce</b>	Reduce the likelihood and/or impact of the risk
<b>Transfer</b>	Outsource, use contractors or insure against things going wrong
<b>Accept</b>	The risk is tolerable/accepted

Risk Score		Likelihood – over the next 4 years
1	Low	Not expected to happen, but is possible
2	Medium	May happen occasionally
3	High	Will probably happen, but not a persistent issue
4	Very High	Will undoubtedly happen, possibly frequently

Risk No.	Risk Title	Total Score	Risk Owner		Actions		Reviews
			Risk Owner	Action Owner	Any outstanding actions YES/NO	Date for actions to be completed	Date of next review
R1	Strategic Finance	12	Chief Executive	Chief Finance Officer	No		March 2017

Scores:

8 – 16	Review within 3 months
4 - 6	Review within 6 months
3 or less	Review within 12 months

<b>Risk No:</b> R1	<b>Risk Title:</b> <b>STRATEGIC FINANCE</b>	The Police and Crime Commissioner is required to set a balanced budget. Resources from central Government formula grant provide the significant majority of funding to deliver police services. Reductions in that funding will have a substantial impact on the level of policing that can be provided and on the potential to deliver the Commissioner's wider responsibilities.
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Risk Mitigation Strategies:	
<b>Avoid</b>	Stop the risk completely or stop it having an impact.
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What is the cause of the risk? (Lack of .....failure to.....)	What is the consequence of the described risk? (Results in.....leads to.....)	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions				Action Owner(s)	Review Date
		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Current Controls in Place to Mitigate the Risk	Assurances	Future or further actions to be taken			
Lack of resources within the medium term budget to provide sufficient funding for the Constabulary to deliver current levels of policing service. High levels of funding uncertainty are impacting on this risk from 2018/19 (the government's current implementation date for the new formula). Announcements are expected from <b>March 2017</b> regarding a proposed formula.	This risk may lead to a reduction in the level of police services and/or result in Cumbria Constabulary not being viable as an independent force. Alternative options for delivering a police service in Cumbria may have to be considered. This may impact on the extent to which services respond to local needs in Cumbria. During the period of change there may be reductions in public assurance/confidence.	4	4	16	3	4	12	Chief Executive (Reduce)	<del>Work continues to model the potential financial implications for income. The constabulary's change programme aims to respond to a range of income options.</del> The Commissioner has joined the National Rural Crime Network through which work has been commissioned to demonstrate weakness in the proposed funding model. <b>A paper has been submitted to the TRG and external support has been commissioned on developing a cost model for community policing.</b> The budget has been <b>balance in the short term and longer term decisions on the budget and policing model are being deferred pending announcements.</b>	Budget monitoring processes and internal controls are in place to manage financial commitments. The financial control environment is tested annually by internal and external audit. HMIC Peel inspections and external auditors review overall financial resilience and the track record of delivering savings.	<del>Work is being undertaken to develop a potential future operating model for policing in Cumbria</del> <b>A series of papers are being developed to submit to the technical working group in support of a fairer and more robust formula.</b> <del>Consideration is being given to commissioning external support on developing a cost model for community policing.</del>	Chief Finance Officer	<b>March 2017</b>	



## OFFICE OF THE POLICE & CRIME COMMISSIONER – OPERATIONAL RISK REGISTER

Risk Mitigation Strategies:	
<b>Avoid</b>	Stop the risk completely or stop it having an impact.
<b>Reduce</b>	Reduce the likelihood and/or impact of the risk
<b>Transfer</b>	Outsource, use contractors or insure against things going wrong
<b>Accept</b>	The risk is tolerable/accepted

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8 – 16	Review within 3 months
4 - 6	Review within 6 months
3 or less	Review within 12 months

			Risk Owner		Actions		Reviews
Risk No.	Risk Title	Total Score	Risk Owner	Action Owner	Any outstanding actions YES/NO	Date for actions to be completed	Date of review
<b>FINANCE</b>							
01	Budget Management	9	Chief Finance Officer	Deputy CFO	No		May 17
02	Investment Counterparty Risk	3	Chief Finance Officer	Deputy CFO	No		May 17
03	Financial Governance	2	Chief Finance Officer	Deputy CFO	No		Mar 17
04	Shared Services	2	Chief Executive	Deputy Chief Executive	No		Mar 17
05	Asset Management	2	Chief Executive	Chief Finance Officer	No		Sep 17
06	Insurance	4	Chief Executive	Chief Finance Officer	No		Mar 17
<b>PARTNERSHIPS &amp; COMMISSIONING</b>							
07	Performance / delivery of the police and crime plan	4	Head of Partnerships & Commissioning	Partnerships and Strategy Manager	No		May 17
08	Partnerships & Collaboration	6	Head of Partnerships & Commissioning	Partnerships and Strategy Manager	No		May 17
09	Commissioning of Services	6	Head of Partnerships & Commissioning	Partnerships and Strategy Manager	No		May 17
<b>COMMUNICATION AND BUSINESS SERVICES</b>							
10	Public Engagement / Consultation	2	Head of Communications & Business Services	Engagement Officer	No		Nov 17
11	Reputation	4	Head of Communications & Business Services	Engagement Officer	No		May 17
12	Complaints	6	Head of Communications & Business Services	Governance Manager	Yes	Awaiting guidance	Nov 17
13	Diversity	3	Head of Communications & Business Services	Governance Manager	No		Nov 17
14	Independent Custody Visiting Scheme & Animal Welfare Scheme	2	Head of Communications & Business Services	Governance Manager	No		Nov 17
<b>CHIEF EXECUTIVE / MONITORING OFFICER</b>							
15	Non-Financial Governance	2	Chief Executive	Head of Communications & Business Services	No		Nov 17
16	Efficient and Effective Policing	6	Chief Executive	Chief Executive	No		May 17

<b>Risk Number:</b> <b>01</b>	<b>Risk Title:</b> <b>Budget Management</b>	Budget management concerns the arrangements for monitoring and reviewing our actual expenditure against the budget and taking corrective action to manage areas of under or overspend.
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What is the cause of the risk? (Lack of .....failure to.....)	What is the consequence of the described risk? (Results in.....leads to.....)	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions				Action Owner(s)	Review Date
		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Current Controls in Place to Mitigate the Risk	Assurances	Future or further actions to be taken			
Failure to effectively manage budgets resulting in under or overspend	Reputational damage Financial pressures resulting in the need to cease services or recruitment	3	4	12	3	3	9	Chief Finance Officer Reduce	Financial Regulations Budget monitoring arrangements Close working between finance and HR to manage recruitment Use of Reserve	Financial regulations reviewed by JASC External and internal audit review budget management	The CC is reporting on a monthly basis on the position. The PCCCFO and CCCFO are meeting monthly to discuss the implications and contingency plans. The Constabulary budget proposal includes funding the 16-17 overspend within the overall funding envelope for 2017-18.	Deputy CFO	May 2017	

<b>Risk Number:</b> <b>02</b>	<b>Risk Title:</b> <b>Investment Counterparty Risk</b>	We invest with a number of counterparties to provide security and returns on the cash balances we hold as a result of having reserves and timing differences between our income and expenditure
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Risk Mitigation Strategies:	
<b>Avoid</b>	Stop the risk completely or stop it having an impact.
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		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Current Controls in Place to Mitigate the Risk	Assurances	Future or further actions to be taken	Action Owner(s)	
There is risk that the counterparty we invest in fails or under banking regulations is required to restructure capital, resulting in the loss of our investment or a reduction in value	Reputational damage – there may be an assumption that our treasury management activities have not been carried out responsibly. Financial loss – a complete or partial loss of the funds invested.	4	2	8	3	1	4	Chief Finance Officer Reduce	Procurement of external specialist advisors on counterparty risk Spread of investment and limits for investment categories and individual counterparties in the treasury management strategy Controls over authorisation of investments Monitoring of TM Activity	Internal Audit of TM function JASC review the strategy & activity reports External audit of year end balances		Deputy CFO	May 2017

<b>Risk Number:</b> <b>03</b>	<b>Risk Title:</b> <b>Financial Governance</b>	A number of financial governance arrangements are in place to ensure the proper administration of financial affairs. This includes financial regulations, financial rules and structural governance e.g. CFO, Deputy CFO, JASC, audit. It is basically a framework for robust financial control and rules supported by checks and balances that ensure it is operating effectively.
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Risk Mitigation Strategies:	
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		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Current Controls in Place to Mitigate the Risk	Assurances	Future or further actions to be taken	Action Owner(s)	Review Date
A failure in financial governance	Reputational damage Potential Financial loss Unlawful expenditure	4	4	16	2	1	2	CFO Reduce & transfer	Arrangements for financial governance as detailed in the Code of Corporate Governance	Annual Governance Statement subject to audit Internal and External Audit Specific insurance for fraud risk on investments	Internal Audit commencing in Nov of Code of Corporate Governance	Deputy CFO	Mar 17

<b>Risk Number:</b> <b>04</b>	<b>Risk Title:</b> <b>Shared Services</b>	The OPCC is dependent on partner organisations for a number of key support services to enable it to deliver its functions. This includes legal services, financial services inc internal audit, HR, procurement, estates.
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Risk Mitigation Strategies:	
<b>Avoid</b>	Stop the risk completely or stop it having an impact.
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Failure of the partner organisation to deliver a sufficiently qualitative and responsive service.	Lack of sufficiently/timely/robust information has implications regarding the ability to make decisions, potential risk regarding the quality of decision making In some cases areas of work may not be able to be delivered.	3	1	4	2	1	2	Chief Executive	Shared Service Agreement & Annual Resource Planning with Audit NW employers subscription (HR) Named on legal frameworks/OPCC networks CC Funding agreements includes controls on resource changes to support services	Progress on the annual audit plan is monitored by JASC/CFO attends shared service board meetings CCCFO/PCCCFO have statutory decision making powers in respect of finance resources	The shared services agreement for internal audit is subject to renewal by March 2017 and will be reviewed between November and March to ensure it meets on-going requirements.	Deputy Chief Executive	Mar 2017

<b>Risk Number:</b> 05	<b>Risk Title:</b> <b>Asset Management</b>	The Commissioner is the owner of all capital assets procured and used by the commissioner and the constabulary – the estate, ICT, and fleet. Assets are managed by the Constabulary on behalf of the Commissioner.
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Risk Mitigation Strategies:	
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Failure of the Constabulary to manage the commissioner’s assets resulting in breach of regulations and/or public/employee liability, loss or damage to the asset, failure to secure value for money from the use of assets	Accident or injury by employee or the public resulting from use of inadequately maintained assets Loss/damage to the asset as a result of inadequate security/management of the asset. Financial and reputational implications regarding the use of public money.	3	1	4	2	1	2	Chief Executive Reduce Transfer	Public and employer liability Insurance Insurance for fleet, estates and ICT assets Insurance reserve and provision Financial regulations include rules for managing assets – including authorisation for write off CC Funding agreement places requirements on the CC with regard to asset management and security	Procurement of a broker to provide professional advice on insurance Bi-annual actuarial review of levels of insurance liability Internal audit of asset management/asset safeguarding		Chief Finance Officer	Sept 17

<b>Risk Number:</b> <b>06</b>	<b>Risk Title:</b> <b>Insurances</b>	The Commissioner and Chief Constable take out insurance to transfer the financial risks in respect of a range of liabilities/risks including public and employee liability, assets, investment fraud.
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Failure to adequately insure the organisation against all of the risks that it faces and/or failure to procure sufficient insurance cover/failure of the insurance provider	Potential significant financial implications should either the insurer fail commercially or the insurance cover taken fall short of the full liability incurred	4	2	8	4	1	4	Chief Executive Reduce/Accept	An insurance broker is procured to provide specialist advice on the level of cover. Broker advice includes a rating for the financial stability of the insurance provider. Deputy CFO provides detailed insurance schedules to ensure broker and insurers have a full understanding of the business and risks Business managers in specialist areas are asked to advise on options regarding additional/bespoke insurance policies Annual report from the Director of Legal in respect of significant public and employee liability claims.	Bi-annual external actuarial review of levels of insurance liability against existing provision and reserves.  Decisions on level of cover and whether to self-insure are taken for review to the Executive Board and determined by the Commissioner and Chief Constable providing further scrutiny.		Chief Finance Officer	Mar 17

<b>Risk Number:</b> <b>07</b>	<b>Risk Title:</b> <b>Performance / delivery of the police and crime plan</b>	The Commissioner is required to set out his vision, priorities and objectives for policing and crime within the police and crime plan. The production and publishing of the plan is a core statutory planning requirement as defined by the Police and Social responsibility Act 2011. The plan sets out the resources and assets that the commissioner will make available to the Chief Constable for policing and the mechanisms by which the Chief Constable will report on performance and be held to account.
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Lack of financial and human resource may lead to a failure to: <ul style="list-style-type: none"> <li>Deliver against targets set out in the Police and Crime Plan</li> <li>Contract Manage projects robustly to ensure delivery of project outcomes.</li> </ul>	Resulting in no legal compliance leading to possible: <ul style="list-style-type: none"> <li>Government Intervention</li> <li>Loss of Public confidence</li> <li>Increased crime rates</li> <li>Failure to target resources towards changing performance and crime trends</li> </ul>	3	3	9	2	2	4	Head of Partnerships and Commissioning  Reduce	<ul style="list-style-type: none"> <li>Dedicated resource in OPCC and Constabulary Corporate Development</li> <li>Strategic Planning and Commissioning processes</li> <li>Public Consultation</li> <li>Executive Board team meetings</li> <li>Accountability board</li> <li>Executive Board public meetings</li> </ul>	Police and Crime Panel scrutiny  Accountability framework  HMIC  Audit	No further controls required at this stage		May 17
Lack of planning for staff handover when secondments begin would result in a failure to continue work that delivers the police and crime plan objectives	Results in missed opportunities and work remaining incomplete against delivery of police and crime plan.	2	2	4	1	1	2	Head of Partnerships and Commissioning  Avoid	Handover date will be put in diaries prior to commencement of secondment.	One to One and regular meetings will be held.		Partnerships and Strategy Manager	Nov 17
Lack of skilled staff will result in an inability to monitor performance against the police and crime plan objectives, if there are not enough staff to liaise with grant and contract service providers.	Results in the potential for money not being used appropriately and project objectives not being delivered on. This will lead to a loss of commissioned services within the community and reputational damage to the PCC.	3	3	9	2	2	4	Head of Partnerships and Commissioning  Reduce	Control of grant monitoring sits within the department. This covers all grants (public and partnership – CSP, Safer Cumbria for example) and commissioned services.  Grant monitoring framework/ policy will be developed and then reviewed periodically ensuring fit for purpose.		Review performance and accountability framework to make sure fit for purpose with Chief Officers and Strategic Executive.	Partnerships and Strategy Manager	May 17



<b>Risk Number:</b> <b>08</b>	<b>Risk Title:</b> <b>Partnerships &amp; Collaboration</b>	The Commissioner has a statutory duty to deliver in partnership the Victims Code and Community Safety. The Victims Code ensures all victims and witnesses of crime have access to support and redress to help them cope and recover. The commitment to partnership working ensures an approach of shared accountability and services providing value for money.
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Risk Mitigation Strategies:	
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<b>Accept</b>	The risk is tolerable/accepted

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A lack of capacity within the team leads to failure to spot innovative opportunities and themed countywide approaches led through CSP and Safer Cumbria.	Results in a failure to identify potentially more effective and efficient ways of working to reduce demand on police and statutory partners. This will lead to a lack of opportunity to design innovative commissioned services for Cumbria. This could also lead to solution building opportunities that address gaps in services being missed.	4	3	12	3	2	6	Head of Partnerships and Commissioning  Reduce	We have key partnership collaboration through Safer Cumbria within the team.  Ensure effective handover between Constabulary secondees and Partnership and Strategy Manager.  Liaison with the Community Safety lead within the Constabulary to explore steps that can be taken to ensure local problem solving groups remain effective, if police and OPCC cannot be present.	Maintain an integrated partnership working approach with attendance at Safer Cumbria and other key strategic and operational board meetings.		Partnerships and Strategy Manager	May 17
Lack of PCC money leads to lack opportunities to influence outcomes and structures through the Safer Cumbria partnership	Results in silo working, ineffective use of budgets and countywide approaches.	4	3	12	3	2	6	Head of Partnerships and Commissioning  Reduce	Our key partnership collaboration is currently through Safer Cumbria, Head of Partnerships and Commissioning to ensure OPCC Executive team know and understand the	Key partnership working will be maintained through the Safer Cumbria structure and attendance at strategic and operational board meetings		Partnerships and Strategy Manager	May 17

									contribution the Partnerships and Commissioning team makes towards partnership collaboration . Any reductions will seriously impact on the ability of the team to function in this area.	will be built into the team's framework.			
Failure to ensure the continuation of the Victims and Witnesses Group would result in agencies not having a platform to co-ordinate and promote their services to victims and witnesses.		2	3	6	2	2	4	Head of Partnerships and Commissioning  <b>Reduce</b>	The Witness & Victims Group has been re-established and an action plan has been developed. Continuing to liaise with third sector organisations to obtain their buy in and provide them with a platform to promote their services.	The OPCC would look to assess what issues caused the group to fail. Try to re-establish partnership working with stakeholders.	Set up a Focus Group of victims to consult with them, obtain their views on what services could and should be provided, identifying current gaps in provision. Promotion of the work of the group when meeting with stakeholders and partners. Specifically target third sector organisations to join the group.	Victims Advocate	May 17

<b>Risk Number:</b> <b>09</b>	<b>Risk Title:</b> <b>Commissioning Services</b>	The Commissioner sets out their priorities in the Police and Crime Plan including how he will work in partnership to ensure delivery of priorities and commissioning or services. The Commissioner ensures robust project management frameworks are in place to mitigate risk, of partners failing to deliver on services or problems associated with mobilisation.
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Lack of capacity and resilience within the Partnership and Commissioning team leads to an inability to successfully contract manage service providers. This will lead to a reduction or lack of service delivery	Will result in reputational damage due to inefficient service outcomes and a reduction in cost savings to public and private sector organisations. Resulting in an inability to deliver the objectives and commitments set out in the Police and Crime Plan	4	3	12	3	2	6	<b>Head of Partnerships and Commissioning</b> <b>Reduce</b>	Ensure contract management meetings and evaluations are embedded in the Commissioning Framework	Partnership and Commissioning team have portfolio responsibilities for contract management	Commissioning Strategy currently under review which will ensure we are working to best practice	Partnerships and Strategy Manager	May 17
Lack of staff reduces the capacity to apply for external funding opportunities and reduces the capacity within the team to develop, maintain, manage and evaluate existing contracts.	Results in the commissioning of unserviceable and ineffective interventions and services which leads to inefficient and ineffective outcomes and loss of revenue.  Leads to an inability to deliver the objectives in the police and crime plan due to reduction in external resources and funding, will hinder and restrict partnership working.	3	3	9	2	2	4	<b>Head of Partnerships and Commissioning</b> <b>Reduce</b>	Update 14/10/2015. Business cases are built through mapping exercises and partnership consultation. Partners involved in Procurement bid marking process.	A Victim's Needs Assessment has been completed and refreshed.  Partnership and Commissioning Team have portfolio responsibility's to engage with partners and attend operational board meetings	Ensure business cases are robust and the advice of experts sought during the process of preparing and marking bids.	Partnerships and Strategy Manager	May 17
Lack of capacity and resilience within the procurement department leads to a failure to ensure contracting and grant agreements are progressed in a timely manner.	Will result in reputational damage due to inefficient service outcomes and a reduction in cost savings to public and private sector organisations.  Results in an inability to deliver the objectives and commitments set out in the Police and Crime Plan.	4	3	12	3	2	6	<b>Head of Partnerships and Commissioning</b> <b>Reduce</b>	Ensure continued guidance and support from Procurement and also look into possibility of developing a flexible supplier framework.	Procurement now regularly attends Partnership and Commissioning team meetings. Procurement Regulations have been reviewed this will ensure we are working to best	Team to ensure Commissioning pipeline is updated regularly and shared with Head of Procurement thereby providing a strategic outline of work.	Partnerships and Strategy Manager	May 17

Lack of staff will result in a failure to bring together different agencies to support and maintain the Cumbria Together website would result in the website not providing Victims with the required information or support.	Result in a lack of victim focus and reduced support, this would go against the PCC commitment to ensure victims have access to support redress	3	3	9	2	2	4	<b>Head of Partnerships and Commissioning</b>  <b>Reduce</b>	The Cumbria Together website is now functioning. Funding for 3 years was secured by the OPCC. 'Buy in' from Stakeholders continues by way of the website being a standard agenda item for the Victims and Witness Group Meetings. New services and items are regularly updated onto the website. Credit sized cards promoting the website have been widely distributed to all Police Officers and Police Stations for distribution to members of the public. Stakeholders and other agencies are also distributing the cards.	practice and within a legal framework  The OPCC would look to assess what the issues were and if necessary amend the website accordingly, providing more limited information and support to victims until an alternative solution could be found.	Support continues to be provided from media company to further develop the website. Continue to keep Cumbria Together as a standard agenda item for the Victims and Witness Group Meetings. Continue to promote the website at every opportunity e.g.PCC surgeries, public engagement opportunities.	Victims Advocate	May 17	
Failure to set up an effective Focus Group would result in victims and witnesses not being able to provide their insight and knowledge of services and experiences to assist in the development of the future provision of such services.		2	3	6	2	3	6	<b>Head of Partnerships and Commissioning</b>  <b>Reduce</b>	The Focus Group is now functioning and meets on a quarterly basis. Consultation by the group has contributed to a number of issues raised by the PCC, OPCC and the Police. Continuing to promote the Focus Group within the Victims and Witnesses Group to ascertain if stakeholders can identify individuals who would be willing to join the Focus Group is a standard agenda item.	The OPCC would look to assess the issues causing the group to fail. Look at other options on how to obtain victims and witnesses views. Liaise with other OPCC's and/or stakeholders to ascertain how they have achieved gathering victims and witnesses views.	Continuous recruitment to the group to ensure that victims are able to move on from their experience. Feed the views and opinions of the Focus Group back into the Victims and Witness Group to enable appropriate services to be provided or further developed.	Victims Advocate	May 17	

<b>Risk Number:</b> 10	<b>Risk Title:</b> Public Engagement/ Consultation	The PCC has a statutory obligation to engage with communities under the Police Reform and Social Responsibility Act 2011. He also is required to demonstrate how he has fulfilled this obligation, and illustrate how he has responded to feedback, ie. 'We asked, You said, We did'
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If the PCC does not engage with the public effectively, and is not able to provide evidence that he has done so, there is a risk that he could be found to not be fulfilling his legal obligations.	<ul style="list-style-type: none"> <li>There is a risk of judicial challenge which may result in a decision being over-turned with consequent financial implications if the PCC fails to consult appropriately or fails to take into account consultation responses when decision making.</li> <li>This may also damage the PCCs reputation.</li> <li>Loss of public confidence</li> </ul>	3	1	3	2	1	2	Head of Communications and Business Services  Avoid	<ul style="list-style-type: none"> <li>The Office of Public Engagement (OPE) was set up in order to ensure that the PCC fulfils this element of his statutory function.</li> <li>An Engagement Strategy is in place (and reviewed annually) which identifies and describes what communications and engagement methods will be undertaken, and each year a plan of engagement activity is drawn up.</li> <li>Consultation processes are used to support all decisions with service user implications and final decisions take these into account. When required Legal advice is sought on consultation processes.</li> <li>PCC publishes an Annual Report each</li> </ul>	<ul style="list-style-type: none"> <li>Police and Crime Panel agreed with the recommendation regarding the 2015-16 police precept increase, due to the extensive and statistically significant consultation exercises</li> <li>Police and Crime Panel endorsed the PCC's Annual Report</li> <li>Police and Crime Panel endorsed the Police and Crime Plan</li> </ul>		Engagement and Comms officer	Nov 17	

									year which sets out how he has engaged/ consulted with the public; and how this has shaped policy and plans.				
Risk of failure to comply with legislation and regulations in respect of requirements for statutory reports, publications and information.	<ul style="list-style-type: none"> <li>This may also damage the PCCs reputation.</li> <li>Loss of public confidence</li> <li>May be called to appear before a Home Office Select Committee</li> </ul>	4	3	12	4	2	8	Head of Communications and Business Services  Avoid	<ul style="list-style-type: none"> <li>The Police and Crime Plan is published annually.</li> <li>The Governance Manager ensures requirements in respect of transparency/ published information is kept under review and met through the PCC website.</li> <li>Individual officers responsible for ensuring any published documents within their area of responsibility meet statutory requirements.</li> <li>Subscriptions to professional bodies ensure relevant guidance is received on the requirements.</li> <li>Take part in all the reviews to ensure that we are meeting our statutory obligations.</li> </ul>	HMIC and Internal Audit reviews		Engagement and Comms Officer	May 17

<b>Risk Number:</b> <b>11</b>	<b>Risk Title:</b> <b>Reputation</b>	The PCC has a number of statutory obligations, and failure to deliver these is likely to compromise the PCC's reputation.
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Failure to deal with conduct issues promptly, fairly and properly.	<ul style="list-style-type: none"> <li>Potential damage to reputation or public perception of the OPCC and the Commissioner.</li> <li>This could also result in loss of public confidence.</li> <li>Negative impact on staff</li> </ul>	4	1	4	4	1	4	Head of Communications and Business Services  Avoid	<ul style="list-style-type: none"> <li>There is a Code of Conduct for members and officers.</li> <li>Independent Audit and Standards committee.</li> <li>Ethics and Integrity Panel.</li> </ul>	Independent Audit and Standards committee. Ethics and Integrity Panel		Engagement and Comms Officer  Governance manager?	May 17
Failure to robustly deal with an incident.	<ul style="list-style-type: none"> <li>Potential damage to reputation or public perception of the OPCC and the Commissioner.</li> <li>This could also result in loss of public confidence.</li> </ul>	4	1	4	4	1	4	Head of Communications and Business Services  Avoid	<ul style="list-style-type: none"> <li>The Office of Public Engagement has a strategy.</li> <li>Reputational issues are discussed at weekly joint OPCC / Constabulary Comms Management.</li> <li>Where necessary the OPCC will develop individual strategies to cover specific reputational issues.</li> </ul>			Engagement and Comms Officer	May 17
Failure to scrutinise and hold to account Constabulary performance	<ul style="list-style-type: none"> <li>Potential damage to reputation or public perception of the OPCC, the Commissioner and the Constabulary.</li> <li>This could also result in loss of public confidence.</li> </ul>	4	1	4	4	1	4	Head of Communications and Business Services  Avoid	<ul style="list-style-type: none"> <li>The Office of Public Engagement has a strategy.</li> <li>Reputational issues are discussed at weekly joint OPCC / Constabulary Comms meeting.</li> <li>Where necessary the OPCC will develop individual strategies to cover specific reputational issues.</li> <li>Executive Boards are held in public, with all Decisions, Minutes and Agendas published on the PCC website. This provides transparency regarding the PCC holding the Chief Constable to account.</li> </ul>			Engagement and Comms Officer	May 17

<b>Risk Number:</b> 12	<b>Risk Title:</b> Complaints	Members of the public contact the Office of the Police and Crime Commissioner to complain or raise concerns regarding policing issues. It is important the OPCC deals with these in line with the relevant legislation and where appropriate signpost individuals to the correct body to investigate the matter.
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Lack of appropriate action or processing of managing quality of service issues or complaints against members of staff, ICV's or the Chief Constable could result in a failure to deal with complaints appropriately, in accordance with legislation or be subject to legal challenge.	This risk could result in financial penalty or claims against the OPCC / PCC, or a reduction in public confidence in the processing of complaints.	3	2	6	3	1	3	Head of Communications and Business Services	Clear policies and procedures are in place to deal with complaints. Legal guidance and support if provided by the Force solicitor or external professionals. Mentoring and support is provided to staff who deal with this area of business.	Internal Audit carried out an audit of the OPCC's complaints system. No issues were found and systems were found to be substantial. The Ethics and Integrity Panel oversee performance of complaints and QSPI's on a quarterly basis and have the ability to dip sample both of these areas of business.		Governance Manager	Nov 17	
The Home Office are in the process of reforming the Police Complaints System. The Policing and Crime Bill is going through Parliament and will give PCC's the ability to have a greater role in the complaints process. The Policing and Crime Act received Royal Assent on 31 January 2017. One element is to make it a mandatory roll for PCC's to consider police complaint appeals	This could result in an increased workload for the OPCC to process and consider appeals. It may also increase the number of complaints made against the PCC should a complainant be dissatisfied about the outcome of their appeal.	3	3	9	2	2	4	Head of Communications and Business Services	The Bill is currently progressing through Parliament but is unlikely to receive Royal Assent until 2018. The APCC are providing updates on progress. Some preparatory work has been undertaken in what the potential workload for the OPCC would be. The IPCC and College of Policing are to provide guidance on the changes to the complaint process and misconduct process respectively	The College of Policing are to hold a seminar in November regarding changes to the complaint process. Further work will be required following the issuing of guidance from the IPCC and COP. The OPCC will deal with Appeals from June 2018 onwards		Governance Manager	Sept 17	
Following a misconduct hearing the officer can appeal the Panel's decision.	This could result in LQCs and/or IPM's becoming subject to legal challenge and personally liable.	4	3	12	3	1	3		The Deputy Chief Finance Officer has had confirmation from the PCC's insurers that			Governance Manager	Nov 17	



									LQCs/IPMs are indemnified against the cost of any legal proceedings arising out of a misconduct hearing.				
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<b>Risk Number:</b> <b>13</b>	<b>Risk Title:</b> <b>Diversity</b>	The Police and Crime Commissioner under the Equality Act 2010 has a responsibility to raise awareness and promote equality and diversity. As part of this role they have due regard to: <ul style="list-style-type: none"> <li>Eliminate discrimination, harassment and victimisation</li> <li>Advance equality of opportunity between people who share a relevant protected characteristic and those who do not;</li> <li>Foster good relations between such groups</li> </ul>
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The OPCC has a responsibility to develop policy and operational practices in line with Equality legislation, including the undertaking of Equality Impact Assessments, failure to do so would result in the OPCC not complying with its statutory requirements.	Failure to do so could lead to legal challenge, public criticism or loss of public confidence, and some groups and communities being adversely affected or discriminated against.	3	2	6	3	1	3	Head of Communications and Business Services	Equality Impact Assessments undertaken for policies and procedures. Reports contain a section to highlight issues relating to diversity.	Internal Audit inspections undertaken throughout 2015 did not raise any issues in relation to equality or diversity.	Equality statement and strategy reviewed in 2016 Diversity refresher training and Equality Impact Assessment training was provided to all OPCC staff on 14.10.2016	Governance Manager	Nov 17

<b>Risk Number:</b> <b>14</b>	<b>Risk Title:</b> <b>Independent Custody Visiting &amp; Animal Welfare Schemes</b>	The Police and Crime Commissioner is required to operate an effective Independent Custody Visiting Scheme in line with legislation.
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The Police and Crime Commissioner has a statutory responsibility to operate an Independent Custody Visiting Scheme. Including the successful recruitment and training of volunteers. Failure to do so could place the oversight of custody standards and facilities at risk. The actions or inactions of a volunteer could compromise the safety of ICVS, custody staff or detainees when carrying out their visits.	Issues are not identified, progressed and addressed. Volunteers are not recruited and trained to operate the scheme effectively. Could cause irreparable damage to the reputation of the scheme or that of the Commissioner and/or Constabulary.	2	3	6	2	1	2	Governance Manager	Panels currently run at optimum numbers. Any reduction can be covered by the remaining panel members or members from another panel. Induction training is provided to all new panel members, including personal safety guidance when doing visits. Conferences and training seminars are regularly held to provide up to date information.	HMIC & HMP recent inspection of custody suites complimented the operation of the ICV Scheme. New custody visitors have recently been inducted and carrying out visits.	Business continuity on the running of the panels is included within the role profiles for the Panel Chairs and Vice-Chairs.	Governance Manager	Nov 17
The Commissioner also operates an Animal Welfare Scheme failure to recruit and train the volunteers could result in the scheme failing to operate effectively for oversight of the Constabulary and for Civil Nuclear Constabulary.	The welfare and accommodation provided for police dogs with the Constabulary and at Sellafield will have no oversight or accountability. This may cause reputational damage to all organisations.	3	2	6	3	1	3	Governance Manager	The scheme appoints Animal Welfare Visitors (AWV) from the ICV scheme. Should numbers fall below required levels further recruitment from within the 4 ICV panels can be undertaken. Training is provided to all AWV's upon appointment and on a rolling programme.	The scheme has been complimented by both the Constabulary and Sellafield on its operation.	If no volunteers for AWV role recruitment from the wider community could be undertaken. An exception to existing rules would be required as AWV's need to part of the ICV scheme.	Governance Manager	Nov 17

<b>Risk Number:</b> <b>15</b>	<b>Risk Title:</b> <b>Non-Financial Governance</b>	The Police and Crime Commissioner has an obligation to adhere to legislation to ensure that the business of the Office of the Police and Crime Commissioner is carried out in accordance with such legislation and agreed policies.
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A lack of robust governance/ internal control arrangements, including arrangements for managing risk, could result in areas of OPCC business not operating effectively or in line with legislation and ultimately failing.	Decision making fails to take account of relevant information, procedures and/ or inherent risks resulting in unexpected consequences/poor decision making or judicial challenge. Failure of such controls could result in risks materialising and the potential for fraud, error or irregularity.	3	2	6	2	1	2	Chief Executive	Internal control arrangements are subject to annual review. Reports are required to follow specific formats that takes cognisance of risk, financial, legal implications. The OPCC has processes in place for Business Continuity should a situation occur and normal business practices are suspended for a period of time either wholly or in part.	Internal inspections undertaken by Internal Audit – risk management, business continuity Unannounced testing of business continuity practices by the Chief Executive has not highlighted any issues		Chief Finance Officer / Governance Manager	Nov 17
Lack of adequate oversight of the Constabulary to ensure they have robust governance/internal control arrangements	The Constabulary fail to carry out their business or business on behalf of the OPCC/Commissioner in an effective or in extreme cases legal way.	3	2	6	2	1	2	Chief Executive	Joint Audit & Standards Committee and the OPCC CFO lead on arrangements for internal audit for both organisations. The chief constable is required to adopt financial regulations and procurement regulations as part of the funding arrangements. The Constabulary must appoint a professionally qualified CFO. The OPCC Governance Manager has specific responsibilities to confirm assurance on force risk management practices.	An internal audit of the Constabulary and OPCC risk management has been undertaken. There were no findings for the Constabulary and the OPCC recommendations are being actioned.		Chief Finance Officer/ Governance Manager	Nov 17

Failure by the PCC, OPCC staff to conduct themselves within agreed protocols and codes	Reputational damage to PCC and potentially OPCC. Unlawful actions or decisions taken.	2	3	6	2	1	2	Chief Executive	The OPCC has a number of codes, protocols and frameworks which cover integrity and ethical behaviour. The Governance Manager provides staff with regular reminders about the expectations on them at Team Meetings and via e-mail. In addition registers are reviewed and cross checked regularly.	JASC Internal Audit PCC mandated to act impartially Ethics & Integrity Panel		Governance Manager	Nov 17
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<b>Risk Number:</b> 16	<b>Risk Title:</b> Efficient & Effective Policing	It is in the interests of taxpayers generally and the people of Cumbria in particular for Cumbria to have an efficient and effective police force; There is also a legal requirement for the Police and Crime Commissioner to maintain an efficient and effective police force.
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What is the cause of the risk? (Lack of .....failure to.....)	What is the consequence of the described risk? (Results in.....leads to.....)	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions				
		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Current Controls in Place to Mitigate the Risk	Assurances	Future or further actions to be taken	Action Owner(s)	Review Date
The Police and Crime Commissioner has a legal obligation to maintain an efficient and effective police force for Cumbria. At the present time this particularly links to the financial risk identified above, but even without financial uncertainty a police force could become inefficient and/or ineffective.	Taxpayers paying more than they might need to for policing services. Inefficient use of resources being highlighted in external and internal inspections resulting in reputational harm.	3	3	9	3	2	6	Chief Executive (Avoid)	Consideration of reports by HMIC – in particular the PEEL inspection reports and annual VfM report - and the internal and external auditors; monitoring of Constabulary performance, budget monitoring and the Change Programme.	External inspections by HMIC and the external auditors. Internal inspections by internal audit. Work undertaken by the OPCC CFO. Scrutiny by the Police and Crime Panel and Joint Audit and Standards Committee.	Continued monitoring of the Constabulary by the Commissioner; use of VfM data and PEEL inspection reports from HMIC; continued independent scrutiny by the Police and Crime Panel and Joint Audit and Standards Committee.	Chief Executive	May 17



# Joint Audit & Standards Committee

## Title: OPCC Risk Management Strategy

**Date:** 15 March 2017

**Agenda Item No:** 9 (i)

**Originating Officer:** Joanne Head

**CC:**

### **Executive Summary:**

The Office of the Police and Crime Commissioner provides policing services for Cumbria in a constantly changing and challenging environment. The Risk Management Strategy sets out the OPCC responsibility for risk management and how risks are managed.

### **Recommendation:**

That the Joint Audit and Standards Committee review and provide comment to inform the final version of the strategy to be approved by the Police and Crime Commissioner.

#### **1. Introduction & Background**

- 1.1 The risk management strategy sets out the governance arrangements in respect of the management of risk including arrangements for holding to account the Chief Constable for the management of risks within the force. The strategy is currently reviewed on an annual basis.

#### **2. Issues for Consideration**

- 2.1 The strategy sets out the commissioner's objectives in respect of risk management and the arrangements in place for meeting those objectives through a risk management framework. The framework incorporates clear roles and responsibilities for risk management and a methodology for assessing risk and mitigating actions. The strategy provides the framework to enable the Commissioner to achieve the requirements within the approved financial rules and financial regulations.
- 2.2 In previous reviews the strategy has seen a number of changes to reflect the understanding and appetite for risk that the OPCC has developed since its inception in November 2012.

These have included moving from a 5x5 matrix to a 4x4 matrix and a change in the recording style of both the strategic and operational risk registers.

- 2.3 Having undertaken an annual review of the OPCC risk strategy the only recommended changes are to the Governance Managers job title which was previously the Governance and Business Services Manager. The remainder of the strategy adequately reflects the way in which the OPCC considers and deals with all risks.
- 2.4 Due to the minimal changes within the Risk Management Strategy it is proposed going forward to review the strategy on a three year cycle. This would align with similar review periods for other OPCC policies and strategies, including their Risk Management Strategy. Should there be any significant changes either within the OPCC or external influences the strategy would be reviewed and updated out with the three year cycle. The risk registers would continue to be reviewed at the appropriate intervals denoted by their risk scores.
- 2.5 Mr Jack Jones, of the Joint Audit and Standards Committee has been consulted regarding updating the Risk Management Strategy. He had advised that he agrees with the strategy and the proposal to revert to a three year review; with the proviso of it being fully reviewed in the event of significant change.
- 2.6 Following any comments by the Joint Audit and Standards Committee the Police and Crime Commissioner will review the Risk Management Strategy and approve it. The updated strategy will be implemented from 1 April 2017

### **3. Implications**

#### **3.1 Financial**

Effective risk management practices supports the reduction of risks that may have financial implications.

#### **3.2 Legal**

Risk management strategy supports the overall arrangements for governance and is underpinned by strategic and operational risk registers that seek to manage the risks pertaining to legal and governance within operational practice.

#### **3.3 Risk**

The risk management strategy ensures risks are identified, assessed and managed with clear ownership of the risk and activity to mitigate its impact. The strategy seeks to encourage risk taking where this has clear positive benefits.

#### **3.4 HR / Equality**

Key staff roles are identified within the strategy with responsibility for areas of risk management.

### **4. Supplementary information**

Appendix 1 – OPCC Risk Management Strategy





# Cumbria Office of the Police and Crime Commissioner

**Risk Management Strategy  
2017-2020**

# Contents

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- 3.** Introduction
- 4.** Our Approach to Risk Management
- 5.** Risk Management Objectives
- 6.** Risk Management Framework
- 10.** Risk Management Methodology
- 13.** Risk Management Responsibilities
- 16.** Strategic Risk Register Template

# Introduction

The Office of the Police and Crime Commissioner for Cumbria is committed to providing the highest quality of policing services to the people of Cumbria. We do this in a constantly changing and challenging environment. This strategy is about the approach and arrangements we have in place to manage the risks we encounter in doing this.

Risk management involves the identification, assessment and prioritisation of risks and taking action to control, minimise and monitor them. Risks are threats that have potential to impact on our organisation and the delivery of our objectives and services. Sometimes they can be positive as well as negative. Risk management activity ensures we protect against negative threats whilst recognising and taking advantage of positive opportunities.

Our strategy sets out responsibilities for risk management, what we do and how we do it. It incorporates a number of key objectives and what we aim to achieve from the arrangements we have in place. In doing so our strategy provides assurance and contributes to the overall arrangements we have for governance.

## Our Approach to Risk Management

Police and Crime reduction services are delivered in a high risk environment. Like many public service organisations we are continually challenged to change the way we do things, to improve and to reduce cost. In doing this the level of risk we take as an organisation increases. Our approach to risk management recognises this by seeking to ensure we have a structured approach to manage those risks. Our approach seeks to ensure that our people and organisation are protected without stifling innovation or adversely restricting the taking of risks where we can see there are positive benefits from doing so. We describe this as being risk aware. This strategy sets out the things we have in place to embed a risk aware culture. These are:

- **Risk Management Objectives:** Our overall aims that set out what we want to achieve from the arrangements we have in place for risk
- **Risk Management Methodology:** The way we review our risks to understand their impact and decide how we will manage them
- **Risk Management Framework:** The specific things we have in place that supports the delivery of our objectives
- **Risk Management Responsibilities:** Specific responsibilities for different areas of risk for which our Commissioner, chief officers, staff, committee and auditors are accountable

The rest of this strategy sets out more information on our objectives, framework, methodology, responsibilities and sets out how we record our risks on our risk register.

## Risk Management Objectives

Risk management makes an important contribution in helping to achieve our aims and deliver better services. Through being aware of risk and having an understanding of its impact we can make better decisions about what and how we do things. Risk management works best when we have a culture that is risk aware. Our strategy aims to achieve this by providing a framework that helps to integrate and embed risk management into our day to day business. To do this we have identified a number of objectives that we are committed to. This section of our strategy sets out what they are and what we will do to achieve them.

**Objective 1:** We will ensure that Risk management is part of the process for delivering policing and crime reduction in Cumbria through the Constabulary and our wider Partners. We will do this by:

- Maintaining an effective risk management strategy, a framework through which the strategy is implemented and a risk register to manage risks
- Holding the Constabulary and wider Partners to account in respect of their arrangements for risk management

**Objective 3:** We will ensure that there is clear ownership and accountability for risks. We will do this by:

- Establishing clear roles and responsibilities in relation to risk management within our strategy
- Ensuring all risks on our risk register has a risk owner and an action owner

**Objective 2:** We will ensure that our organisation is risk aware and that arrangements for risk management comply with best practice. We will do this by:

- Providing communications and guidance through our website to spread good practice
- Ensuring our officers are appropriately trained in risk management practice
- Subjecting our risk management arrangements to annual review

**Objective 4:** We will provide a framework for evaluating and responding to risks that is easy to understand and supports decision making. We will do this by

- Setting out a framework for risk management
- Including within the framework a methodology for scoring risks and timescale for risk review based on the risk score.

# Risk Management Framework

Our risk management framework sets out the things we have in place to manage risk and who is responsible for them. They form the substantive part of what we do to achieve our risk management objectives. The framework comprises:

## RISK MANAGEMENT FRAMEWORK

### Risk Register

Our risks are recorded on a risk register. The register holds key information about each risk including a description of the risk, a score for the risk, what we are doing to manage the risk currently and any further actions we plan to take. It identifies the risk owner and the score determines how frequently that owner will review the risk to ensure we are taking appropriate action. The risk register groups risks into three risk categories; strategic risks, operational risks and project risks.

## RISK MANAGEMENT FRAMEWORK

### Risk Classification

Risks are grouped on our risk register into one of three classifications. The classification determines who is responsible for managing the risk and how those risks are managed. The classifications are:

- Strategic Risks – risks that threaten the achievement of strategic objectives such as those in our policing plan and other core strategies.
- Operational Risks – these are risks to our operating systems, service delivery and the objectives in our business plans.
- Project Risks – risks identified as being significant to the projects being undertaken by the Commissioner.

## RISK MANAGEMENT FRAMEWORK

### Risk Methodology

Risk Methodology is about how we score our risks. Our strategy sets out a consistent way to do this that takes account of the impact of the risk and likelihood of it occurring. The higher the risk score the more frequently we will assess the actions that we have in place to mitigate the risk. We score both the inherent risk and the mitigated risk. The inherent risk score tells us what the impact of the risk could be if we took no action whilst the mitigated score tells us how much we have reduced the risk as a result of things we do to manage it.

## RISK MANAGEMENT FRAMEWORK

### Police & Crime Plan

The Police and Crime Commissioner has a Police and Crime Plan which identifies the work to be undertaken by the Commissioner, the Office of the Police and Crime Commissioner; and how policing will be delivered in Cumbria. The development of the plan informs our work in relation to strategic risks. Strategic risks are incorporated within the strategic risk register which is approved by the Police

and Crime Commissioner and presented to the Audit and Standards Committee for scrutiny. Operational risks are included within the operational risk register and are actively managed through the Commissioner's Office under the direction of the Chief Executive.

## RISK MANAGEMENT FRAMEWORK

### Project Risks

Project risks are managed very dynamically due to the more limited timescale across which projects are typically delivered. They are reviewed prior to each project board and presented to each meeting. This means that the pace of the project and the frequency of meetings are aligned to the review of risks. The terms of reference for all project boards includes responsibility for managing project risks.

## RISK MANAGEMENT FRAMEWORK

### Risk Review

Our overall arrangements for risk are reviewed annually by the Chief Executive as part of the review of wider governance arrangements. The review is reported in the Annual Governance Statement alongside our Statement of Accounts, which is approved by the Police and Crime Commissioner. The statement is subject to external audit and presented with the Accounts to our Audit and Standards Committee.

## RISK MANAGEMENT FRAMEWORK

### Risk Appetite & Tolerance

Risk appetite is developed in the context of the organisation's risk management capability. It is not a single, fixed concept and there will be a range of appetites for different risks which need to align. Risk appetite must take into account differing views at a strategic and operational level and these may vary over time. If a level of risk is not acceptable then it must be managed accordingly. Risk tolerance allows for variations in the amount of risk COPCC is prepared to tolerate for a particular activity or project. How COPCC will deal with risk tolerance for all its risks and this is addressed within the methodology section of this strategy.

COPCC will strive to manage both strategic and operational risks to a level which is acceptable or where it is negated, taking into account the costs of any mitigations which are required. Depending upon the circumstances it may be necessary to set a different risk appetite for a particular area of business or project but the general default position for COPCC will be medium/cautious.

The OPCC has a Risk Matrix which illustrates assessments of the likelihood and impact scores which are plotted onto a (4 x 4) Risk Matrix. This determines the level of inherent risk and, later, to demonstrate the residual position after the application of controls to mitigate and reduce risk

<b>LIKELIHOOD</b>	Very High	4	4	8	12	16
	High	3	3	6	9	12
	Medium	2	2	4	6	8
	Low	1	1	2	3	4
			1 Low	2 Medium	3 High	4 Catastrophic
<b>Magnitude of Impact</b>						

**Key**

<b>Risk Management Action Level</b>	<b>Low Priority No additional action needed Maximum review time frame 12 months</b>	<b>Some additional activity may be necessary Maximum review time frame 6 months</b>	<b>Activity required in current year Maximum review time frame 3 months</b>
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**RISK MANAGEMENT FRAMEWORK**

**Risk Responsibility**

Our strategy allocates specific roles and responsibilities to members and officers for Risk Management. This ensures there is clarity and accountability for ensuring our practices are embedded and our objectives are achieved.

**RISK MANAGEMENT FRAMEWORK**

**Fraud Risk Assessment**

Fraud risk assessment is used to assist staff to identify and deal with any suspected risk of fraud and ensure that adequate and effective internal control arrangements are in place. As part of the preparation process for the financial statements of accounts, evidence and assurances are provided for scrutiny to the external auditors. This information is then assessed and incorporated into the final statement of accounts. Our independent Joint Audit and Standards Committee is provided with a copy of the final statement of accounts for consideration and can monitor any fraud issues which are raised.

We have an Anti-Fraud and Corruption Policy which provides staff with information on fraud and corruption including contact details for the reporting of any concerns. Our independent Joint Audit and Standards Committee reviews the policy and ensures that it meets recommended practices. Also in place is a Whistleblowing Policy (Confidential Reporting) which provides effective mechanisms for ‘open’ and ‘confidential’ reporting of wrongdoing.

**RISK MANAGEMENT FRAMEWORK**



## Internal Audit

Our arrangements for risk management and those of the Constabulary are subject to internal audit provided as part of a shared internal audit service within Cumbria. The service has adopted the Public Sector Internal Audit Standards (PSIAS) which ensures that they undertake risk based internal auditing. This methodology is used to help our organisation accomplish its objectives. Our independent Joint Audit and Standards Committee receives the findings of audit work and monitors the implementation of actions following any audit recommendations.

### RISK MANAGEMENT FRAMEWORK

## Decision Making and Risk

Our reporting formats include a section on the risk implications of any decision and course of action. This ensures that decisions are taken on an informed basis and agreement can be reached on how risks should be managed.

### RISK MANAGEMENT FRAMEWORK

## Lead Officer for Risk

Our Governance & Business Services Manager is designated as lead officer for risk. This means that one of our staff has specific responsibility for maintaining an up to date awareness of risk management practices and ensuring we embed a risk aware culture. Our lead officer attends risk management meetings with the Constabulary to assure their arrangements and that our risk registers are aligned where it is appropriate. This is one of the ways we hold the Constabulary to account for their risk management arrangements.

Collectively this framework ensures that we have a systematic approach to managing our risks. It facilitates proper consideration of the implications of decisions and actions and provides a mechanism through which we can evaluate how well our approach is working in practice. Internal and external audit provide a further layer of validation and scrutiny of our arrangements.

## Risk Management Methodology

This strategy adopts a risk management methodology to assess the impact of a risk should it materialise and the likelihood of this happening. This methodology plays an important part in determining how much attention we need to give to managing specific risks through helping us to consider the implications should they arise. The methodology involves scoring risks based on the likelihood of the risk happening and the impact. It uses a 4x4 matrix that produces a risk score of between 1 and 16.

RISK MATRIX : LIKELIHOOD		
Likelihood Score	Description of likelihood over the next 4 years	
4	Very High	Will undoubtedly happen, possibly frequently
3	High	Will probably happen, but not a persistent issue
2	Medium	May happen occasionally
1	Low	Not expected to happen, but is possible

### RISK MATRIX: IMPACT

Impact Score	Description					
		IMPACT ON SERVICE OBJECTIVES	FINANCIAL IMPACT	IMPACT ON PEOPLE	DURATION OF IMPACT	IMPACT ON REPUTATION
4	Catastrophic	Unable to function, inability to fulfil obligations – total failure of at least 2 areas of activity	Severe financial impact (Above £5m / budget implications)	Internally – wholesale resignation, unable to staff OPCC Externally – service user death	In excess of 1 year to recover pre event position	Severe damage to reputation Sustained and prolonged national media interest PCC resignation
3	High	Significant impact on service provision – total failure of at least 1 area of activity with impact across all areas of business	Significant financial impact (over £1m)	Internally – increased staff turnover/ shortage Externally – general/systemic poor user	Between 6 months to 1 year to recover to pre event position	Significant damage to reputation Short term national / longer term local media interest

				experience		
<b>2</b>	Medium	Material impact on service objectives – at least 2 areas of business / several personal objectives	Material financial impact (over £250k - £1m)	Internally – high level of staff absences Externally – multiple poor service user experience	Between 2 to 6 months to recover to pre event position	Adverse publicity, noticeable damage to reputation. Short term local media interest
<b>1</b>	Low	Some impact on service objectives – single area of business/ individual objectives	Some financial impact (up to £250k)	Internally - low morale Externally – some poor service user experience	Up to 2 months to recover	Some damage to reputation 1 day local media interest

## RISK MANAGEMENT METHODOLOGY

### Using the Methodology

There are a number of steps to using our methodology to ensure that risks are effectively considered and appropriate controls are put in place to manage them.

Firstly the inherent or base risk score is calculated. This is the risk score that would result if there is no action taken to manage the risk. Using the matrix above a score would be calculated by multiplying the likelihood score with the impact score. It is important to understand this base risk as it helps us to assess what might happen if the measures we put in place to manage the risk fails or if we put nothing in place. It supports decision making on the level of effort that should be directed towards reducing the risk.

Once the base risk has been scored, consideration is given to what we can do and what we are doing to reduce the risk. These are our risk control measures. The risk is then scored again, taking into account the effects of our actions. This produces a mitigated risk score against which we can then decide to do one of four things:

- Take/Tolerate - We decide to accept the risk and take no further measures
- Transfer - We transfer all or part of the risk, for example through insurance or to other agencies/contractors
- Reduce - We introduce additional control measures to reduce the risk
- Avoid – We aim to eliminate the risk, for example by ceasing to provide a service or by doing something a different way

If we choose to transfer, treat or terminate the risk we then update our mitigated risk score once these actions have been taken. The overall inherent and mitigated risks scores are reviewed cyclically with the score determining how often we do the review. Risks with scores of between 8 and 16 are reviewed on a quarterly basis; and those scoring between 4 and 6 are reviewed every 6 months. All other risks are reviewed at least annually. The exception is project risks that are reviewed at each project board meeting due to the limited life of project activity and the impact of risk on project delivery.

The inherent and mitigated risk score, control measures and any additional planned control measures are documented within our risk register. We assign a 'RAG' rating (Red, Amber and Green) to identify whether a risk is Acceptable (Green); Tolerable with actions (Amber); or Unacceptable with urgent action required (Red) to each of the COPCC risks. This assists in the easy identification of those risks which require urgent attention or close monitoring to those which can be reviewed on a less frequent basis.

The register identifies the review frequency and the officer responsible for managing the risk. Strategic risks under the direction of Police and Crime Commissioner are presented at least annually to the Audit and Standards Committee with this risk strategy. At each quarterly meeting of the Committee, strategic risks which have been reviewed during the last quarter are presented for their oversight.

# Risk Management Responsibilities

Our strategy allocates specific responsibilities to key individuals, and any OPCC committees and boards to ensure clear lines of accountability for managing risk. This section of our strategy sets out those responsibilities.

## RISK MANAGEMENT RESPONSIBILITIES

### The Police and Crime Commissioner

The Police and Crime Commissioner has strategic responsibility for the overall arrangements for risk management. An annual governance statement is approved annually by the Commissioner which includes a commentary on the effectiveness of risk management arrangements by the Commissioner's Chief Internal Auditor.

The Commissioner is responsible for strategic risks as identified within the strategic risk register and for understanding and challenging risks as part of their processes for developing policy and decision making.

The Commissioner has responsibility for holding the Constabulary and wider partners to account for their arrangements in respect of risk management and providing public assurance of such. The Commissioner annually approves the risk management strategy and takes overall responsibility for the strategic risk register.

## RISK MANAGEMENT RESPONSIBILITIES

### Chief Officers

The OPCC Chief Executive has responsibility for maintaining comprehensive systems of internal control including risk management processes. The Chief Executive also has responsibility for ensuring an operational risk register is maintained to support the management of those risks that may impact on the delivery of the OPCC business plan.

The Chief Executive reports on the effectiveness of arrangements for risk management within the Annual Governance Statement to the PCC and to the Audit and Standards Committee. The Chief Finance Officer has responsibility for ensuring appropriate internal audit arrangements are maintained and for insurance in respect of those risks that are transferred.

## RISK MANAGEMENT RESPONSIBILITIES

### Managers and Staff

Managers and staff - have responsibility for the strategic and operational risks arising in their service areas. Managers must ensure teams carry out risk assessments to inform control measures and mitigating action. Staff are responsible for ensuring risks that may impact on the delivery of their business objectives are recorded in the strategic and operational risk register and actively managed.

Where a risk is identified by a manager or member of staff which affects another part of COPCC's business then this will be highlighted to the appropriate manager or member of staff for inclusion within the register. A risk which is considered to have a significant effect on medium to long term

objectives can be escalated to the Executive Team for consideration, inclusion within the strategic risk register and appropriate action identified and instigated. Following their consideration it may be reported to the Commissioner to appraise them of the issues.

OPCC staff are able to receive direction and instruction regarding their responsibilities for operational risk from a number of sources. These include – information contained within policy/strategy and procedure manuals; as part of their induction process; from their line manager; the lead officer for risk and specific training courses where required.

## RISK MANAGEMENT RESPONSIBILITIES

### Project Managers

Project managers are responsible for ensuring any project risks are actively recorded on a project risk and issues log. All risks should be scored in line with the agreed risk methodology within this risk strategy and reported to the project board to ensure appropriate action is taken. As part of updates or project reports any identified risks should be reported upon, with particular attention to those which may disrupt or halt the project.

## RISK MANAGEMENT RESPONSIBILITIES

### Joint Audit and Standards Committee

The Office of the Police and Crime Commissioner and the Constabulary have in place a Joint Audit and Standards Committee which has independent membership.

The Committee will examine evidence provided by internal and external audit and other governance areas to ensure that we demonstrate we are actively managing our risks. This provides independent assurance to the Commissioner, Chief Executive and Chief Finance Officer.

The relevant terms of reference of the Joint Audit and Standards Committee are:

- Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them.
- Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources.

## RISK MANAGEMENT RESPONSIBILITIES

### Internal and External Audit

Internal audit are responsible for periodically reviewing the effectiveness of risk management processes including the verification that controls are operating as intended. This source of independent assurance is a fundamental part of the evidence used to discharge our accountability for reviewing the effectiveness of our governance arrangements. External auditors review the annual governance statement that sets out how we have complied with our arrangement for risk

management and will test a number of financial controls that mitigate against financial risks as part of their audit work on the financial statements

## RISK MANAGEMENT RESPONSIBILITIES

### Lead Officer for Risk

The OPCC Governance & Business Service Manager is the lead officer for risk. This responsibility includes:

- Pro-actively driving forward the management of risk
- Liaison with the Constabulary, other partners and major contractors to monitor compliance with and the effectiveness of their risk management arrangements and reporting thereon to the Police and Crime Commissioner
- Monitoring the implementation of the risk management action plans of both the OPCC and Constabulary
- Bring to the attention of the Police and Crime Commissioner and/or Audit and Standards Committee any concerns about the arrangement for risk management
- The provision of a risk register system to aid the recording, review, analysis and reporting of strategic and operational risks
- Maintaining an up to date awareness of risk management practice and leading on communications and guidance to support the embedding of a risk aware culture





# Treasury Management Activities 2016/17 Quarter 3 (October to December 2016)

Public Accountability Conference 22 February and JASC Meeting 15 March 2017

## Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period October to December 2016, in accordance with the requirements of CIPFA’s Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

## Recommendations

The Commissioner is asked to note the contents of this report.

JASC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

## Economic Background

Financial uncertainty post Brexit and the USA election continues. The Bank of England (BOE) Base rate was reduced from 0.50% to **0.25%** on 4 August 2016. Quantitative Easing (QE) was increased from £375bn to **£435bn** on the same date.

The treasury advisor’s Arlingclose central case is for the Bank Base Interest Rate to remain at 0.25%, but there is a low possibility of a drop to close to zero, with a very small chance of a reduction below zero. The TMSS elsewhere on the agenda The treasury advisor’s Arlingclose central case is for the Bank Base Interest Rate to remain at 0.25%,.

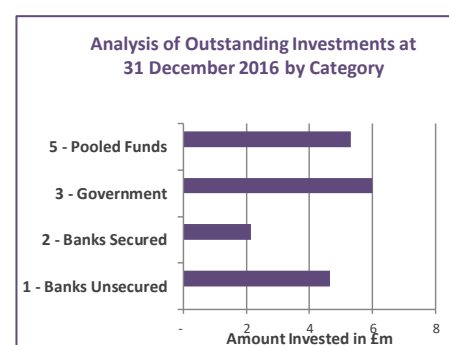
Consumer Price Index (CPI) inflation was 1.6% in December. With sterling having now fallen by around 20% with its impact on prices still to come. According to the ONS, CPI will be heading close towards the Bank of England’s target rate of 2% in the first half of 2017, consistent with the forecasts contained within the Bank’s last quarterly Inflation Report issued in November 2016.

## TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

**Outstanding Investments:** As at 31 December 2016 the total value of investments was **£18.097m** and all were within TMSS limits.

The chart below shows the outstanding investments at 31 December by category.



A full list of the investments that make up the balance of £18.097m is provided at **Appendix A**.

**Investment Activity:** During quarter 3 a total of 2 investments with a combined value of £5m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these there were regular smaller investments in category 5 (money market pooled funds).

**Non-specified investments:** The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 December the Commissioner had two investments meeting this description with a combined total of £4.2m. Of these two, only 1 has an outstanding duration of over 364 days. These investments are:

- Leeds Building Society £2.2m 887 days (13/07/16 to 17/12/18)
- Lloyds Bank £2m 366 days (11/08/16 to 11/08/17)

**Investment Income:** The budget for investment interest receivable in 2016/17 is £100k. The current forecast against this target is £90k which provides a forecast shortfall of £10k (10%). The shortfall is attributable to the drop in BOE interest rates in August 2016.

The forecast of £90k in December is consistent with the forecast at the end of quarter 2 in September.

The average return on investment at the end of quarter 3 is 0.42%. As a measure of investment performance the rate achieved on maturing investments of over 3 months in duration is compared with the average BOE base rate.

The table below illustrates the rate achieved on the two maturing investments of over three months duration in quarter 2 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Nationwide	£2m	5	0.52%	0.29%
North Lanarkshire	£2m	9	0.60%	0.39%

**Cash Balances:** The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period July to September are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	92	2,692	53,630
Days Overdrawn	0	0	0

The bank account had large un-invested balances on two occasions. The largest un-invested balance occurred on the 21 December (£54k) where a bank deposit was received late in the afternoon in respect of the flood insurance claim. The second largest un-invested balance occurred on the 22 December 2016 (£46k) and related to a debtors invoice in respect of supply of services being paid unexpectedly by BACS.

During quarter 3 there were no occasions when the bank balance was overdrawn.

## Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of *Affordability, Sustainability and Prudence*.

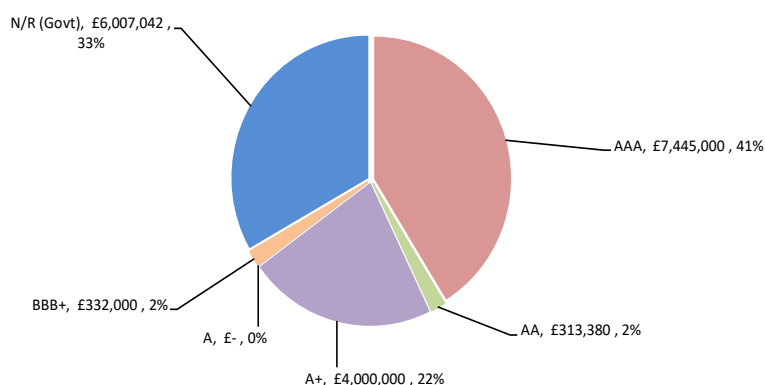
An analysis of the current position with regard to those prudential indicators is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2016/17 are all being complied with.

## Appendix A

### Investment Balance at 31 December 2016

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
<b>Category 1 - Banks Unsecured (Includes Banks &amp; Building Societies)</b>							
Landesbank- Hessen-Thuringen (Heleba)	A+	11/07/2016	11/01/2017	11	0.47%	2,000,000	2,000,000
Lloyds Bank Plc	A+	11/08/2016	11/08/2017	223	1.00%	2,000,000	2,000,000
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.00%	313,380	313,380
NatWest (Liquidity Select Account)	BBB+	31/12/2016	01/01/2017	O/N	0.25%	332,000	332,000
						<b>4,645,380</b>	<b>4,645,380</b>
<b>Category 2 - Banks Secured (Includes Banks &amp; Building Societies)</b>							
Leeds Building Society (Bond)	AAA	13/07/2016	17/12/2018	716	0.68%	2,141,288	2,141,288
						<b>2,141,288</b>	<b>2,141,288</b>
<b>Category 3 - Government (Includes HM Treasury and Other Local Authorities)</b>							
Treasury Bills	NR	18/07/2016	16/01/2017	16	0.37%	1,007,042	1,007,042
DMADF	NR	26/10/2016	26/01/2017	26	0.15%	3,000,000	3,000,000
Highland District Council	NR	14/10/2016	18/04/2017	108	0.30%	2,000,000	2,000,000
						<b>6,007,042</b>	<b>6,007,042</b>
<b>Category 4 -Registered Providers (Includes Providers of Social Housing)</b>							
None						0	0
						<b>0</b>	<b>0</b>
<b>Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)</b>							
Invesco	AAA	Various	On demand	O/N	0.47%	1,700,000	1,700,000
BlackRock	AAA	Various	On demand	O/N	0.41%	0	0
Fidelity	AAA	Various	On demand	O/N	0.43%	3,713	3,713
Goldman Sachs	AAA	Various	On demand	O/N	0.45%	600,000	600,000
Aberdeen Asset Management	AAA	Various	On demand	O/N	0.48%	500,000	500,000
Standard Life (Formally Ignis)	AAA	Various	On demand	O/N	0.51%	2,500,000	2,500,000
						<b>5,303,713</b>	<b>5,303,713</b>
<b>Total</b>						<b>18,097,423</b>	<b>18,097,423</b>

**Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 December 2016 (Minimum Criteria per TMSS A-)**



Note – The credit ratings in the table & chart relate to the standing as at 31 December 2016, these ratings are constantly subject to change.

# Appendix B

## Prudential Indicators 2016/17

Prudential Indicator		Limits TMSS	Limits Revised at year end	Limits Revised at Sep-16	Actual	Within Target	
		£m	£m	£m	£m		
1	<b>Net Borrowing and the Capital Financing Requirement</b>						
	This indicator is to ensure that net borrowing will only be for capital purposes. The commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.	Net Debt (section 9 below provides analysis)	(8.492)	(17.192)	(17.567)	(17.256)	✓
		Capital Financing Requirement as at 31 March	18.360	18.401	18.401	18.401	✓
		Net external Borrowing	0.000	0.000	0.000	0.000	✓
2	<b>Capital Expenditure and Capital financing</b>						
	<i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2016/17</i>	Expenditure	6.883	8.553	5.027	4.466	✓
		Financing and Funding	0.100	0.141	0.141	0.141	✓
3	<b>Ratio of Financing Costs to Net Revenue Stream</b>						
	<i>This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs</i>	Financing Costs	0.313	0.313	0.323	0.313	✓
		Net Revenue Stream	95.675	95.675	95.675	95.675	✓
Ratio		0.33%	0.33%	0.34%	0.33%	✓	
4	<b>Capital Financing Requirement</b>						
	<i>The CFR is a measure of the extent to which the commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.</i>	CFR including PFI & other long term liabilities	18.360	18.401	18.401	18.401	✓
		CFR excluding PFI & other long term liabilities	13.348	13.514	13.514	13.514	✓
5	<b>The Authorised Limit</b>						
	<i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a</i>	Total Authorised Limit	24.860	24.901	24.901	24.901	✓
6	<b>The Operational Boundry</b>						
	<i>The operational boundary represents and estimate of the most likely but not worst case scenario it is only a guide and may be breached temporarily due to variations in cashflow.</i>	Total Operational Boundry	23.360	23.401	23.401	23.401	✓
7	<b>Actual External Debt</b>						
	<i>It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing</i>	External Debt including PFI & other long term liabilities	5.012	5.012	5.012	5.012	✓
		External Debt excluding PFI & other long term liabilities	0.000	0.000	0.000	0.000	✓
8	<b>Impact of capital investment decisions on the Council Tax</b>						
	<i>This indicates the incremental impact of the capital investment decisions funded from prudential borrowing proposed for the period 2016/17 based on a Band D property in line with the proposed council tax level.</i>	Capital Expenditure funded from revenue	1.534	1.534	0.508	0.634	✓
		Incremental Impact on Band D Council Tax	9.146	9.146	3.029	9.485	✓
9	<b>Gross and Net Debt</b>						
	<i>The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.</i>	Outstanding Borrowing (at notional value)	0.000	0.000	0.000	0.000	✓
		Other Long Term Liabilities (PFI & Finance Lease)	5.012	5.012	5.012	5.012	✓
		Less Investments	13.504	22.204	22.579	22.268	✓
Net Debt		(8.492)	(17.192)	(17.567)	(17.256)	✓	
10/11	<b>Interest Rate Exposure</b>						
	<i>The purpose of this indicator is to contain the Commissioner's exposure to unfavourable movements in future interest rates. This represents the position that all of the Commissioner's authorised external borrowing may be at a fixed rate at any one time.</i>	Net Principal sums Outstanding at Fixed Rates	24.860	24.901	24.901	24.901	✓
		Net Principal sums Outstanding at Variable Rates	1.500	1.500	1.500	1.500	✓
12	<b>Maturity Structure of Borrowing</b>						
	<i>The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.</i>	Not Applicable - currently no external debt					✓
13	<b>Upper Limit for total principal sums invested for over 364 Days</b>						
	<i>The purpose of this indicator is to ensure that the commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.</i>	Non Specified Investments with a maturity greater than £364 days	5.000	5.000	5.000	2.200	✓

<b>JOINT POLICE &amp; CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE</b>	<b>Paper No. 11</b>
<b>Meeting date: 15 March 2017</b>	
<b>From: Audit Manager (Cumbria Shared Internal Audit Service)</b>	

## **INTERNAL AUDIT: PROGRESS REPORT TO 22 FEBRUARY 2017**

### **1.0 EXECUTIVE SUMMARY**

**1.1 *This report provides a review of the work of Internal Audit for the period to 22 February 2017.***

**1.2 *Key points are:***

- ***Progress with the audit plan is on schedule with 72% of planned days delivered (compared to 78% in a similar period in 2015/16). 55% of audits have been delivered. Whilst this is a lower proportion when compared to the same period last year, work is on target to be completed in line with year-end timescales.***
- ***All work in the 2016/17 plan is either complete or underway.***
- ***The draft plan for 2017/18 has been prepared following consultation with Senior Managers in the OPCC and Constabulary. The proposed plan is presented to this meeting.***

### **2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS**

**2.1 *Internal Audit's work is designed to provide assurance to management and Joint Audit and Standards Committee members that effective systems of governance, risk management and internal control are in place in support of the delivery of the PCC and Constabulary's priorities.***

- 2.2 ***The Audit Plan aims to deliver a programme of internal audit reviews designed to target the areas of highest risk as identified through the corporate risk registers together with management and internal audit view of key risk areas.***
- 2.3 ***The Accounts and Audit Regulations March 2015 impose certain obligations on the PCC and Chief Constable, including a requirement for a review at least once in a year of the effectiveness of their systems of internal control.***
- 2.4 ***Internal Audit must conform to the Public Sector Internal Audit Standards which require the preparation by the Head of Internal Audit of an annual opinion on the overall systems of governance, risk management and control. Regular reporting to Joint Audit and Standards Committee enables emerging issues to be identified during the year.***

### **3.0 RECOMMENDATION**

- 3.1 ***Joint Audit and Standards Committee members are asked to note the report.***

## 3.2 BACKGROUND

- 3.3 The PCC and Chief Constable must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2015 require that the PCC and Chief Constable must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 3.4 Internal audit is responsible for providing independent assurance to the PCC and Chief Constable's senior management and to the Joint Audit and Standards Committee on the systems of governance, risk management and internal control.
- 3.5 It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and that outcomes are achieved. Management is responsible for the system of internal control and should set in place policies and procedures to ensure that controls are operating effectively.
- 3.6 The internal audit plan for 2016/17 was prepared using a risk-based approach and following consultation with senior management to ensure that internal audit coverage is focused on the areas of highest risk to both organisations. The plan has been prepared to allow the production of the annual internal audit opinion as required by the PSIAS.
- 3.7 This report provides an update on the work of internal audit for the eleven months to February 2017. It reports progress on the delivery of the 2016/17 audit plan in the period and includes a summary of the outcomes of audit reviews completed in the period.

### **Status of internal audit work as at 22 February 2017**

The table below shows the number of internal audit reviews completed, in progress and still to be started for the 2016/17 audit plan. Further detail on this is included at Appendix 2.

<b>Audit plan year</b>	<b>Audit Status</b>	<b>Number of reviews</b>
2016/17	<u>Audits completed:</u>	<u>12</u>
	Risk based audits	8
	Governance work	2
	Follow up	2

	<u>Audits in progress:</u>	<b><u>10</u></b>
	Risk based audits	6
	Financial systems	3
	Follow up	1
	<u>Audits to be started</u>	<b><u>0</u></b>
	Risk based audits	0
	Financial systems	0
	Follow up	0
	<u>Audits in plan</u>	<b><u>22</u></b>

### **Outcomes from Final Audit Reports to 22 February**

- 3.8 Audits completed to 22 February comprise eight risk based audits and two follow ups. The level of risk based audits receiving reasonable or higher assurance is currently 75%.
- 3.9 The two follow ups completed provide reasonable assurance that management actions to the recommendations have been implemented.
- 3.10 Management responses to Internal Audit reports and recommendations continue to be positive.
- 3.11 The detailed outcomes from each finalised audit are shown in Appendix A.

### **Draft Reports Issued to 22 February**

- 3.12 This section provides an early indication of the outcomes of internal audit reviews. Should additional information or evidence be received through the close out process, the initial assessment may be revised prior to finalisation of the report.

<b>Audit</b>	<b>Date of issue of draft report</b>	<b>Initial audit assessment</b>
Digital case file preparation (Criminal Justice Unit)	12/01/17	Limited

**Emma Toyne**  
**Audit Manager**  
22 February 2017



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## **APPENDICES**

***Appendix 1: Final reports issued to 22 February 2017***

***Appendix 2: Progress on all risk based audits from the 2016/17 plan***

***Appendix 3: Internal audit performance measures to 22 February 2017***

Contact: Emma Toyne, 01228 226261, [emma.toyne@cumbria.gov.uk](mailto:emma.toyne@cumbria.gov.uk)

## Appendix 1 – Final reports issued to 22 February 2017

Assignments	Status	Assessment
Annual report 15/16	Presented to Joint Audit and Standards Committee 3 May 2016.	N/A
Annual Governance Statement 15/16 OPCC	Presented to Joint Audit and Standards Committee 3 May 2016.	N/A
Annual Governance Statement 15/16 Constabulary	Presented to Joint Audit and Standards Committee 3 May 2016.	N/A
Procurement – OPCC	Report presented to Joint Audit and Standards Committee at the 7th September 2016 meeting. Report included in Committee papers and available on the Commissioner’s website.	Substantial
Procurement – Constabulary	Report presented to Joint Audit and Standards Committee at the 7th September 2016 meeting. Report included in Committee papers and available on the Commissioner’s website.	Partial
Business Continuity Planning - follow up (OPCC)	Report circulated to Joint Audit and Standards Committee. Report available on the Commissioner’s website.	Reasonable
Cumbria Multi-Agency Safeguarding Hub (2015/16 plan)	Report presented to Joint Audit and Standards Committee 24 November 2016. Report included in Committee papers and available on the Commissioner’s website.	Partial
Mobile and Digital	Report circulated to Joint Audit and Standards Committee. Report will be available on the Commissioner’s website.	Substantial
Stop and Search	Report presented to Joint Audit and Standards Committee 15 February 2017. Report included in Committee papers and will be available on the Commissioner’s website.	Reasonable
Self Service – travel expenses and overtime	Report circulated to Joint Audit and Standards Committee. Report will be available on the Commissioner’s website.	Reasonable

## Appendix 1 – Final reports issued to 22 February 2017

Code of Corporate Governance – OPCC	Report presented to Joint Audit and Standards Committee 15 February 2017. Report included in Committee papers and will be available on the Commissioner’s website.	Reasonable
Code of Corporate Governance - Constabulary	Report presented to Joint Audit and Standards Committee 15 February 2017. Report included in Committee papers and will be available on the Commissioner’s website.	Reasonable
Follow up – Duty Management System	Report circulated to Joint Audit and Standards Committee. Report will be available on the Commissioner’s website.	Reasonable
<p>In addition to the above a member of the Internal Audit team attended the Police Audit Group Conference in July 2016. The event was a useful networking opportunity and provided an overview on a number of areas including:</p> <ul style="list-style-type: none"> <li>• The changing policing landscape</li> <li>• Developments in Internal Audit and governance – CIPFA overview</li> <li>• Promoting Internal Audit and raising standards – Chartered Institute of Internal Auditors</li> <li>• How contracts really work – risk transfer in commercial relationships</li> <li>• Integrated services</li> <li>• Police effectiveness and accountability – HMIC</li> <li>• Leadership, ethics and standards in policing</li> <li>• Police accountability, collaboration and devolution</li> </ul> <p>We will take these areas into account when preparing the 2017/18 Internal Audit plan.</p> <p>The Group Audit Manager and Audit Manager attended the October 2016 extended Chief Officers’ Group (COG) to present key points arising from national governance reports. This was well received and will lead in to 2017/18 Internal Audit planning.</p> <p>Planning meetings for the 2017/18 Internal Audit plan have been scheduled. Our meetings with Senior Managers at the OPCC and Constabulary will inform the audit universe for both organisations. We will consult with the OPCC and Constabulary in January 2017 to consider the areas to be included in the plan which will be approved by Management. The plan will be presented to Joint Audit and Standards Committee in March 2017.</p> <p>We have prepared and consulted on the 2017/18 draft Internal Audit plan with the Constabulary and OPCC. The draft plan is presented to the Committee for information as a separate agenda item.</p>		

## Appendix 2 – Progress on 2016/17 Audit Plan

OPCC / Constabulary Review	Audit	Stage	Feedback form returned
Constabulary	Safeguarding Hub (work in progress from 2015/16 Internal Audit plan)	Complete	Yes
OPCC	Procurement	Complete	Yes
Constabulary	Procurement	Complete	Yes
Constabulary	Information Security	Fieldwork underway	n/a
Constabulary	Mobile and Digital	Complete	Yes
Constabulary	Command and Control	Fieldwork underway	n/a
Constabulary	Criminal Justice Unit	Draft report issued	n/a
Constabulary	Use of Stop Sticks (stingers)	Fieldwork underway	n/a
Constabulary	Stop and Search	Complete	Yes
Constabulary	Offender Management	Fieldwork underway	n/a
Constabulary	Receipt, handing and disposal of drugs	Fieldwork underway	n/a
Constabulary	Self-service – travel expenses / overtime	Complete	n/a – form issued 22/02/17
Constabulary	Governance – Code of Corporate Governance	Complete	Yes
OPCC	Governance – Code of Corporate Governance	Complete	Yes

## Appendix 2 – Progress on 2016/17 Audit Plan

<b>OPCC / Constabulary Review</b>	<b>Audit</b>	<b>Stage</b>	<b>Feedback form returned</b>
OPCC and Constabulary	Pensions	Fieldwork underway	n/a
OPCC and Constabulary	Payroll	Fieldwork underway	n/a
OPCC and Constabulary	Main accounting	Fieldwork underway	n/a
OPCC	Follow up – Business Continuity Planning	Complete	Yes
Constabulary	Follow up – Business Continuity Planning	Draft report prepared	n/a
Constabulary	Follow up - Duty Management System	Complete	Yes
Constabulary	Annual Governance Statement 2015/16	Complete	n/a
OPCC	Annual Governance Statement 2015/16	Complete	n/a

### Appendix 3 – Internal audit performance measures

Measure	Description	Target	Actual	Explanations for variances / remedial action required
Completion of audit plan	% of audits completed to final report	76%  95% (annual target)	55%	<p>Target is taken from the actual figure for the same period in 2015/16.</p> <p>The plan is progressing as intended. It is not unexpected that few reviews have been finalised in the period due to the lead in time inherent in the risk based approach.</p> <p>Whilst results are lower than the target, all audit work in the plan is in progress and we are confident that all audit work will be delivered in the year. The Constabulary and Commissioner's office have been involved in scheduling each piece of audit work.</p>
	Number of planned days delivered	170  274 (annual target)	198	<p>Target is taken from the actual figure for the same period in 2015/16.</p> <p>The figure is comparable with a similar period in 2015/16 when 78% of planned audit days had been delivered.</p>
Audit scopes agreed	Scoping meeting to be held for every risk based audit and client notification issued prior to commencement of fieldwork.	100%	100%	

### Appendix 3 – Internal audit performance measures

Measure	Description	Target	Actual	Explanations for variances / remedial action required
Draft reports issued by agreed deadline	Draft reports to be issued in line with agreed deadline or formally approved revised deadline where issues arise during fieldwork.	70%	100%	
Timeliness of final reports	% of final reports issued for Chief Officer / Director comments within five working days of management response or closeout meeting.	90%	100%	
Recommendations agreed	% of recommendations accepted by management	95%	100%	
Assignment completion	% of individual reviews completed to required standard within target days or prior approval of extension by audit manager.	75%	100%	
Quality assurance checks completed	% of QA checks completed	100%	100%	
Customer Feedback	% of customer satisfaction survey scoring the service as good.	80%	100%	This is based on nine returned customer feedback forms.
Chargeable time	% of available auditor time directly chargeable to audit jobs.	80%	80%	

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# Cumbria Shared Internal Audit Service

## Internal Audit Report for Cumbria Office of the Police & Crime Commissioner



### Code of Corporate Governance

Draft Report Issued: **31<sup>st</sup> January 2017**

Final Report Issued: **9<sup>th</sup> February 2017**

## Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	<a href="mailto:emma.toyne@cumbria.gov.uk">emma.toyne@cumbria.gov.uk</a>	01228 226261
Lead Auditor(s)	Sarah Wardle	<a href="mailto:sarah.wardle@cumbria.gov.uk">sarah.wardle@cumbria.gov.uk</a>	01228 226255

## Audit Report Distribution

For Action:	Ruth Hunter (Chief Finance Officer / Deputy Chief Executive)
For Information:	Stuart Edwards (Chief Executive – OPCC)

### Cumbria Shared Internal Audit Service

Images courtesy of Carlisle City Council except: Parks (Chinese Gardens), [www.sjstudios.co.uk](http://www.sjstudios.co.uk), Monument (Market Cross), Jason Friend, The Courts (Citadel), Jonathan Becker



Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 15 <sup>th</sup> March 2017, will receive the report.
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*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

## 1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Office of the Police and Crime Commissioner's (COPCC) Code of Corporate Governance. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. The CIPFA / SOLACE Delivering Good Governance in Local Government Framework was revised to comply with international standards, with effect from April 2016. The Police and Crime Commissioner is required to set out his governance framework on an annual basis in a Code of Corporate Governance that reflects the seven principles outlined in the CIPFA Framework.
- 1.3. The Code of Corporate Governance is important to the organisation because it is a key element of the overall governance framework. A good governance framework establishes a high degree of transparency, fairness, standards and accountability to the public that contribute to efficient and successful achievement of strategic objectives.
- 1.4. The Police and Crime Commissioner has a statutory responsibility for holding the Chief Constable to account. This includes ensuring that adequate and effective governance arrangements are in place both within the Constabulary and his own office.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Chief Finance Officer / Deputy Chief Executive. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Arrangements put in place to ensure compliance with the revised CIPFA Delivering Good Governance Framework introduced in April 2016. Testing will incorporate areas of notable change in the COPCC's Code of Corporate Governance.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the arrangements for developing and maintaining a Code of Corporate Governance provide **reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is 1 audit recommendation arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation's strategic objectives (see section 5.1.)	-	1	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2.)	-	-	-
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	-	-

<b>4. Security</b> - safeguarding of assets (see section 5.4)	-	-	-
<b>5. Value</b> - effectiveness and efficiency of operations and programmes (see section 5.5)	-	-	-
<b>Total Number of Recommendations</b>	-	<b>1</b>	-

4.2.1. Strengths: The following areas of good practice were identified during the course of the audit:

- Responsibility for developing and maintaining an up to date Code of Corporate Governance has been clearly defined and allocated to the Chief Finance Officer.
- A plan to update the Code of Corporate Governance to reflect the CIPFA Delivering Good Governance Framework introduced in April 2016 was prepared, communicated and delivered on a timely basis.
- Sufficient time was built into the plan for consultation, scrutiny, challenge and approval to ensure the Code of Corporate Governance addressed all aspects of the guidance and fully captured the new requirements.
- Staff with appropriate knowledge, skills and seniority were nominated to contribute to the update.
- Arrangements are in place to oversee ongoing compliance and ensure the seven principles of good governance are fully embedded.
- Documented arrangements are in place to support statements made in the Code of Corporate Governance for example plans, strategies, policies and procedures.
- Opportunities to improve the Code of Corporate Governance update process and fully demonstrate compliance are maximised through open communication channels with CIPFA.

**4.3 Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.3.1 *High priority issues:*

- No high priority issues were identified

4.3.2 *Medium priority issues:*

- Formal agendas and minutes are not prepared for Executive Team meetings to demonstrate the level of discussion, scrutiny and challenge in support of decisions taken.

4.3.3 *Advisory issues:*

- No advisory issues were identified.

**Comment from the Chief Executive:**

I am pleased to see the overall level of assurance and strengths within our process for this area of governance. Having considered arrangements for the Executive team a decision has been taken to formally record the items discussed and decisions taken in response to the audit recommendation.

Stuart Edwards

## 5 Matters Arising / Agreed Action Plan

### 5.1 Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p><b>(a) Executive Team Meetings</b></p> <p>Executive Team meetings are the key platform for those tasked with updating the Code of Corporate Governance to share, discuss and challenge contributions and to make decisions.</p> <p>Formal agendas and minutes of Executive Team meetings are not prepared so the OPCC cannot effectively demonstrate the level and content of information communicated to the team, degree of scrutiny and challenge around preparation of the Code of Corporate Governance and decisions taken as part of good governance arrangements.</p>	<p>Agreed management action:</p> <p><i>The Executive Team has determined to formalise the arrangements for agenda and minutes of the Executive Team Meetings. This will be managed during the meeting utilising the new mobile device and share point arrangements that will enable all members of the Executive Team to access all papers.</i></p>
<p><b>Recommendation 1:</b></p> <p>The risks associated with the decision not to manage Executive team meetings through formal agendas and minutes should be assessed and actions taken to mitigate those risks if they are above the OPCC's acceptable risk tolerance level.</p>	
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Lack of accountability.</li> <li>• Reduced ability to respond to challenge.</li> <li>• Reputational Damage.</li> </ul>	<p><b>Responsible manager for implementing:</b>  <b>Stuart Edwards</b></p> <p><b>Date to be implemented:</b>  <b>From immediate effect</b></p>



## Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse.

		Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.
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## Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

### Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

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# Cumbria Shared Internal Audit Service

## Internal Audit Report for Cumbria Constabulary



### Code of Corporate Governance

Draft Report Issued: **31<sup>st</sup> January 2017**

Final Report Issued: **14<sup>th</sup> February 2017**

## Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	<a href="mailto:emma.toyne@cumbria.gov.uk">emma.toyne@cumbria.gov.uk</a>	01228 226261
Lead Auditor(s)	Sarah Wardle	<a href="mailto:sarah.wardle@cumbria.gov.uk">sarah.wardle@cumbria.gov.uk</a>	01228 226255

## Audit Report Distribution

For Action:	Roger Marshall (Chief Finance Officer)
For Information:	Michelle Skeer (Deputy Chief Constable)

### Cumbria Shared Internal Audit Service

Images courtesy of Carlisle City Council except: Parks (Chinese Gardens), [www.sjstudios.co.uk](http://www.sjstudios.co.uk), Monument (Market Cross), Jason Friend, The Courts (Citadel), Jonathan Becker



Audit Committee:	The Joint Audit & Standards Committee, which is due to be held on 15 <sup>th</sup> March 2017, will receive the report.
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*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

## 1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Constabulary's Code of Corporate Governance. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. The CIPFA / SOLACE Delivering Good Governance in Local Government Framework was revised to comply with international standards, with effect from April 2016. The Chief Constable is required to set out his governance framework on an annual basis in a Code of Corporate Governance that reflects the seven principles outlined in the CIPFA Framework.
- 1.3. The Code of Corporate Governance is important to the organisation because it is a key element of the overall governance framework. A good governance framework establishes a high degree of transparency, fairness, standards and accountability to the public that contribute to efficient and successful achievement of policing objectives.
- 1.4. The Chief Constable is responsible for putting proper governance arrangements in place within the Constabulary and is held to account on the adequacy and effectiveness of the arrangements by the Police and Crime Commissioner.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Chief Constable's Chief Finance Officer. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:



- Arrangements put in place to ensure compliance with the revised CIPFA Delivering Good Governance Framework introduced in April 2016. Testing will incorporate areas of notable change in the Constabulary’s Code of Corporate Governance.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the arrangements for developing and maintaining a Code of Corporate Governance provide **reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is **1** audit recommendation arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation’s strategic objectives (see section 5.1.)	-	1	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2.)	-	-	-
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	-	-

<b>4. Security</b> - safeguarding of assets (see section 5.4)	-	-	-
<b>5. Value</b> - effectiveness and efficiency of operations and programmes (see section 5.5)	-	-	-
<b>Total Number of Recommendations</b>	-	<b>1</b>	-

4.2.1. Strengths: The following areas of good practice were identified during the course of the audit:

- Responsibility for developing and maintaining an up to date Code of Corporate Governance has been allocated to the Chief Constable's Chief Finance officer.
- The Code of Corporate Governance was updated to reflect the CIPFA Delivering Good Governance Framework introduced in April 2016 on a timely basis.
- Staff with appropriate knowledge, skills and seniority were nominated to contribute to the update.
- Arrangements are in place to oversee ongoing compliance and ensure the seven principles of good governance are fully embedded.
- Documented arrangements are in place to support statements made in the Code of Corporate Governance for example plans, strategies, policies and procedures.

**4.3 Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.3.1 *High priority issues:*

- No high priority issues were identified

4.3.2 *Medium priority issues:*

- The Constabulary are unable to demonstrate the level of consultation, scrutiny and challenge undertaken around the development of the Code of Corporate Governance to those charged with approval and sign-off.

4.3.3 *Advisory issues:*

- No advisory issues were identified.

**Comment from the Deputy Chief Constable:**

I am happy that the audit revealed that the arrangements for producing the Constabulary's Code Of Governance were found to be robust and will take note of the need for greater transparency and documentation of the process.

## 5 Matters Arising / Agreed Action Plan

### 5.1 Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p><b>(a) Preparation &amp; Approval</b></p> <p>In March 2016 the Chief Constable's Chief Finance Officer sought input from other senior officers to update the Code of Corporate Governance to address the new requirements of the CIPFA Delivering Good Governance Framework. A deadline for contributions was set to allow sufficient time for consultation, finalisation and approval.</p> <p>The process was conducted largely on an informal basis through telephone calls and face to face conversations. As a result the level of consultation, quality assurance activity, scrutiny and challenge cannot be fully confirmed to demonstrate that the Code of Corporate Governance addresses all aspects of the guidance, captures all new requirements and is an accurate reflection of the Constabulary's governance framework.</p> <p>The Code of Corporate Governance was reviewed by the Joint Audit &amp; Standards Committee in May 2016 but formal sign-off was not obtained through Chief Officer Group and documented, as in previous years. Internal Audit are advised that the Chief Constable gave approval in a separate meeting with the Chief Finance Officer in April 2016. The approval arrangements cannot be effectively demonstrated.</p>	<p><b>Agreed management action:</b></p> <p>The findings of the audit in relation to the lack of formal evidence and documentation of the process for constructing and formally approving the Code of Corporate Governance are accepted.</p> <p>As the Constabulary updates its Governance documents for 2017-18, which will be largely completed by May 2017, additional care will be exercised to maintain a clear audit trail of the preparation and approval process.</p>
<p>Recommendation 1:</p>	

<p>In future years, supporting evidence of arrangements to ensure compliance with the CIPFA Delivering Good Governance Framework should be presented to those charged with approval and sign-off.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"><li>• Lack of accountability.</li><li>• Reduced ability to respond to challenge.</li><li>• Reputational damage.</li></ul>	<p>Responsible manager for implementing: <b>CC Chief Finance Officer</b></p> <p>Date to be implemented: <b>05/2017</b></p>

### Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being	Significant non-compliance with basic controls which leaves the system open to error and/or abuse.

	<p>unacceptably weak and this exposes the system objectives to an unacceptable level of risk.</p>	<p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>
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### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

#### Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.





## Cumbria Shared Internal Audit Service Internal Audit Report for Cumbria Constabulary



### Audit of Stop and Search

Draft Report Issued: **27 October 2016**

Final Report Issued: **18 November 2016**

## Audit Resources

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## Audit Report Distribution

For Action:	Sean Robinson, Chief Superintendent Territorial Policing.
For Information:	Mark Pannone, Superintendent Operational Support Jon Sherlock, Community Safety Inspector Darren Martland, Assistant Chief Constable Stuart Edwards, Chief Executive – OPCC

### Cumbria Shared Internal Audit Service

Images courtesy of Carlisle City Council except: Parks (Chinese Gardens), [www.sjstudios.co.uk](http://www.sjstudios.co.uk), Monument (Market Cross), Jason Friend, The Courts (Citadel), Jonathan Becker



	Vivien Stafford, Head of Partnerships and Commissioning – OPCC.
Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 15 March 2017, will receive the report.

*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

## 1. Background

- 1.1. This report summarises the findings from the audit of **Stop and Search**. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. Stop and search is important to the Constabulary as it allows officers to allay or confirm suspicion about people, without exercising their power of arrest. In 2014 the Best Use of Stop and Search Scheme (BUSS) was introduced with the aim of achieving greater transparency, community involvement in the use of stop and search powers and to support a more intelligence-led approach, leading to better outcomes.
- 1.3. The Constabulary was one of thirteen forces suspended from the Best Use of Stop and Search Scheme for non-compliance in February 2016. In September 2016, Her Majesty's Inspectorate of Constabulary (HMIC) confirmed that the force is BUSS compliant.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Chief Superintendent of Territorial Policing. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
  - Ensuring compliance with the Best Use of Stop and Search Scheme,
  - The management of the grounds for stop and search,
  - Governance arrangements in place for stop and search.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within stop and search provide **Reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There are **two** audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation's strategic objectives	-	-	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.1)	-	1	-
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.2)	-	-	1
4. <b>Security</b> - safeguarding of assets	-	-	-
5. <b>Value</b> - effectiveness and efficiency of operations and programmes	-	-	-

<b>Total Number of Recommendations</b>	-	1	1
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4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Roles and responsibilities for Stop and Search are clearly identified within the procedures.
- Operations Board receive regular stop and search updates.
- Actions were identified and taken to address HMIC recommendations, requirements of the Best Use of Stop and Search (BUSS) scheme and All Party Parliamentary Group for Children (APPGC) requirements.
- All stop and search forms are currently reviewed by the Business Improvement Unit, with feedback provided on each one. Plans are being made for supervisory reviews of all forms going forward following the implementation of a new system, Red Sigma, in 2017.
- Independent reviews of stop and search forms are undertaken by the Office of the Police and Crime Commissioner's Ethics & Integrity Panel and the Independent Advisory Group.
- Prior to the roll out of national mandatory stop and search training, some interim training was provided and directed at frontline officers most likely to be undertaking searches.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- No high priority issues were identified.

4.4.2. *Medium priority issues:*

- Updates to the policy and procedures in May 2016 were not communicated to staff and the policy was not published on the intranet. This was rectified with the subsequent update of these documents in September 2016.
- Two versions of the Best Use of Stop and Search policy statement are available to the public through the Constabulary's website.

4.4.3. *Advisory issues:*

- There is no arrangement in place to make public, instances of departure from the requirements of the scheme and explain the reasons why (point five of the BUSS – adherence to the scheme). A slight amendment to the policy could rectify this.

**Comment from the Assistant Chief Constable:**

I can confirm that I am in full agreement with the recommendations and factual accuracy of the report.

I can also confirm that the actions identified will be addressed within the next 4 weeks, and reported to the Operations Programme Board in January 2017, for audit and finalisation purposes.

I am satisfied that the report is now to be finalised and will be reported to the next meeting of the Joint Audit & Standards Committee via the internal audit quarterly progress report.

**Darren Martland.**

**Assistant Chief Constable.**

## 5. Matters Arising / Agreed Action Plan

5.1. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts.

● **Medium priority**

Audit finding	Management response
<p><b>(a) Communication of Policy / Procedures Changes</b></p> <p>Stop and Search policy and procedures were updated and approved by the Operations Board in May 2016, however this update was not communicated to officers. We were informed that this was an oversight. During the course of providing information for the audit the Constabulary identified that the updated policy had not been published on the intranet, despite being provided for upload along with the procedures which had been published.</p> <p>A subsequent update of the policy and procedures in September 2016 was communicated to staff via Force Orders and it was ensured that both the policy and procedures were published on the intranet.</p> <p>We note that two versions of the Best Use of Stop and Search policy statement (May and September 2016) are available to the public through the Constabulary’s website, depending on the route taken to access it.</p>	<p>Agreed management action:</p> <ul style="list-style-type: none"> <li>a) This has been rectified, with the September 2016 update to policy and procedures being informed to staff and published on the intranet.</li> <li>b) The older version of the policy will be removed from the Constabulary website. We will ensure that, in future, previous versions are deleted when new ones come into effect.</li> </ul>
<p><b>Recommendation 1:</b></p> <ul style="list-style-type: none"> <li>a) Arrangements should be put in place to ensure that all updated documents are clearly communicated and made available to staff.</li> <li>b) Where policy documents are made available to the public through the Constabulary’s website, arrangements should be put in place to ensure only the most recent version is published.</li> </ul>	



<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> <li>• Out of date policy / procedures being followed,</li> <li>• Officers unable to easily access relevant documents,</li> <li>• Non-compliance with internal policy.</li> </ul>	<p>Responsible manager for implementing: <b>Inspector Sherlock</b></p> <p>Date to be implemented: <b>a) September 2016 b) November 2016</b></p>
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**5.2. Information** - reliability and integrity of financial and operational information.

● **Advisory issue**

<b>Audit finding</b>	<b>Management response</b>
<p><b>(a) Adherence to the Best Use of Stop and Search Scheme</b></p> <p>The Best Use of Stop and Search Scheme (Section 5 – adherence to the Scheme) states that “forces participating in the scheme will make public all instances where they have departed from the requirements of the Scheme and explain the reason for why this occurred”.</p> <p>No reference to non-adherence to the Scheme was noted in the stop and search policy or procedures and it was confirmed that no specific arrangement is in place for this aspect of the BUSS.</p> <p>We were informed that HMIC had not raised this aspect of the BUSS during their recent visit to review BUSS compliance, which concluded the Constabulary is compliant. However, should an instance arise where a departure is required, inclusion of this aspect within the procedures would ensure completeness.</p>	<p>Agreed management action:</p> <p>The stop and search policy will be amended to include a mechanism for public reporting following any identified departure from the scheme.</p>
<p><b>Recommendation 2:</b></p> <p>Management should consider including reference to departure from adherence to the scheme in the stop and search procedures so that the requirement is known if the situation arises.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> <li>• Non- compliance with an aspect of the BUSS,</li> <li>• Lack of transparency.</li> </ul>	<p>Responsible manager for implementing: <b>Inspector Sherlock</b></p> <p>Date to be implemented: <b>January 2017</b></p>



## Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>



## Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

### Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

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# Monitoring Key Audit Recommendations





## Introduction

This report is designed to monitor the implementation of recommendations and actions arising from Audit and Inspection.

If fulfills the assurance responsibilities of the Audit and Standards Committee with regards to the implementation of control recommendations and best practice arising from Audit and Inspection work.

## Report Summary

Summary of Actions	PCC	CC	Joint	Total
Open actions b/fwd from last report	0	10	0	10
New actions since last report	1	5	0	6
<b>Total actions this report</b>	<b>1</b>	<b>15</b>	<b>0</b>	<b>16</b>
Actions completed since last report	1	10	0	11
<b>Open actions c/fwd to next report</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>5</b>

Summary of Total Actions by Status	PCC	CC	Joint	Total
 Completed	1	10	0	11
 Ongoing	0	1	0	1
 timescale exceeded	0	1	0	1
 not yet due	0	3	0	3
<b>Total</b>	<b>1</b>	<b>15</b>	<b>0</b>	<b>16</b>

**Key to Grade:**

***Cumbria Shared Internal Audit Service***

<b>Grade/Priority</b>	
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control.
Medium	Some risk exposure identified from a weakness in the system of internal control.
Advisory	Minor risk exposure/suggested improvement to enhance the system of control.

Members have requested that this summary of recommendations report provides an update on actions where the recommendation was graded High/Medium only. Minor Advisory recommendations are monitored by individual managers.

***External Audit – Grant Thornton***

<b>Grade/Priority</b>	
<b>High</b>	Significant effect on control system
<b>Medium</b>	Effect on control system
<b>Low</b>	Best practice



Audit Report	Report Date	Report emailed to JASC Members	Report considered by JASC Meeting	Report Of	Recommendation	Grade	Person Responsible	Agreed / Intended Action / Progress Update	Target Date	Revised Target Date	Status
Safeguarding IT Assets (CC)	13/01/2016	13/01/2016	09/03/2016	Shared Internal Audit Service	R1 Responsibility for keeping up to date with emerging legislation relating to IT equipment should be clearly defined.	Medium	DCI Professional Standards Furzana Nazir	<p>The role profile for the records and information security manager will be updated.</p> <p>February 2016 - There is currently uncertainty regarding this audit recommendation, clarification is being sought from the shared internal audit team. Members will be updated at the meeting.</p> <p>August 2016 - discussions have taken place with management audit which clarified that the recommendation related to computer security legislation which falls under the responsibilities of the Professional Standards Department. Discussions are now taking place to ascertain whether existing job descriptions cover these responsibilities adequately and a further update will be provided at the meeting.</p> <p>November 2016 - The Constabulary believes that the existing job descriptions of the Records and Information Security Manager and Force Disclosure Manager meet the requirements of this recommendation. Dialogue is continuing with internal audit to confirm this.</p> <p>February 2017 - The role profile for the Information Security Manager has been updated to amend an existing responsibility to include a requirement to ensure that relevant existing and emerging legislation pertaining to information security is also taken into account. The actual wording in the role profile is as follows: "Ensure that all security activities are carried out in accordance with security, safety and environmental policies taking account of local, IT industry and Association of Chief Police Officer's Community Security Policy, and relevant existing and emerging legislation pertaining to information security".</p>	TBC	Dec-16	🔧
Code of Ethics (CC)	18/04/2016	N/A	03/05/2016	Shared Internal Audit Service	R3 Arrangements should be in place to give management assurance that performance is being managed and that standards of professional and ethical behaviour are included as part of this process.	Medium	Chief Superintendent TP Mark Pannone	<p>We will include Code of Ethics in the 15 week reviews and embed it in supervisory reviews for all staff.</p> <p>June 2016 - A paper regarding training in relation to Code of Ethics is being prepared and will be presented to Business Board on 1 August 2016.</p> <p>August 2016 - The report to Business board has been delayed to the meeting on 26 August 2016. The CC CFO will provide an update at the September meeting of JASC.</p> <p>November 2016 - A steering group to drive this forward is being established.</p> <p>February 2017 - The 15 week reviews have a specific area that asks individuals about code of ethics, ethical behaviour and completion of code of ethics inputs. The steering group will be reviewed by the Code of Ethics lead. The lead has only been in Force for a few weeks.</p>	31/07/2016	-	🔧
Main Financial System - Creditors (CC)	22/04/2016	N/A	03/05/2016	Shared Internal Audit Service	<p>R1 Once the Central Services Department review is finalised arrangements should be made to review and update accounts payable procedures and ensure the following :-</p> <ul style="list-style-type: none"> <li>• Staff are made aware of new / updated procedures and where to access them with training provided where necessary.</li> <li>• Procedures are dated or version controlled.</li> <li>• Only the latest versions of procedures should be available for staff to follow.</li> <li>• Procedures are kept under regular review.</li> </ul>	Medium	Head of Central Services Ann Dobinson	<p>Current processes are being reviewed by the Change Team as part of the Admin Review (Phase 1). CSD management are working closely with the Change team to review, amend and implement new streamlined processes and procedures. New agreed processes will be documented and staff will be provided with full training as necessary. All new procedures will be version controlled, held easily accessible and regularly reviewed.</p> <p>June 2016 - Work on the process review is ongoing with regard to some process. A more detailed review of the procure to pay process is being undertaken by the Change Team with meetings planned for July and August 2016.</p> <p>August 2016 - A consultancy firm has been appointed to review the Procure to Pay processes and are working to assist the Change Team, this work will be concluded in October/November with new processes/workflows being implemented during December 2016. Review again end of December 2016</p> <p>November 2016 - Process improvement investigations are complete, an implementation plan is currently being developed by Change Programme for implementation over the coming months. A revised target date for implementation of the process improvements is December to March 2017, with the caveat some of the system improvements will be reliant on ICT availability to deliver redesigned forms and workflows.</p> <p>February 2017 - Work is ongoing to review and implement process improvements as identified by the Change Programme. For process improvements non ICT reliant these will be implemented by 31 March 2017 with full supporting procedures. System improvements reliant</p>	May - September 2016	31/03/2017	🔧

Audit Report	Report Date	Report emailed to JASC Members	Report considered by JASC Meeting	Report Of	Recommendation	Grade	Person Responsible	Agreed / Intended Action / Progress Update	Target Date	Revised Target Date	Status
Review of Annual Governance Statement (AGS) (CC)	25/04/2016	N/A	03/05/2016	Shared Internal Audit Service	R3 Management should be assured that the Annual Governance Statement correctly reflects the arrangements for staff to receive one to ones as they are operating in practice.	Medium	The Head of Human Resources Andrew Taylor	<p>The Constabulary operates a process of formal performance review in relation to officers. It is, however, recognised that PDR for police staff was suspended pending guidance from the College of Policing. The AGS states the Constabulary's commitment to re-introduce PDR for all officers and staff during 2016/17. A more detailed update will be provided at the JASC meeting in May.</p> <p>June 2016 - A plan is now in place to reintroduce PDR for all officers and staff during the remainder of 2016/17. Previously delayed national guidance on relationship between police officer pay and performance recently available and an electronic means of recording the details of PDR for both officers and staff is currently being developed.</p> <p>August 2016 - Work is progressing on the development of an electronic PDR system for implementation by the end of 2016/17.</p> <p>November 2016 - The development of a new PDR system has been delayed as a result of the unavailability of national guidance to accommodate significant changes in CPD (continuous professional development) and ARC (Assessment and Recognition of Competence) for Police Officers. Significantly, the ARC component is related to Police Officer Pay which demands a robust approach to appraisal. An interim PDR process is being launched in November 2016 with an implementation date of 31/01/17. Police Officers and Staff will be required to have an annual PDR in the month that corresponds with the anniversary of their appointment, this will start with those who are due to have a PDR in January 2017. In the meantime, all police officers and staff are continuing to have 5 and 15 week reviews with their line manager.</p> <p>February 2017 - The interim PDR process has been implemented as planned. This has been incorporated into the ARC process for Police Officers from January 2017 based on extended 15 week reviews. Work is continuing on the further development of electronically based systems to be implemented during 2017/18.</p>	30/09/2016	31/01/2017	🔧
Procurement (CC)	17/08/2016	17/08/2016	07/09/2016	Shared Internal Audit Service	R1 Arrangements should be made to update appropriate staff in the constabulary on the new Procurement Strategy and updated Procurement Regulations.	High	Head of Procurement Les Hopcroft	<p>The Procurement Strategy has been reviewed and approved by Extended COG and the previous Commissioner.</p> <p>The update of the Joint Procurement Regulations was reviewed by JASC with final agreement delayed due to clarification of policy regarding late tenders which has now been resolved.</p> <p>The Procurement team together with the Heads of Service, OPCC and the Estates Teams have been briefed on the Procurement Strategy. Communications strategy to be developed to brief key staff on the strategy and revised regulations, including:</p> <ul style="list-style-type: none"> <li>• Business Board.</li> <li>• Corporate Support SMT.</li> <li>• Staff involved in procurement processes (Incl. CSD, Finance, ICT, Estates etc.).</li> <li>• Brief update on ForceNet Intranet site</li> </ul> <p>November 2016 - The Joint Procurement Regulations have been updated to reflect recommendations arising from the internal audit report. An update on the Procurement Strategy and Regulations has been communicated through to the Constabulary through the Force net weekly briefing, Presentations on the Procurement regulations and strategy are to be presented to the Business Board and Corporate Support SMT at their November meetings. Specific training has been provided to the Fleet and ICT departments with further events for other departments due to be completed by the end of December.</p> <p>February 2017 - The communications strategy has been fully developed with the presentation for Business Board and Corporate Support SMT having been delivered and the briefing on the ForceNet Intranet site. The communication and training for staff involved in the procurement process is scheduled for April 2017.</p>	30/09/2016	31/12/2016	🔧
Procurement (CC)	17/08/2016	17/08/2016	07/09/2016	Shared Internal Audit Service	R15 Post completion reviews should be undertaken in respect of key procurement exercises in order to identify any learning that can be taken forward as part of a commitment to continuous improvement.		Head of Procurement Les Hopcroft	<ul style="list-style-type: none"> <li>• Post completion reviews (considering number of responses, evaluation criteria success, quality of the tender documents and procurement timings) are currently undertaken on an informal basis.</li> <li>• A formal review template to capture the above, together with lessons learnt, is being developed for use.</li> </ul> <p>November 2016 - Post completion reviews will be undertaken by the Head of Procurement for procurements over the EU threshold. A standard template to record the review outcomes is being developed.</p> <p>February 2017 - Post completion reviews are now ongoing. The development of the formal review template has been completed.</p>	31/08/2016	31/12/2016	🔧
Cumbria's Multi-Agency Safeguarding Hub (CC)	04/11/2016	04/11/2016	24/11/2016	Shared Internal Audit Service	R1 Hub resources should be fully considered in terms of the skills, qualifications and experience required to fulfil defined responsibilities, operate the Hub effectively and deliver improvements. The agreed requirements and individual partner contributions should be formally reflected in a signed funding agreement that is properly communicated, including to individual partner leadership boards.	Medium	Chair of the Programme Board	<p>The Programme Board, which met on 27th October, established a Task and Finish Group which met on 27th October 2016 and will ensure that the updated MOU is in place by 5th January 2017 and is agreed / endorsed by the Board.</p> <p>The MOU will capture the issue regarding multi-agency resourcing.</p> <p>February 2017 - Issues of Hub governance are dealt with by the programme board. the MOU is currently under discussion. This is not yet complete because health are a statutory partner and are currently undergoing significant restructure under the strengthening families programme of which their contribution to the hub is part.</p>	31/01/2017		🔧

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Cumbria's Multi-Agency Safeguarding Hub (cc)	04/11/2016	04/11/2016	24/11/2016	Shared Internal Audit Service	R3 Plans should be progressed to design and deliver multi-agency training to Hub staff.	Medium	Senior Manager – Multi-agency Safeguarding Hub	Plans have been delivered in terms of a number of multi-agency sessions. More sessions are in the pipeline. Multi-agency learning will be maintained and delivered through multi-agency management meetings which by their nature result in multi-agency learning.  We will prepare a calendar of training events  February 2017 - All of the recommendations from the audit are adopted into the Hub action plan. This action is complete, there is regular multi-agency training every fortnight. The content is discussed at the weekly operational managers meeting and there is a forward plan with confirmed content until the end of April 2017 with several themes to be scheduled beyond that.	30/11/2016	-	⚙️
Cumbria's Multi-Agency Safeguarding Hub (CC)	04/11/2016	04/11/2016	24/11/2016	Shared Internal Audit Service	R5 Arrangements for the development / update of Hub documentation should be formalised to ensure input is obtained from all partners and their agreement and sign off is documented. New versions of documents should be clearly version controlled / date stamped to ensure only the latest versions are accessible to staff and used.	Medium	Senior Manager – Multi-agency Safeguarding Hub  Deborah Royston Cumbria CC	A set of Hub operating procedures is in place. Whilst enhancements and operational developments are needed it has been agreed that we will use the procedures from November.  February 2017 - All the recommendation from the audit were adopted into the hub action plan. This action is now complete. The practice standards are written and shared amongst partners via the Hub SharePoint site on the CCC intranet.	30/11/2016	-	⚙️
Cumbria's Multi-Agency Safeguarding Hub (CC)	04/11/2016	04/11/2016	24/11/2016	Shared Internal Audit Service	R8 a) Information sharing arrangements within the Hub should be subject to review and arrangements put in place to ensure full compliance with data protection legislation.	High	Senior Manager – Multi-agency Safeguarding Hub  Deborah Royston Cumbria CC	a) The MOU and Practice Standards will address elements regarding information sharing. There is an agreed action to improve information security in respect of information access to social care. Information sharing is well handled within the Hub but could be better assisted when NHS colleagues are able to resolve some IT issues.  February 2017 - All the recommendation from the audit were adopted into the hub action plan. This action is now complete. The practice standards are written and shared amongst partners via the Hub SharePoint site on the CCC intranet.	31/01/2017	-	⚙️
					R8 b) A training review should be undertaken to establish the level of information security training provided to Hub staff so that plans can be established to address any gaps.			b) We will formalise an annual check of Information Security training and undertake a security audit.  February 2017 - Action is included as part of the Hub action plan. Information Security has been reviewed and there are no issues. On line CCC information security training was completed by all staff, annual audit is planned.			
Stop & Search (CC)	18/11/2016	18/11/2016	15/03/2017	Shared Internal Audit Service	R1 a) Arrangements should be put in place to ensure that all updated documents are clearly communicated and made available to staff. recent version is published.	Medium	Community Safety Inspector Jon Sherlock	a) This has been rectified, with the September 2016 update to policy and procedures being informed to staff and published on the intranet.  February 2017 Arrangements are in place, this action came about as a single policy change was not communicated where previously they were, and subsequently have been. All changes, no matter how minor will be published, Stop & Search Professional Lead has this responsibility.	30/09/2016	-	⚙️
					R1 b) Where policy documents are made available to the public through the Constabulary's website, arrangements should be put in place to ensure only the most recent version is published.			b) The older version of the policy will be removed from the Constabulary website. We will ensure that, in future, previous versions are deleted when new ones come into effect.  February 2017 - Arrangements in place with the Marketing & Media department, that when policy is replaced online, all pages are searched, not simply the main page. This action came about as although the up to date document could be accessed by the public from the relevant main page, an older document was still in existence if searched for online.			
Governance (OPCC)	09/02/2017	10/02/2017	15/03/2017	Shared Internal Audit Service	R1 The risks associated with the decision not to manage Executive team meetings through formal agendas and minutes should be assessed and actions taken to mitigate those risks if they are above the OPCC's acceptable risk tolerance level.	Medium	PCC Chief Executive  Stuart Edwards	The Executive Team has determined to formalise the arrangements for agenda and minutes of the Executive Team Meetings. This will be managed during the meeting utilising the new mobile device and share point arrangements that will enable all members of the Executive Team to access all papers.	With Immediate Effect	-	⚙️

Audit Report	Report Date	Report emailed to JASC Members	Report considered by JASC Meeting	Report Of	Recommendation	Grade	Person Responsible	Agreed / Intended Action / Progress Update	Target Date	Revised Target Date	Status
Self Service Travel Expenses & Overtime (CC)	22/02/2017	22/02/2017	15/03/2017	Shared Internal Audit Service	R1 Where policy documents are made available on the Constabulary's website, arrangements should be put in place to ensure only the most recent version is published.	Medium	Head of Central Services Ann Dobinson	Arrangements will be made to remove the outdated policy from the Cumbria Constabulary website.	28/02/2017	-	⚙️
Self Service Travel Expenses & Overtime (CC)	22/02/2017	22/02/2017	15/03/2017	Shared Internal Audit Service	R3 Procedures should give greater clarity with regard to the roles and responsibilities of officers, managers and CSD in respect of driver licence details.	Medium	Head of Central Services Ann Dobinson	New forms are being devised in line with the new procedures along with a full review of all officers and staff claiming mileage. The new form includes the requirement to submit insurance and MOT documentation; this will be completed in the next couple of months.	31/05/2017	-	⚙️
Self Service Travel Expenses & Overtime (CC)	22/02/2017	22/02/2017	15/03/2017	Shared Internal Audit Service	R4 Management should ensure arrangements are in place to confirm that all aspects of the Business Travel and Expenses procedures are complied with.	Medium	Head of Central Services Ann Dobinson	As part of this new documentation Line Managers will be reminded of their obligations in connection with Driving licence details as defined in the policy document.	31/05/2017	-	⚙️
Self Service Travel Expenses & Overtime (CC)	22/02/2017	22/02/2017	15/03/2017	Shared Internal Audit Service	R5 Management should ensure that arrangements are in place to confirm that all required reports and checks are undertaken in accordance with their requirements.	Medium	Head of Central Services Ann Dobinson	The duplicate payments report has now become part of the procedural checks and moving forward this will be done on a monthly basis.	31/12/2016	-	⚙️



**Treasury Management Strategy Statement 2017/18  
and  
Prudential Indicators 2017/18 to 2019/20**



Public Accountability Conference  
22 February 2017  
Agenda Item No 6

Joint Audit & Standards Committee  
15 March 2017  
Agenda Item No 14i

# Office of the Police and Crime Commissioner Report

**Title: Treasury Management Strategy Statement 2017/18 and Prudential Indicators 2017/18 to 2019/20**

Report of the Chief Finance Officer/Deputy Chief Executive.

**Originating Officers:** Michelle Bellis, Deputy Chief Finance Officer;  
Lorraine Holme, Principal Financial Services Officer

## 1. Purpose of the Report

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

These codes were originally issued in 2002 and were later fully revised in 2009 and 2011. The TMSS also incorporates the Investment Strategy which is a requirement of the Communities and Local Government (CLG) Investment Guidance. This report proposes a strategy for the financial year 2017/18.

Treasury Management in Local Government continues to be a highly important activity. The Police and Crime Commissioner ("The Commissioner") adopts the CIPFA definition of Treasury Management which is as follows:

*'the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'*

## 2. Recommendations

2.1. The Commissioner is asked to:

- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2017/18.
- Approve the Prudential Indicators for 2017/18 as described in paragraph 5 and as set out in detail at **Appendix B**.
- Approve the Minimum Revenue Provision Policy Statement for 2017/18 as set out in paragraph 6.
- Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website.
- Delegate to the Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit and Standards Committee.

2.2. The Joint Audit and Standards Committee are asked to review the Treasury Management Strategy Statement and Treasury Management Practices to be satisfied that controls are satisfactory and provide advice as appropriate to the Commissioner.

## 3. Background

3.1. The Commissioner is required to approve an annual Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management, which also incorporates an Investment Strategy as required by the Local Government Act 2003 and which is prepared in accordance with the Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year. Subsequent to the Local Government Act 2003, the system of Government control over borrowing to support capital spending has been replaced with a self-regulatory system of borrowing controls, based on a Prudential Code of Practice. Accordingly, this paper now brings together a schedule of Prudential Indicators alongside the Treasury Management Strategy for the Commissioner to endorse.

3.2. The Treasury Management Strategy has been prepared in line with the model guidance produced by Arlingclose Ltd, who provide specialist treasury management advice to the Commissioner. It should

however be noted that all treasury management decisions and activity are the responsibility of the Commissioner and any such references to the use of these advisors should be viewed in this context.

## 4. Treasury Management Strategy 2017/18

### 4.1. General Principles

4.1.1. Treasury management activities involving, as they do, the investment of large sums of money and the generation of potentially significant interest earnings have inherent risks. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks. The main risks to the Commissioner's treasury activities are outlined below:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Re-financing risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk.
- Fraud, error and corruption Risk

4.1.2. Details of the control measures the Commissioner has put in place to manage these risks are contained within the separate Treasury Management Practices (TMPs).

4.1.3. The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. However, the high profile near failure of major banks in 2008 highlighted that this objective must be sought within a context of effective management of counter-party risk. Accordingly, the Commissioner will continue to search for optimum returns on investments, but at all times the **security** of the sums invested will be paramount. This is a cornerstone of the CIPFA Code of Treasury Management Practice which emphasises "**Security, Liquidity, Yield** in order of importance at all times". The security of the sums invested is managed by tight controls over the schedules of approved counter-parties, which are continually reviewed to take account of changing circumstances, and by the setting of limits on individual and categories of investments as set out at **Appendix A**.



The strategy also takes into account the impact of treasury management activities on the Commissioner’s revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2017/18 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

## 4.2. External Guidance

4.2.1. The guidance under which this strategy is put forward comes from a variety of different places. Principally, however, the requirement to produce an annual Treasury Management Strategy is set out in the latest CIPFA Code of Practice on Treasury Management published in 2011. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) to produce an investment strategy as part of the wider Treasury Strategy. This is set out below at paragraph 4.6. Finally, the Commissioner’s treasury advisor’s Arlingclose Ltd have provided some advice about possible future trends in interest rates and advice on best practice in relation to the format of the TMSS.

## 4.3. Resources and the Current Treasury Position

4.3.1. Treasury Management activity is driven by the complex interaction of expenditure and income flows, but the core drivers within the Commissioner’s balance sheet are the underlying need to borrow to finance its capital programme, as measured by the capital financing requirement (CFR), which is explored in detail in section 4.5 of this report, and the level of reserves and balances. In addition, day to day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner’s level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner’s strategy in determining exact borrowing and lending activity.

4.3.2. The estimated treasury position at 31<sup>st</sup> March 2017 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate	Estimate	Estimate	Estimate
	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
External Borrowing - PWLB – at start of year	0.000	0.000	0.000	0.000
Interest Payments	0.000	0.000	0.000	0.000
Investments (average)	20.167	16.277	13.568	12.958
Interest Receipts	0.075	0.065	0.050	0.050

4.3.3. The figures in the table above are based on the approval of the proposed revenue budget and capital programme presented to the Commissioner elsewhere on this agenda and are based on the interest rate assumptions as outlined in paragraph 4.4.3 below.

4.3.4. The estimate for interest payments in 2017/18 is Nil. This is based on the assumption that the Commissioner will not actually undertake any new borrowing to fund capital expenditure for the period of this forecast. This is not to say that there is no underlying need to borrow. The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £18.4m at the start of the 2017/18 financial year. This includes £5.0m which is the capital value of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009. The capital strategy paper elsewhere on this agenda illustrates that the Commissioner will not need to borrow to deliver the agreed capital programme. However, under current market conditions, where short term interest receipts are forecast to remain low in the immediate future, and there are continuing general uncertainties over the credit worthiness of financial institutions, it is assumed that the most prudent borrowing strategy for the present is to meet the capital funding requirement from within internal resources, by reducing cash balances available for investment. At some time in the future it will be necessary to undertake external borrowing. Advice will be sought from Arlingclose as to the most opportune time and interest rate to undertake such borrowing.

4.3.5. The estimate for interest receipts in 2017/18 is £75k (latest forecast for 2016/17 is £90k). The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.25% and is expected to remain at this level for the next three years.

#### 4.4. Interest Rate Prospects

4.4.1. The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

4.4.2. Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the

fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

4.4.3. Negative Interest Rates. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity.

4.4.4. The main forward projections of interest rates provided by Arlingclose are shown in the table below. It should be noted that these forecasts are based on information as at January 2017. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Arlingclose Base Rate Estimates	2017	2018	2019
Quarter 1	0.25%	0.25%	0.25%
Quarter 2	0.25%	0.25%	0.25%
Quarter 3	0.25%	0.25%	0.25%
Quarter 4	0.25%	0.25%	0.25%

## 4.5. Borrowing Requirement and Strategy

### 4.5.1. Long Term Borrowing

The Commissioner’s underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR), which is one of the Prudential Indicators and represents the cumulative capital expenditure of the Commissioner that has not been financed from other sources such as capital receipts, capital grants, revenue contributions or reserves. To ensure that this expenditure will ultimately be financed, authorities are required to make a provision from their revenue accounts each year for the repayment of debt. This sum known as the Minimum Revenue Provision (MRP) is intended to cover the principal repayments of any loan over the expected life of a capital asset. The CFR together with Usable Reserves, are the core drivers of the Commissioner’s Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the Commissioner must ensure that in the medium term, net debt will only be for capital purposes. Therefore the Commissioner must ensure that except in the short term, net debt does not exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two

financial years. In accordance with this requirement the Commissioner does not currently intend to borrow in advance of spending needs.

The table below shows the Commissioner's projected capital financing requirement for 2017/18 and beyond.

Capital Financing Requirement	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m
Balance B/fwd	18.401	17.978	17.546	17.103
Plus Capital Expenditure financed from borrowing	0.000	0.000	0.000	0.000
Less MRP for Debt Redemption	-0.423	-0.432	-0.443	-0.457
Balance C/Fwd	17.978	17.546	17.103	16.646

The above table shows only capital expenditure that is required to be financed from borrowing. The full capital programme and associated financing is reported in summary within the Prudential Indicators and in detail elsewhere on the agenda.

The Commissioner is not expected to have any external borrowing at the start of 2017/18. Given that the CFR is forecast to be £18.4m this effectively means that the Commissioner will be funding over £13.4m of capital spend from internal resources (CFR £18.4m less £5m in relation to PFI).

Currently, there is a significant differential between investment rates at 0.25% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 2.5% pa. Consequently, at this juncture, undertaking long term borrowing is likely to have a prohibitively high short term cost to the revenue account. However, such funding decisions may commit the Commissioner to costs for many years into the future and it is therefore critical that a long term view is taken regarding the timing of such deals. It should also be recognised that by funding internally, there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the Commissioner, in conjunction with its treasury advisor Arlingclose Ltd, will continue to monitor market conditions and interest rate prospects on an on-going basis, in the context of the Commissioner's capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

#### 4.5.2. Short Term Borrowing

Short term loans will only be used in exceptional cases to manage day to day movements in cash balances, or over a short term period to enable aggregation of existing deposits into longer and more sustainable investment sums.

#### 4.6. Investment Strategy

4.6.1. The Local Government Act 2003, Section 15(1)(a) requires the Commissioner to approve an investment strategy. Supplementary guidance produced by the Department for Communities and Local Government (CLG) requires, as a minimum, that the following areas are addressed:

General policy -The guiding principle is that Authorities should invest prudently the temporary funds held on behalf of local communities. This has always been the cornerstone of our investment strategy. It is also consistent with the CIPFA guidance which has been re-iterated in the latest revision of the Treasury Management code, which sets out that the effective containment of risk should be a primary objective of the Treasury Management strategy and that achieving optimum performance is a proper but secondary objective.

*The updated investment guidance emphasises “Security, Liquidity, Yield in order of importance at all times”.*

In the past the investment strategy has operated criteria based on credit ratings to determine the size and duration of investments it is willing to place with particular counterparties. The credit worthiness of counterparties is reviewed on an ongoing basis in conjunction with the Commissioner’s treasury advisors (Arlingclose Ltd).

The Commissioner holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Commissioner’s investment balance has ranged between £11.2m and £33.7m. The larger sum is due to the receipt in July 2016 of £16.9m pension top up grant from the Home Office which is drawn down steadily over the remainder of the year. Balances in 2017/18 are forecast to be similar to those of 2016/17. It is anticipated that some grant funding may be received in advance of the capital spend and at the peak, when the pensions grant is received in July, balances for investment could approach £40m.

**Credit Rating** - Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody’s or Standard & Poor’s. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In

addition to credit ratings, the Commissioner and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Sovereign support mechanisms
- Share prices
- Corporate developments, news, articles, market sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

The investment strategy for 2015/16 was opened up slightly to include some additional classes of investment to allow more flexibility and diversification. The strategy for 2017/18 remains the same. The decision to enter into a new class of investment is delegated to the Commissioner's Chief Finance Officer. A full explanation of each class of asset is provided in Appendix A together with a schedule of the limits that will be applied.

#### 4.6.2. Specified and non-specified investments

The DCLG guidance categorises investments as 'specified' and 'non-specified'.

**Specified investments** are sterling denominated instruments with a maximum maturity of 364 days. They also meet the "high credit quality" criteria as determined by the Commissioner and are not deemed capital expenditure investments under statute.

High credit quality specified investments are defined by the Commissioner as those that meet its counterparty selection criteria as outlined in **Appendix A**.

Non specified investments are, effectively, everything else and, so far as an investment strategy is concerned, need to be set out in more detail, with appropriate limits set so as to minimise any exposure to risk. The strategy should also set out the basis upon which any non-specified investments are made, including how financial advice is sought.

So far as the Commissioner is concerned, investment strategies have always been limited to counterparties with high credit ratings. The current policy permits 'Non- Specified' investments (principally to facilitate lending for periods beyond 364 days) subject to:

- a maximum of three years duration.
- Counterparties with a minimum credit rating of A- (or equivalent).
- an overall limit of £5m.

There are currently two investments that at the time of transacting were for a period of greater than 364 days and as such would have been classified as ‘Non-Specified’ investments. At this point in time, only one investment still has a maturity greater than 364 days. There are no changes proposed to the criteria for making “Non-specified investments” as set out above. The option remains to make such investments with very highly rated counterparties up to the limit of £5m should suitable opportunities arise. All such investments would require prior approval by the Commissioner’s Chief Finance Officer.

The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner’s resources. Accordingly, the Commissioner and its advisors Arlingclose Ltd will continuously monitor corporate developments and market sentiment with regards to counterparties and will amend the approved counterparty list and lending criteria where necessary. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy. It is proposed to continue the policy, adopted last year that the Commissioner’s Chief Finance Officer, subject to consultation with the Commissioner, be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow. The Joint Audit and Standards Committee will be updated on any changes to policy. The performance of the Commissioner’s treasury advisors and quality of advice provided is evaluated prior to the annual renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

#### 4.6.3. The use of Financial Instruments for the Management of Risks

Currently, Local Authorities (including PCC’s) legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. The Commissioner has no plans to use derivatives during 2017/18. Should this position change, the Commissioner may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require explicit approval.

#### 4.6.4. Liquidity of investments

The investment strategy must lay down:

- The principles which are to be used in determining the amount of funds which can prudently be committed for more than one year i.e. what DCLG defines as a long term investment.

For the Commissioner, the total of investments over 364 days in duration are limited to £5m with a maximum duration of three years. This policy balances the desire to maximise investment returns, with the need to maintain the liquidity of funds.

Under current market conditions there is still little opportunity to generate significant additional investment income by investing in longer time periods over 364 days. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2017/18 amounts to £75k (£90k 2016/17) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit and Standards Committee as background information to provide guidance and support when undertaking scrutiny of Treasury Management procedures.

#### 4.7. Treasury Management and Risk

4.7.1. The Commissioner's approach to risk is to seek optimum returns on invested sums, taking into account at all times the paramount security of the investment. The CIPFA Code of Practice and Treasury Management Practices (as set out below in para. 4.8) sets out in some detail defined treasury risks and how those risks are managed on a day to day basis.

#### 4.8. Treasury Management Practices

4.8.1. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- Best Value and Performance Management
- Decision Making and Analysis
- Approved Instruments
- Organisation, Segregation of duties and dealing arrangements
- Reporting and Management Information requirements
- Budgeting, Accounting and Audit
- Cash and cashflow management
- Avoidance of money laundering
- Training



- Use of external service providers
- Corporate Governance

Treasury Management is a specialised and potentially risky activity which is currently managed on a day to day basis by the Financial Services Team under authorisation from the Commissioner's Chief Finance Officer as part of a shared service arrangement for the provision of financial services. The training needs of treasury management staff to ensure that they have appropriate skills and expertise to effectively undertake treasury management responsibilities is addressed on an ongoing basis.

Specific guidance on the content of TMPs is contained within CIPFA's revised code of Practice for Treasury Management. Accordingly, the TMPs have been reviewed in detail and where necessary minor amendments have been made to bring the TMPs into line with The Code.

## 5. Prudential Indicators 2017/18

### 5.1. Background

5.1.1. The Local Government Act 2003 provides the framework for capital finance, based on statutory compliance with a 'Prudential Code', most recently updated in 2011. Local Authorities including PCC's are now free to borrow, so long as the ensuing costs falling on the revenue account are deemed to be **Affordable, Prudent and Sustainable**. In this context, affordable is deemed to mean in relation to the Commissioner's overall spending plans.

### 5.2. Objectives of the Prudential Code

5.2.1. The key objectives of The Code are to ensure, within a clear framework, that Capital investment plans are affordable, prudent and sustainable (or to highlight, in exceptional cases, that there is a danger this will not be achieved so that the Commissioner can take remedial action). To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out the Indicators that must be used. The indicators required by The Code are designed purely to support local decision making and are specifically not designed to represent comparative performance indicators. Use of them in this way would be misleading and counterproductive, not least as Authorities have very different levels of debt, capital plans etc.

Separate groups of indicators are required in the following three specified areas:

- Affordability
- Prudence
- Capital Expenditure / External Debt / Treasury Management

The overriding objective in the consideration of the affordability of the Commissioner's capital plans is to ensure that the planned capital investment of the Commissioner remains within sustainable limits, and, in particular, to consider the impact on the overall cost to the Commissioner as expressed by the effect on the Council Tax.

### 5.3. Prudential Indicators 2017/18

5.3.1. The Prudential Indicators required by The Code of Practice are attached at **Appendix B**, together with a brief explanation of the purpose of each indicator and the assumptions which have been used in preparing the indicators.

### 5.4. Setting, Revising, Monitoring and Reporting

5.4.1. Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Commissioner's Chief Financial Officer has a prescribed responsibility under The Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner.

## 6. Annual MRP Statement for 2017/18

6.1. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on authorities to make a prudent provision for debt redemption, this is known as the **Minimum Revenue Provision (MRP)**. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such guidance under section 21(1A) of the Local Government Act 2003. This sum known as the MRP is intended to cover the principal repayments of any loan over the expected life of a capital asset.

6.2. The DCLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by The Commissioner. This is now by agreement encompassed within the TMSS.

6.3. The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure, which gave rise to the debt, provides benefits.

The four options available for calculating MRP are set out below:

- Option 1 – Regulatory Method based on 4% of the CFR after technical adjustments.
- Option 2 – CFR Method, based on 4% of the CFR with no technical adjustments.
- Option 3 – Asset Life Method, spread over the life of the asset being financed.
- Option 4 – Depreciation Method, based on the period over which the asset being financed is depreciated.

6.4. It is proposed that The Commissioner’s MRP policy for 2017/18 is unchanged from that of 2016/17 and that The Commissioner utilises option 1 for all borrowing incurred prior to the 1st April 2008 and option 3 for all borrowing undertaken from 2008/09 onwards, irrespective of whether this is against supported or unsupported expenditure. This policy establishes a link between the period over which the MRP is charged and the life of the asset for which borrowing has been undertaken. It is proposed that a fixed instalment method is used to align to the Commissioner’s straight line depreciation policy.

6.5. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability. This will not result in an additional charge to the Commissioner’s revenue budget as this is part of the capital repayment element of the PFI unitary charge.

## 7. Balanced Budget Requirement

7.1. The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget.

## 8. Reporting on Treasury Activities

8.1. In accordance with The Code of Practice for Treasury Management, the Commissioner will approve the Annual TMSS, receive, a quarterly summary of treasury activity, a mid-year update on the strategy and an annual report after the close of the financial year.

8.2. The Joint Audit and Standards Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint and Standards Committee terms of reference in relation to treasury management are:

- Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
- Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity.
- Review the treasury risk profile and adequacy of treasury risk management processes.
- Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

8.3. The DCLG Guidance on investments states that publication of strategies is now formally recommended, the full suite of strategy documents will be published on the Commissioner's website once approved.

## Counterparty Selection Criteria and Approved Counterparties

### 1. Background

- 1.1. The lending criteria set out below are designed to ensure that, in accordance with The Code of Practice, the security of the funds invested is more important than maximising the return on investments. Following consultation with the Commissioner's treasury advisors Arlingclose Ltd there are no amendments to the criteria used in determining approved investment counterparties for 2017/18 compared to those in operation for 2016/17.

### 2. Counterparty Selection Criteria

- 2.1. The agreed changes to the selection criteria for investment counterparties for 2015/16 included changes to the investment categories, a reduction in the maximum amount and duration lengths for investments. This was to encourage diversification and to increase the security of those funds invested. These principles apply to the 2017/18 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.
- 2.2. The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd who provide timely updates and advice on the standing of counterparties. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy and at the time when individual investment decisions are made. In the event that this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit and Standards Committee will be advised through the quarterly activities report.

- 2.3. The approved investment counterparties for the 2017/18 investment strategy are summarised as follows:

Category	Description	Comments
Category 1	Banks Unsecured	Includes building societies
Category 2	Banks Secured	Includes building societies
Category 3	Government	Includes other Local Authorities
Category 4	Registered Providers	Includes providers of social housing e.g. Housing Associations
Category 5	Pooled Funds	Includes Money Market Funds and property funds

- 2.4. A more detailed explanation of each of these counter party groupings is provided in Schedule B (page 20).

### 3. Counterparty Groupings / Limits

- 3.1. The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in **Schedule A** (page 19). The limits are based on a percentage of the potential maximum sums available for investment during the year which have been forecast as up to £40m. The counterparty limits for 2017/18 are the same as the limits for 2016/17 with one exception - group 5 – Pooled funds. The total amount of investments in this group has been increased from £15m to £20m to allow the Commissioner to take advantage of pooled cash funds. These funds are in essence the same as AAA money market funds but they require 3 days notice for the return of our funds. This slight reduction in cashflow is rewarded by a slightly increased interest rate. Arlingclose suggest that we use these funds for longer term investments and keep the ordinary money market funds to manage our cash flow.

### 4. Description of Credit Ratings

- 4.1. As outlined in paragraph 2.2 above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd. A description of each of the credit rating is provided at **Schedule C** (page 21-23).

## Schedule A – Counterparty Groupings and Associated Limits

Investment Limits						
Credit Rating	Maximum	1	2	3	4	5
		Banks Unsecured	Banks Secured	Government	Registered Providers	Pooled Funds
<u>Category Limit 2016/17</u>	<i>Amount</i>	£20m	£20m	Unlimited	£10m	£20m
	<i>Duration</i>					
<u>Individual Institution/Group Limits</u>						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (Pooled funds are generally not rated but the diversification of funds equates to a AAA credit rating.)
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2017/18 are based on the potential maximum available for investment during the year which has been estimated at up to £40m. It should also be noted that as outlined in paragraph 2.2 above, counterparty credit rating is not the only factor taken into consideration at the time of placing investments.

The maximum of all investments with outstanding maturities greater than 364 days will be £5m.

The only approved exception to the above limits is in relation to NatWest Bank (currently rated BBB+), the Commissioner's day to day banking service provider. Advice will be sought from Arlingclose with regards to acceptable levels of cash balances held in "on demand" accounts for cash flow purposes.

## Schedule B – Explanation of Counterparty Groupings

Class of Investment
<p><b>Category 1 - Banks Unsecured:</b> Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a <b>bail-in</b> should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Commissioner’s current account bank Nat West plc.</p>
<p><b>Category 2 - Banks Secured:</b> Covered bonds, reverse repurchase agreements and other secured arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.</p>
<p><b>Category 3 - Government:</b> Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to <b>bail-in</b>, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.</p>
<p><b>Category 4 - Registered Providers:</b> Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.</p>
<p><b>Category 5 - Pooled Funds:</b> Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value (NAV) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.</p> <p>Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner’s investment objectives will be monitored regularly.</p>



## Schedule C – Description of Credit Ratings – Long Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
<b>Long Term Rating</b>	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to DDD.</p> <ul style="list-style-type: none"> <li>• AAA Highest credit quality 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be affected by foreseeable events.</li> <li>• AA Very high credit quality 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</li> <li>• A High credit quality 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of A-.</b></p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range Aaa, Aa, A, etc, down to C.</p> <p>Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa to Caa.</p> <p>The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.</p> <ul style="list-style-type: none"> <li>• Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.</li> <li>• Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.</li> <li>• A Obligations rated A are considered upper-medium grade and are subject to low credit risk.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of A1.</b></p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to D.</p> <p>The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.</p> <ul style="list-style-type: none"> <li>• AAA: An obligation rated 'AAA' has the highest rating assigned by Standard &amp; Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.</li> <li>• AA: An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.</li> <li>• A: An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of A-.</b></p>

## Schedule C – Description of Credit Ratings – Short Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
<b>Short Term Rating</b>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range F1, F2, F3, B, C, D.</p> <ul style="list-style-type: none"> <li>F1 Highest credit quality Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote an exceptionally strong credit feature.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of F1.</b></p>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range P1, P2, P3, NP (not prime).</p> <ul style="list-style-type: none"> <li>P1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of P1.</b></p>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range A1,A2, A3, B1, B2, B3, C, D.</p> <ul style="list-style-type: none"> <li>A1 A short-term obligation rated 'A-1' is rated in the highest category by Standard &amp; Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.</li> </ul> <p><b>The Commissioner will confine investments to those institutions with a minimum rating of A1.</b></p>

## Schedule C – Description of Credit Ratings – Support Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
<b>Support Rating (Fitch)</b>	<p>This category of assessment does not rate the quality of the banking institution, but represents the analyst's view of whether the bank would receive State or other support should this be necessary. The gradings are in the range 1 – 5, although as set out above, the strategy is to restrict such investments to grades 1 - 3:</p> <ul style="list-style-type: none"> <li>• 1) A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question.</li> <li>• 2) A bank for which, in the Analyst's opinion, there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to support the bank in question.</li> <li>• 3) A bank for which, in the Analyst's opinion, there is a moderate probability of external support, because of uncertainties about the ability or propensity of the potential provider of support to do so.</li> </ul>	<p>Not applicable</p>	<p>Not applicable</p>

## Prudential Indicators 2017/18 to 2019/20

### Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003, the Prudential Code was revised in November 2011. Local Authorities (which includes Police and Crime Commissioner's) are free to determine their own level of capital investment controlled by self-regulation. The exercise of these new freedoms is subject to compliance with the requirements of the CIPFA Prudential Code, which is made a statutory requirement under the provisions of the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the Commissioner should operate to ensure that the objectives of the Prudential Code are met.

### Prudential Indicators

The Prudential Indicators for which the Commissioner is required to set limits are as follows:

#### 1. Net Borrowing and the Capital Financing Requirement

This is a key indicator of Prudence. This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

'In order to ensure that over the medium term net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years'.

The Commissioner's Chief Financial Officer reports that the Commissioner had no difficulty meeting this requirement for 2015/16, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2017/18 budget. The table below provides a comparison of net borrowing and the Capital Financing Requirement.

Comparison of Net Borrowing and the Capital Financing Requirement					
	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Net Debt (section 9 below provides analysis)	(8.016)	(17.256)	(15.280)	(11.532)	(8.984)
Capital Financing Requirement as at 31 March	18.673	18.401	17.978	17.546	17.103

## 2. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

The actual amount of capital expenditure that was incurred during 2015/16, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2017/18 budget plus known requirements in both 2018/19 and 2019/20 are set out in the table below.

Capital Expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Expenditure	8.999	4.466	6.521	8.760	3.493

Capital expenditure will be financed or funded as follows:

Capital Financing	2015/16 Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
Capital Receipts	0.000	0.000	0.000	0.000	0.248
Government Grants	0.607	0.454	1.798	4.246	0.811
Revenue Contributions	6.388	3.871	4.723	4.514	2.434
<b>Total Financing</b>	<b>6.995</b>	<b>4.325</b>	<b>6.521</b>	<b>8.760</b>	<b>3.493</b>
Borrowing *	2.004	0.141	0.000	0.000	0.000
<b>Total Funding</b>	<b>2.004</b>	<b>0.141</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Total Financing and Funding</b>	<b>8.999</b>	<b>4.466</b>	<b>6.521</b>	<b>8.760</b>	<b>3.493</b>

\* In the current financial climate the decision has been taken to borrow internally rather than from the PWLB which will be reflected in the capital financing requirement indicator.

### 3. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income. The Commissioner's financing costs can be both positive and negative dependent on the relative level of interest receipts and payments.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, budget, budget proposal and medium term financial forecast. These figures are purely indicative and are, in particular, in no way meant to indicate planned increases in funding from Council Tax.

## Council Tax Increase of 1.9% from 2017/18

Ratio of Financing Costs to Net Revenue Stream					
	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Financing Costs	0.242	0.313	0.348	0.367	0.393
Net Revenue Stream	94.871	95.675	96.178	95.945	96.150
Ratio	0.26%	0.33%	0.36%	0.38%	0.41%

## 4. Capital Financing Requirement

The capital financing requirement (CFR) is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Commissioner has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows, and the day to day position of external borrowing and investments can change constantly.

The CFR concerns only those borrowing transactions arising from capital spending, whereas the total amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

The CFR as presented below now includes a figure in respect of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009.

Capital Financing Requirement	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Financing Requirement as at 31 March.	18.673	18.401	17.978	17.546	17.103

## 5. The Authorised Limit

The Authorised Limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

**The Commissioner should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).**

The following Authorised Limits for external debt, excluding temporary investments are recommended:

Authorised Limit for External Debt			
	2017/18	2018/19	2019/20
	£m	£m	£m
External Borrowing	19.591	19.301	19.019
Other Long Term Liabilities	4.887	4.745	4.585
Total Authorised Limit	24.478	24.047	23.603

## 6. Operational Boundary

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

Consistent with the Authorised Limit, the Commissioner's Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long Term Liabilities. Any such changes will be reported to the Commissioner and the Joint Audit and Standards Committee meeting following the change. The following limits for each year's Operational Boundary, excluding temporary investments are recommended:



Operational Boundary for External Debt			
	2017/18	2018/19	2019/20
	£m	£m	£m
External Borrowing	18.091	17.801	17.519
Other Long Term Liabilities	4.887	4.745	4.585
Total Operational Boundary	22.978	22.547	22.103

## 7. Actual External Debt

The Commissioner's actual external debt as at 31 March 2017 will be £5.012m, comprising other long term liabilities of £5.012m in relation to the PFI. It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing. It should be noted that all external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

## 8. The Incremental Impact of Capital Investment Decisions on the Council Tax

This is an indicator of affordability that shows the impact of capital investment decision on Council Tax. This indicator identifies specifically the additional cost to the taxpayer of the **new capital investment** proposed in the 2017/18 to 2019/20 Capital Programme.

The impact identifies the revenue expenditure that will arise as a result of approval of the 2017/18 capital programme. The revenue effects of previously approved capital schemes are not included in this indicator.

The impact has been calculated using forward estimates of funding consistent with expectations in the latest medium term forecast.

The impact on the revenue budget, and therefore the Council Tax, is felt by a combination of the following: debt costs of the new borrowing, the amount set aside from revenue to repay the principal element of external borrowing (Minimum Revenue Provision), the revenue impact of a capital project (e.g. running costs or savings of a new asset) and Direct Revenue Contributions.

It should be noted that borrowing itself does not fund capital expenditure since the loans have to be repaid eventually. The actual funding comes from the Minimum Revenue Provision, which is statutorily charged to revenue each year.

The estimate of the impact of the capital investment approved in the 2017/18 Budget on the Council Tax is set out in the table below. The figures are not cumulative and show the actual impact in each year.

The 2017/18 Council Tax is proposed to be £220.77 for band D properties.

Impact of capital investment decisions on the Council Tax			
	2017/18	2018/19	2019/20
	£	£	£
Capital Expenditure funded from revenue	1.584m	1.744m	1.684m
Financing and direct revenue costs	0.000m	0.000m	0.000m
Total Incremental Revenue Effect of Capital Investment	1.584m	1.744m	1.684m
Incremental Impact on Band D Council Tax	9.485	10.365	9.934

## 9. Gross and Net Debt

The purpose of this treasury indicator is to highlight a situation where The Commissioner is planning to borrow in advance of need.

Gross and Net Debt			
	2017/18	2018/19	2019/20
	£m	£m	£m
Outstanding Borrowing (at notional value)	-	-	-
Other Long Term Liabilities (PFI & Finance Lease at notional value)	4.887	4.745	4.585
Gross Debt	<b>4.887</b>	<b>4.745</b>	<b>4.585</b>
Less Investments	20.167	16.277	13.568
Net Debt	(15.280)	(11.532)	(8.984)

## 10. Fixed Interest Rate Exposures

It is recommended that The Commissioner sets an upper limit on its fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates			
	2017/18	2018/19	2019/20
	£m	£m	£m
Net Principal sums Outstanding at Fixed Rates	24.48	24.05	23.60

This represents the position that all of the Commissioner's authorised external borrowing may be at a fixed rate at any one time.

## 11. Variable Interest Rate Exposures

It is recommended that the Commissioner sets an upper limit on its variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates			
	2016/17	2017/18	2018/19
	£m	£m	£m
Net Principal sums Outstanding at Variable Rates	1.50	1.50	1.50

This is the maximum external borrowing judged prudent by the Commissioner's Chief Finance Officer that the Commissioner should expose to variable rates.

The limit is determined according to the Commissioner's appetite for exposure to interest rate risk, specifically the risk of paying higher rates of interest on borrowing that is not offset by earning higher rates of interest on investments. The limit set is prudent, to illustrate by example, with £24m of reserves and a £1.5m exposure to variable rates, even a 10% rise in interest rates would impact on the level of reserves by less than 1%.

## 12. Maturity Structure of Borrowing

It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

This indicator is primarily applicable to authorities which have undertaken significant levels of borrowing to finance their capital programmes in which case it is prudent to spread the profile of repayments to safeguard against fluctuations of interest payments arising from having to refinance a large proportion of the debt portfolio at any point in time. During 2012/13 the Commissioner repaid all outstanding external borrowing and as a result there is currently no requirement to apply stringent limits to the maturity profile of existing debt.

Period of Maturity	Upper Limit	Lower Limit
	%	%
Under 12 months	100.00	0
12 months and within 24 months	100.00	0
24 months and within 5 years	100.00	0
5 years and within 10years	100.00	0
10 years and above	100.00	0

## 13. Investments for longer than 364 days

The Treasury Management Strategy allows “non-specified” investments for periods of up to 5 years. The maximum of all investments with outstanding maturities greater than 364 days will be £5m.



Joint Audit & Standards Committee  
15 March 2017  
Agenda Item No 14ii



## Treasury Management Practices 2017/18

# Treasury Management Practices

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Finance staff have authority to undertake transactions on instruction from the Commissioner's Chief Finance Officer as part of the arrangements for shared financial services.

## Schedule 1

### Summary Identifying Risks of Treasury Management

The “**Treasury Management in the Public Services: Code of Practice and cross sectoral guidance notes** “(the Code) identifies twelve areas where statements of Treasury Management practices (TMPs) should be developed to implement the full requirements of the Code.

#### TMP 1 Risk Management

The Commissioner’s Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. They will report at least annually on the adequacy / suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect, all in accordance with the procedures set out in TMP6 – Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule 2.

##### **1. Credit and Counterparty Risk Management**

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty’s diminished creditworthiness, and the resulting detrimental effect on the organisation’s capital or current (revenue) resources.

The Commissioner regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 ‘approved instruments methods and techniques’ and listed in schedule 2 of this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financial or derivative arrangements.

To ensure this it will maintain a defined list of authorised counterparties and the group deposit limits. In conjunction with The Commissioner’s treasury advisors (Arlingclose Ltd) the credit worthiness of counterparties is reviewed on an ongoing basis. Where such monitoring results in significant changes to the

approved counterparty list, this will be reported to the Commissioner and the Joint Audit and Standards Committee through the quarterly treasury management activities report. The treasury advisory service provided by Arlingclose Ltd gives daily updates on credit worthiness which allows immediate action where necessary. Any amendments are subsequently put to the Commissioner for ratification. A weekly statement will be presented to the Commissioner's Deputy Chief Finance Officer for approval detailing all the week's investment activity and a summary of all amounts deposited at any one time by counterparty and category together with details of any borrowings undertaken or repaid in the week and the total outstanding at close of business for the week. Copies of this information are also provided to the Commissioner's Chief Finance Officer, Chief Constable's Chief Finance Officer and the Director of Corporate Support. Where exceptional circumstances make it necessary to deviate from the approved lending list limits this will be approved by the Commissioner's Chief Finance Officer (or in his/her absence by the Deputy Chief Finance Officer) in advance of the transaction being undertaken and will be reported to the Commissioner at the earliest opportunity.

## **2. Liquidity Risk Management**

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business / service objectives will be thereby compromised.

The Commissioner considers that the prospect of ongoing liquidity problems is remote due to the nature and timing of its main income sources and the substance of major items of expenditure. However, it will ensure that the Policing Body has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This will be achieved through the use of a proven cash flow forecasting model. This is updated annually to include all known major income streams (e.g. Home Office Grant, RSG, NNDR, precepts, capital grant etc.) and all major payments (e.g. payroll, HMRC, weekly payment run estimates, etc.).

The Commissioner will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. There are currently no plans to borrow in advance of need.

## **3. Interest Rate Risk Management**

The risk that fluctuations in the level of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.



The Commissioner will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

The Commissioner will achieve this by the prudent use of approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to consideration and, if required, approval of any policy or budgetary implications.

The Commissioner will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy. There are currently no plans to utilise such instruments.

Revised interest forecasts for both the current and forward years are incorporated within the Commissioner's budget and medium term financial forecasts on a regular basis. An appropriate limit will also be defined in the annual strategy setting out the maximum amount of variable rate debt to be incurred. However, security of principal will always take precedence over interest returns in decisions over investment of our cash.

#### **4. Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Commissioner will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. However, this is not considered to be an issue for the Commissioner at the moment, as all treasury transactions are currently undertaken in pounds sterling.

#### **5. Refinancing Risk Management**

The risk that maturing borrowings, capital, projects or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for refinancing, both capital and current (revenue), and / or that the terms are inconsistent with prevailing market conditions at the time.

The Commissioner will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured, documented and the maturity profile of the monies raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to The Commissioner as can be reasonably achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

## **6. Legal and Regulatory Risk Management**

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

The Commissioner will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

An Investment Strategy, as required in Section 15 of the Local Government Act 2003 will be put to the Commissioner annually for ratification as part of the treasury management strategy statement.

The Commissioner recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Regular scanning of the internal and external regulatory framework will be undertaken by the deputy Chief Finance Officer to aid the above.

## **7. Fraud, Error and Corruption and Contingency Management**

The risk that the organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to

employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Commissioner will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

## **8. Market Risk Management**

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Commissioner will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Only very secure instruments and institutions are chosen with strict limits placed on the value of deposit that can be made with each institution (including group limits) thus limiting its exposure.

## **TMP 2 Performance Measurement**

The Commissioner is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in schedule 2.

## TMP 3 Decision Making and Analysis

The Commissioner will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and the processes and practices to be pursued in reaching decisions are detailed in Schedule 2.

## TMP 4 Approved Instruments, Methods and Techniques

The Commissioner will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 2 and within the limits and parameters defined in TMP1 Risk Management.

Where the Commissioner intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Commissioner will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products. There are currently no plans to utilise such instruments.

## TMP 5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements

The Commissioner considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities. A separate statement of responsibilities exists to facilitate this and is set out in Schedule 2.

The principle on which this will be based is a clear distinction, as far as is feasible between those charged with setting treasury management policies and those charged with implementing and controlling these policies,

particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

The Commissioner's Chief Financial Officer has overall responsibility for the treasury management activities but delegates day to day management of the function to the Deputy Chief Finance Officer.

If and when the Commissioner intends, as a result of lack of resources or other circumstances, to depart from these principles, the Commissioner's Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

On behalf of the Commissioner's Chief Finance Officer, the Deputy Chief Finance Officer will ensure that:

- there are clear written statements of the responsibilities for each post engaged in treasury management.
- there are appropriate arrangements for absence cover.
- that at all times, those engaged in treasury management will follow the policies and procedures set out.
- there is proper documentation for all deals and transactions.
- that procedures exist for the effective transmission of funds.

The present arrangements are detailed in schedule 2.

The delegations to the Deputy Chief Finance Officer in respect of treasury management are set out within schedule 2 of this document. The Deputy Chief Finance Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the "Standard of Professional Practice on Treasury Management".

## TMP 6 Reporting Requirements and Management Information Arrangements

The Commissioner will ensure that regular reports are prepared and considered on the implementation of treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Commissioner, will receive:

- an annual report on the strategy and plan to be pursued in the coming year (before 31 March).
- A rolling three year statement of treasury Indicators, combining those required by the prudential code and by the treasury management code.
- A mid-year review
- A quarterly summary of treasury management activity.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Commissioner's treasury management policy statement and TMPs. (Reported to both the Commissioner's Executive Board and the Joint Audit and Standards Committee).

In addition to the above, the **Joint Audit and Standards Committee** will receive:

- regular (no less than quarterly) monitoring reports on treasury management activities and risks. In addition, where ongoing monitoring of the credit worthiness of approved counterparties has revealed a significant change, this will also be reported to the Joint Audit and Standards Committee.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Constabulary's treasury management policy statement and TMPs. (Reported to both the Commissioner's Executive Board and the Joint Audit and Standards Committee).

The Joint Audit and Standards Committee will have responsibility for the scrutiny of treasury management strategy, policies and practices.

The present arrangements and the form of these reports are detailed in schedule 2.

## TMP 7 Budgeting, Accounting and Audit Arrangements

The Commissioner's Chief Finance Officer will recommend and the Commissioner will approve and if necessary, from time to time will amend an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement and TMP4 Approved instruments, methods and techniques. The Commissioner's Chief Finance Officer will ensure the

effective exercise of controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Commissioner will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force at that time.

The Commissioner will ensure that its auditors and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles. The Commissioner will also ensure that such information and papers demonstrate compliance with external and internal policies and approved practices.

## TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Commissioner will be under the control of the Commissioner's Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Commissioner's Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 2

## TMP 9 Money Laundering

The Commissioner is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and for reporting suspicions, and will ensure that staff involved in this is are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in schedule 2.

## TMP 10 Training and Qualifications

The Commissioner recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Commissioner will therefore seek to appoint individuals who are both capable and experienced and will also provide training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Finance Officer will on behalf of the Commissioner's Chief Financial Officer recommend and implement the necessary arrangements.

The Commissioner's Chief Finance Officer will ensure that Joint Audit and Standards Committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure they have the necessary skills to complete their role effectively.

The present arrangements are detailed in schedule 2.

## TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed as consistent with the Procurement Regulations. The monitoring of such arrangements rests with the Commissioner's Chief Finance Officer, and details of the current arrangements are set out in schedule 2.

The Commissioner has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business.



## TMP 12 Corporate Governance

The Commissioner is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Commissioner has adopted and implemented the key principles of the CIPFA Code of Practice on Treasury Management. This, together with the other arrangements detailed in Schedule 2, are considered vital to the achievement of proper corporate governance in treasury management, and the Commissioner's Chief Finance Officer will monitor, and if and when necessary, report upon effectiveness of these arrangements.

## Treasury Management Practices

### TMP 1 Risk Management

#### Liquidity Risk

In its day to day operations the Commissioner experiences wide fluctuations in its receipts and payments, although, the majority of its cash streams are known at least 3 days in advance. The policy will be to maintain the minimum cash balance hence make best use of potential income streams.

Performance measure – the daily bank balance on the main account should be maintained within a limit of + or - £2,000, this should be achieved 95% of the time (i.e. 347 days out of 365). A minimum investment balance of £250k should be held to cover unforeseen expenditure; this should be placed on treasury deposit overnight, within the liquidity select account or within instantly accessible money market funds.

#### Standby Facilities

- The Deputy Chief Finance Officer will ensure that the daily investment function has adequate cover. On a day to day basis treasury management tasks are performed by the Principal Financial Services Officer (Capital & Technical), in the event of his/her absence, there is a clear order of personnel designated for cover and that order is communicated to all involved (see below).
  - 1) Financial Services Officer – Corporate
  - 2) Assistant Chief Finance Officer
  - 3) Deputy Chief Finance Officer
- All programs and systems are held within the main body of the Commissioner's IT systems and are therefore backed up daily. A manual printed record of the daily transactions will be kept at least until External Audit has reviewed the statutory accounts.
- In the event that the Bankline system is not operational balances and transaction details can be obtained from the Nat West Corporate Office.
- Temporary borrowings / overdrafts will only be used in exceptional cases to manage day to day movements in cash balances

## **Interest Rate Risk**

### *Details of approved interest rate exposure limits*

The Commissioner is required to approve a series of Prudential Indicators, which includes recommended upper limits on exposure to fixed and variable interest rates. Details can be located in the annual Statement of Prudential Indicators.

### *Minimum / Maximum proportions of variable rate debt / interest*

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates. Details can be located in the annual Statement of Prudential Indicators.

### *Policies concerning the use of financial derivatives and other instruments for interest rate management.*

Forward Dealing – forward dealing will not normally form part of the day to day activities other than arranging deposits to cover periods when signatory cover is limited and will be subject to approval by the Deputy Chief Finance Officer on behalf of the Commissioner's Chief Finance Officer.

Forward Borrowing – would be considered as part of the long-term debt authorisation process and in each case will be looked at on its own merits. The Commissioner will only progress when prudent to do so.

It should be noted that the current strategy does not approve the use of such derivatives.

## **Exchange Rate Risk**

This is currently not a concern to the Commissioner as all receipts are presently in sterling.

## **Credit and Counterparty Risk**

Criteria to be used for creating / managing approved Counterparty lists / limits – the Commissioner's Chief Finance Officer and the Deputy Chief Finance Officer will formulate suitable criteria for assessing and monitoring investment counterparties and shall construct a lending list comprising time, type, and specific Counterparty limits. An Investment strategy will be submitted to the Commissioner detailing selection procedures. Compliance with these limits and any significant changes to the approved counterparty list as a result of the ongoing review of the

creditworthiness of counterparties will be included in the regular monitoring reports provided to the Commissioner and the Joint Audit and Standards Committee.

### **Refinancing Risk; Debt / Other Capital Financing Maturity Profiling, Policies and Practices.**

The Prudential Code requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Commissioner should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years”.

To that end the Commissioner will set annual prudential indicators and then proceed to operate within those boundaries, thus showing that all decisions taken adhere to the above.

### **Fraud, Error, Corruption and Contingency Management**

Policy on Delegated Powers – members of staff undertaking day to day management of cash are identified in TMP 5. There will always be complete segregation of duties between staff involved in carrying out transactions in the Money Market and those authorised to transfer cash (any amendments to these policies will be reviewed by Management/Internal Audit prior to implementation).

Policy on the use of Internet Systems – The Bankline system operated by NatWest for obtaining balances and making payments is an internet based system. In addition to this counterparties are increasingly providing services via the internet from checking rates to viewing details of investments. Prior to using such facilities, an assessment will be made of the security of such arrangements and, when satisfied, approval will be obtained from the Commissioner’s Chief Finance Officer.

Emergency and Business Continuity Arrangements – the following standby facilities will be maintained.

- All staff involved in the treasury management function will have designated absence cover (see Policy)
- All local programmes and systems will be backed up on a daily basis and also printed weekly records are maintained.
- Bank balances can be manually obtained from the bank in the event of a Bankline Systems failure.

- Evidence of any error or discrepancy will be notified to the Commissioner's Chief Finance Officer and the Deputy Chief Finance Officer as soon as identified.
- Computer Systems are backed up on a daily basis by the IT department.
- Business Continuity Planning is actively managed, and includes all areas of finance and treasury.
- The Commissioner's Chief Finance Officer and the Deputy Chief Finance have remote access tokens which allow access to the treasury management records from another location if he/she is unable to operate from HQ (provided HQ systems are in operation).
- The Bankline system is internet based and as such bank account information can be accessed by appropriate staff from any location with internet access.

Treasury management is recognised as high priority for Financial Services and as such arrangements in the event of a business continuity event are detailed in the Financial Services Business Continuity Plan.

Insurance Cover Details – Fidelity Guarantee insurance is held for staff involved in treasury management processes at a suitable level and is reviewed annually.

### **Market Value of Investments**

The investment strategy, whilst principally centred around investments with a fixed value such as cash fixed term deposits and AAA rated Money Market Funds has been extended to include AAA rated Money Market Funds with a variable net asset value (VNAV). The use of VNAV funds will be limited to longer term investments to minimise the risk of incurring a loss in value as a result of adverse market conditions funds and will be subject to advice and closely monitoring in conjunction with the Commissioner's treasury advisors Arlingclose Ltd.

## TMP 2 Performance Measurement

### Frequency and Processes for Tendering

**Banking Services.** Arrangements for banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

**Money Broking Services** In the main, the Commissioner deals directly with financial institutions although, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

**Consultants/Advisors** The Commissioner has appointed Arlingclose Limited as its treasury advisors.

**Methods to be Employed for Measuring the Performance of The Commissioner treasury management activities –** Benchmarks will be used to assess the performance of the Treasury Management function in the following areas:-

- Day to day cash balances, management to within + - £2,000.
- Investments – the yield on investments for over 3 months in duration will be measured against the average Bank of England base interest rate over the period of the investment.
- Long term borrowing against budget.
- Temporary borrowing against budget.
- Annual investment performance against budget.

These statistics will be reported to the Commissioner and the Joint Audit and Standards Committee on an appropriate basis.

**Benchmarking and Calculating Methodology –** The Commissioner will continue to search for appropriate benchmarks which effectively compare investment performance.

## TMP 3 Decision Making and Analysis

### Funding, Borrowing, Lending and New Instruments & Techniques

In respect of every decision made the Commissioner will:-

- Above all, be clear about the nature and extent of the risks to which it may be exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver its objectives and protect its interests, and to deliver good housekeeping.
- Ensure that counterparties are judged satisfactory in the context of the organisation's credit worthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been benchmarked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Commissioner, in consultation with the Commissioner's Chief Finance Officer, will:-

- Consider the ongoing revenue liabilities created, and the implications for the Commissioner's future plans and indicative budgets.
- Evaluate the economic and market factors that might influence the manner and timing of any decisions to fund.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing, and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

In respect of investment decisions, the Commissioner will:-

- Consider the optimum period, in light of cash flow availability and prevailing market conditions.
- Consider alternative investment products and techniques available, especially the implications of using any which may expose the Commissioner to changes in the value of its capital.
- Ensure that asset security is always considered paramount in any investment.

## TMP 4 Approved Instruments, Methods and Techniques

### **Approved Activities of the Treasury Management Function**

- Borrowing.
- Lending.
- Debt repayment and rescheduling.
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying risk associated with the capital financing and surplus funds.
- Managing cashflow.
- Banking activities.
- Leasing.
- Forecasting interest receipts and payments arising as a result of treasury activities.

### **Approved Instruments for Investment**

- Deposits with banks and building Societies or local authorities up to 365 days
- Non-specified deposits with banks and building societies or local authorities up to 5 years
- Pooled Funds (including Triple A rated Money Market Funds both with a constant and variable net asset value).
- Registered Providers (including providers of social housing).
- Deposits with Government (including HM Treasury, Debt Management Office and Local Authorities).

Investment in any new instrument can only be undertaken following consultation with and approval by the Commissioner's Chief Finance Officer.

### **Approved Methods and Sources of Raising Capital Finance**

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Commissioner's Chief Finance Officer.



## TMP 5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements.

### **Policy on Delegation, Review and Reporting Arrangements**

The Commissioner will receive and review reports on its treasury management strategy, policies and practices, including as a minimum, an annual strategy and plan in advance of the year and an annual report after its close.

They will also:-

- Approve amendments to the treasury management policy statement and treasury management practices.
- Approve the division of responsibilities and delegation within the treasury management function.
- Endorse relevant Codes of Practice on treasury business.
- Receive a quarterly summary of treasury management activities.

Assurance with regards to monitoring of treasury management policies and practices is a function of the Joint Audit and Standards Committee. The Commissioner delegates overall arrangements for the treasury management function including determining appropriate strategy and procedures to the Commissioner's Chief Finance Officer. The Commissioner's Chief Finance Officer delegates to the Deputy Chief Finance Officer the undertaking of day to day treasury management activities in accordance with the strategies and procedures. All officers undertaking treasury management activity will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Commissioner nominates the Joint Audit and Standards Committee to be responsible for assurance in respect of effective scrutiny of the treasury management strategy and policies.

The **Joint Audit and Standards Committee** will:

- Receive and review regular monitoring reports in relation to treasury management activities which will include any significant changes to the approved counterparty list as a result of the ongoing review of the creditworthiness of counterparties.
- Review the treasury management policy and procedures and make recommendations to the Commissioner.
- Receive and review external and internal audit reports in relation to treasury management.

The **Commissioner's Chief Finance Officer** will:-

- Review the policy statement and annual strategy statement and present to the Commissioner.

- Review periodic treasury management reports and present to the Commissioner.
- Review the annual treasury management report and present to the Commissioner.
- Review compliance with relevant treasury Codes of Practice.
- Ensure that there is a written statement of responsibilities covering the complete treasury management function.
- Delegate the operation of the treasury management function to the Deputy Chief Finance Officer.
- Ensure the adequacy of internal audit, and liaising with external audit.
- Approve any long or short term borrowings.

The **Deputy Chief Finance Officer** will:-

- Ensure arrangements are in place for the preparation of periodic treasury management policy statements and an annual strategy statement.
- Hold the Principal Financial Services Officer (Capital & Technical) to account for the day to day management of the treasury function.
- Review the periodic reports on treasury management activities.
- Review the annual report on treasury management as soon as possible after the end of a financial year.
- Review compliance with relevant treasury codes of practice.
- Ensure that all staff who deal in treasury matters understand and have access to the Non Investments Product Code and the CIPFA Code of Practice.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Oversee and approve investments made for periods greater than three months.
- Review the performance of the treasury function at least twice each financial year.
- Ensure adequate separation of duties.
- Institute a range of performance measures for treasury management.
- Recommend the appointment of external service providers.
- Prepare an annual report on Treasury Management as soon as possible after the end of a financial year.
- Ensure compliance with relevant Treasury Codes of Practice
- Document and maintain 'Treasury Management Practices' as set out in the Code of Practice
- Review alternative methods of investment
- Provide advice to the Commissioner's Chief Finance Officer in respect of any borrowings

The **Principal Financial Services Officer (Capital & Technical)** will:-

- Have overall responsibility for the daily treasury management activities
- Prepare periodic reports on treasury management activities
- Review treasury systems documentation
- Prepare and keep up to date cash flow projections for a 12 month rolling period
- Liaise with the Deputy Chief Finance Officer for any investment over three months
- Deal with counterparties and make a record of such
- Comply with the Non Investments Product Code and the CIPFA Code of Treasury Management
- Ensure credit worthiness and maintain lending list
- Ensure the training of those listed for absence cover is kept up to date.
- Monitor performance of brokers and ensure a spread of brokers are used
- Supply the Commissioner's Deputy Chief Finance Officer with a weekly report on treasury activities for authorisation and supply an electronic copy to the Commissioner's Chief Finance Officer, Chief Constable's Chief Finance Officer and the Director of Corporate Support.

#### **Absence Cover for Daily Dealing Arrangements**

In the absence of the Principal Financial Services Officer (Capital & Technical) the absence cover is to cascade thus:-

- 1) Financial Services Officer – Corporate
- 2) Assistant Chief Finance Officer
- 3) Deputy Chief Finance Officer

Each treasury deal transacted via the Bankline system requires a second individual to authorise the deal. The following posts will have responsibility for authorising Bankline deals:

- 1) Financial Services Officer – Command Support Unit (4.00 FTE used subject to availability)
- 2) Financial Services Assistant (Banking and Controls)(Part Time 21 hrs)

Before any planned absence all staff will be notified of their required responsibilities.

The **Financial Services Assistant (Banking and Controls)** will:-

- Reconcile treasury deals in the Commissioner cash book
- Receive and verify confirmation of treasury deals
- Reconcile general ledger entries in relation to treasury activity
- Produce management information for reporting treasury activities

**Internal/Management Audit will:-**

- Complete periodic checks on the treasury management function and make recommendations where appropriate.
- Review compliance with agreed policies, procedures and Codes of Practice and make recommendations for improvement where appropriate.

**Principles and Practices Concerning Segregation of Duties**

The activities of the Treasury function will be carried out in accordance with the duties and responsibilities detailed above. In particular, day to day duties will be split to ensure that no one person can both initiate and then authorise payment.

Other than in the event of a technical failure all deposits will be initiated through the Bankline software – complete segregation of duties. It will be a disciplinary offence for individuals to release their personal operator cards or passwords. If a card is lost or stolen then the system administrator (either the Principal Financial Services Officer (Revenue & Systems) or Financial Services Assistant (Systems)) must be immediately informed - who will then immediately change all relevant computer access codes.

**Dealing Limits**

Approved dealers have the delegated power to enact transactions on a day to day basis within the constraints of the treasury management practice schedules and the procedure manual. They can, in particular operate within the limits laid down within the Counterparty Selection Criteria and Approved Counterparty List.

**Policy on Broker's Services**

In the main, the Commissioner deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

**Policy on Taping of Conversations**

The Commissioner's does not tape conversations with brokers.

### **Direct Dealing Practices**

Direct deals will if appropriate be undertaken with anyone on the agreed counterparty list. Approved dealers have the delegated power to enact transactions and all transactions require independent authorisation by an approver before funds are transferred via Bankline.

### **Settlement Transmission Procedures**

Once a deal has been agreed, either with a broker or direct with a third party, funds will be transferred in accordance with Bankline procedures.

### **Documentation Requirements**

All transactions will be recorded on a daily basis on the Investments spreadsheet.

### **Arrangements Concerning the Management of Counterparty Funds**

The Commissioner will not undertake transactions on behalf of other organisations

## **TMP 6 Reporting Requirements and Management Information Arrangements**

### **Annual Treasury Management Strategy Statement**

The treasury management strategy will set out the broad parameters of the treasury function for the forthcoming financial year. The strategy will be submitted to the Commissioner for approval, alongside the budget, capital programme and prudential indicators before commencement of each financial year.

The treasury management strategy will cover the following elements:-

- The prospects for interest rates, long and short term
- An investment strategy as set out in the Local Government Act 2003
- The expectations for debt rescheduling
- The treasury approach to risk management
- Any extraordinary treasury issue
- Any borrowing requirement under the Prudential Code
- Annual statement on MRP.

### **Policy on Interest Rate Exposure**

The Commissioner Chief Finance Officer is responsible for incorporating the authorised borrowing limit and the fixed and variable rate exposure limits determined as part of the Commissioner's Prudential Indicators into the annual treasury management strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, a report will be submitted for approval to the Commissioner.

### **Annual Report on Treasury Management Activities**

An annual report will be presented to both the Commissioner and the Joint Audit and Standards Committee at the earliest practicable meeting after the end of the financial year. This report will include the following:-

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results
- Transactions executed and their revenue (current) effects
- Monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- Monitoring of compliance with delegated powers
- Indication of performance especially for returns against budget, and performance against other like Authorities
- Comment on CIPFA Code requirements.

In addition, a mid-year review will be presented to the Commissioner and regular updates on Treasury Management activities will be presented to the Joint Audit and Standards Committee throughout the year.

### **Management Information Reports**

Management information reports will be prepared weekly by the Principal Financial Services Officer (Capital & technical), and will be presented to the Commissioner's Deputy Chief Finance Officer, Commissioner's Chief Finance Officer, Chief Constable's Chief Finance Officer and the Director of Corporate Support.

These reports will contain the following:-

- An analysis of all investment decisions made during the week and by whom these decisions were made.
- An analysis of all investments currently placed by category.
- The current month's earned interest report, this will also show year to date and forecast budget.
- The current quarter's cashflow analysis.
- Any new borrowings or repayments in the week
- The amount of outstanding borrowings

Control reconciliation reports will be prepared monthly by the Financial Services Assistant (Banking and Controls), which will be presented to the Principal Financial Services Officer (Capital & Technical).

These reports will contain:-

- Balance per the financial systems – this will be obtained after the monthly reconciliation of the bank
- Balance per the investment analysis as above.
- Explanation of any variance.

If for any reason any member of the treasury management team has reason to suspect any type of fraud or misappropriation he or she will this report directly to the Commissioner’s Chief Finance Officer or in his/her absence to the Deputy Chief Finance Officer or the Internal Auditor.

## TMP 7 Budgeting, Accounting and Audit Arrangements

### **Accounts**

The cost of the treasury management function amounts, in the main, to the salaries of those involved. If any external costs are to be incurred these will be reported separately during the budget monitoring process.

### **External Auditors**

All records will be made available to both internal and external audit as and when required. As a minimum annual check external audit will gain third party confirmation of all year end balances on deposit.

## TMP 8 Cash and Cash Flow Management

### **Cashflow Statements**

A cashflow statement will be prepared before the beginning of each financial year to include all known elements of income from the revenue budget. The cash flow forecasts during the year will be maintained for a rolling 12 month period. Spending profiles will also be set out based on payroll projections and estimates of other payments. The cashflow statement will also be updated during the year on a daily basis to include major variations as or when they become known. The weekly activity report will also show the current quarter’s cashflow projections.

## TMP 9 Money Laundering

### **Policy for Establishing Identity/Authenticity of Lenders**

No borrowing is currently undertaken other than with the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office, an executive agency of HM Treasury. PWLB loans were taken out to replace equivalent debt transferred from Cumbria County Council upon the creation of freestanding police forces in 1995. The Prudential Code now provides a framework for additional borrowing, subject to that borrowing being prudent, sustainable and affordable. Any additional borrowing will properly recognise the potential for money laundering and will only be undertaken from lending instructions of the highest repute.

### **Methodology for Identifying Sources of Deposit**

The Commissioner only lends to organisations that appear on the Financial Services Authority's (FSA's) list of authorised banks and financial institutions, other local authorities and the Governments Debt Management Office (DMO).

The Commissioner's Financial Regulations require the Chief Constable's Chief Finance Officer to be responsible for ensuring compliance with the Money Laundering Regulations 2007.

The Chief Constable's Chief Finance Officer will:

- Implement internal reporting procedures
- Ensure relevant staff receive appropriate training in the subject
- Establish internal procedures with respect to money laundering
- Obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- Report their suspicions.



## TMP 10 Training and Qualifications

### **Statement of Professional Practice (SOPP)**

The Commissioner's Chief Financial Officer is a member of CIPFA, and she has a professional responsibility through both personal compliance and by ensuring that relevant staff are appropriately trained.

The Chief Constable's Chief Finance Officer and the Deputy Chief Finance Officer are also both members of CIPFA and as such have the same duty of care in the provision of any financial information. Other staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

All CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

Training courses run by CIPFA and other training providers will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff in their personal training records file.

The Commissioner's Chief Finance Officer will ensure that members charged with governance in relation to treasury management will receive appropriate training and that records of such training received will be maintained. Training may be provided internally or externally.

The Non Investments Products Code: The Code is applicable to wholesale market dealings in non-investment products, including sterling wholesale deposits. The Code sets out for management and individuals at broking firms and principals, standards of good practice in the market. The spirit of the code applies equally to business transacted via electronic or traditional media. Principals include local authorities and other public bodies which operate in the wholesale markets covered by the NIP's code. The code is regularly updated and the latest version can be found on the Bank of England website at: <http://www.bankofengland.co.uk/markets/forex/fxjsc/index.htm>.

## TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times.

The use of any external service providers will, at all times, be subject to the Procurement Regulations / Financial Regulations of the Commissioner. The use of external services is currently restricted to banking services and treasury advice (investments and borrowing).

Advisers - The Commissioner has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business. This contract will be reviewed periodically in consultation with the Commissioner's Chief Finance Officer.

Banking – Banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

Brokers - In the main, the Constabulary deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

## TMP 12 Corporate Governance

The Commissioner is fully committed to the CIPFA Code of Practice in Treasury Management and believes he has secured a framework for demonstrating openness and transparency of his treasury management function.

Free access to all information on our treasury management function will be given to all relevant interested parties.

Clear policies have been devised which outline the separation of roles in the treasury management function and the proper management of relationships both within and outside the Office of the Police and Crime Commissioner. All staff are fully appraised of their individual role and where the segregation of duty lies. Clear reporting lines also exist to report any breaches in procedure. This is further supported by well-defined treasury management responsibilities and job specifications.

The Commissioner seeks to ensure a fair distribution of business between brokers. The Commissioner's Chief Finance Officer receives a weekly report to evidence this.

On an annual basis, a treasury strategy is approved prior to the year, by the Commissioner and a year-end summary of treasury activities is reported to the Joint Audit and Standards Committee.

Regular treasury management activity updates are submitted to the Commissioner and the Joint Audit and Standards Committee during the year.

The Annual Governance Statements which are published each year and accompany the Statutory Statement of Accounts outlines details of the Commissioner's and Constabulary's governance and risk management processes which are applicable to treasury management activities.

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## Review of Value for Money

### 1. Introduction

1.1. The terms of reference of the committee include the consideration of arrangements to secure value for money and reviewing assurances and assessments on the effectiveness of those arrangements. The external auditors provide an annual value for money conclusion that provides an opinion on value for money as part of their annual audit opinion. This was received by members at their July 2016 meeting, where the overall conclusion was positive in respect of the Commissioner's arrangements for value for money. This report provides further detail in respect of value money regarding the Commissioner's directly managed budgets, as benchmarked by HMIC. It also provides members with an update on the position in respect of reserves.

### 2. Report

2.1. Appendix one sets out a review of value for money within the Police and Crime Commissioner's directly managed budgets, as benchmarked by HMIC. The review compares the costs of the political arrangements (PCC/Deputy PCC/special advisors), costs of the office and costs of commissioned services. The statistical neighbours for Cumbria are Norfolk, North Wales and Lincolnshire. In addition to review of the HMIC profiles further analysis (appendix two) has been undertaken on staffing structures using statistical neighbour websites.

2.2. Appendix three sets out the current reserves strategy and position regarding level of reserves as presented as part of the overall budget setting process.

### 3. Recommendations

- Members are asked to consider the value for money benchmark information and the conclusions from that review, determining whether they wish to provide any advice to the Commissioner.
  
- Members are asked to note the current plans for the use of reserves

Michelle Bellis

27 February 2017

Corporate Support / Financial Services / MB

## Value for Money: Police and Crime Commissioner

### 1. Introduction and Background

1.1. This report sets out an analysis of the expenditure incurred by the Police and Crime Commissioner for Cumbria, as evaluated annually within the HMIC value for money (VFM) profiles. The profiles compare expenditure in Cumbria with that of North Wales, Norfolk and Lincolnshire, our statistical neighbours or most similar group (msg). They compare the cost of the Commissioner, the costs of the office and the amount spent on commissioning. Information within the Cumbria profile sets out expenditure (£m) and a comparator based on £/head of population for the msg average. Use has been made of the profile for North Wales, Norfolk and Lincolnshire to facilitate comparison of budgeted expenditure (£m) and £/head for each individual statistical neighbour to better understand where expenditure is different. Use has also been made of OPCC websites to understand differences in staffing structures that may drive cost variations.

### 2. HMIC Profiles

2.1. Table one below sets out the comparison of expenditure by police area to Cumbria on a per head of population basis. The first line shows the population, in thousands, for each police area and the average for the msg. Cumbria has a population of 498k, which is 206k less than the group average of 704k. This will make any fixed costs comparatively more expensive on a per head of population basis. Costs that are primarily driven by population or geography should be proportionate. Costs within the profiles are allocated across three areas:

- Costs of the PCC/Deputy include the salary and associated expenses of the PCC, deputy and any special advisors. The salary costs of the PCC are set nationally.
- Costs of the office include the salary and associated costs of statutory (required) officers (the Chief Executive and Chief Finance Officer) and any other staff employed to support the PCC. It also includes office running costs, external audit and the costs of council tax leaflets. External audit fees are set nationally.
- Commissioned services includes community safety services, victims and witness services including restorative justice (RJ), and other services directly commissioned by the PCC. It includes the costs of any staff required to commission and contract manage these services.

Table one: Comparator Expenditure £/head	Cumbria	Lincs	Norfolk	NWales	msg average	Var to msg
Population (000)	498	737	885	694	704	-206
	£/head	£/head	£/head	£/head	£/head	£/head
Cost of PCC/Deputy	0.20	0.13	0.20	0.19	0.18	0.02
Office of PCC/local policing body/other costs	1.42	0.88	0.82	0.99	1.03	0.39
<b>Total</b>	<b>1.62</b>	<b>1.01</b>	<b>1.02</b>	<b>1.18</b>	<b>1.21</b>	<b>0.41</b>
Commissioned Services						
Community Safety	2.49	1.10	0.19	1.68	1.37	1.13
Victims/Witnesses/Restorative Justice/Other	3.42	1.72	2.14	1.18	2.12	1.31
<b>Total</b>	<b>5.91</b>	<b>2.82</b>	<b>2.33</b>	<b>2.86</b>	<b>3.48</b>	<b>2.43</b>

- The table shows that the costs of the PCC/deputy are £0.02 higher than the msg on a per head basis.
- Combining the costs of the PCC and the cost of the office, expenditure for Cumbria is £0.41 (34%) per head higher than the group average. Population is 29% lower than the group average suggesting that the variation is primarily about the differences in population than actual costs. To achieve group average costs on a per head of population basis, the Commissioner would need to reduce expenditure by £205k.

The Commissioner does not have a deputy so there is no scope to reduce the costs of the PCC. To achieve the average msg cost all reductions would therefore need to come from the office. Plans for 2017/18 to share a joint Chief Finance Officer with the Constabulary will see the cost of the OPCC reduce by approximately £45k.

- Commissioning expenditure is also much higher per head of population. The HMIC profile identifies that Cumbria's commissioning expenditure is £2.43 per head higher than the equivalent per head figure for the msg average.

2.2. Table two below analyses the budgets (£m) for each police area to provide further information on where actual costs vary independently of the population figures.

Table Two: Comparator Expenditure £m	Cumbria £m	Lincs £m	Norfolk £m	NWales £m	msg average £m	Var £m to msg
Cost of PCC/Deputy	0.10	0.10	0.17	0.13	0.13	-0.03
Office of PCC/local policing body/other costs	0.71	0.65	0.73	0.69	0.70	0.02
<b>Total</b>	<b>0.81</b>	<b>0.75</b>	<b>0.90</b>	<b>0.82</b>	<b>0.82</b>	<b>-0.01</b>
Commissioned Services						
Community Safety	1.24	0.81	0.16	1.17	0.85	0.40
Victims/Witnesses/Restorative Justice/Other	1.70	1.26	1.89	0.82	1.42	0.28
<b>Total</b>	<b>2.94</b>	<b>2.07</b>	<b>2.05</b>	<b>1.99</b>	<b>2.26</b>	<b>0.68</b>

- Table two identifies that the costs of the PCC and Office are slightly lower than the msg average when comparing actual expenditure.
- Costs for the PCC are £0.10m and the joint lowest for the group.
- Costs for the core office are £0.71m. This is higher than costs for North Wales by £0.02m and Lincolnshire by £0.06m. North Wales spends less on the core office but has a deputy PCC resulting in higher costs in the PCC/Deputy category. Lincolnshire spend the same on the PCC/Deputy and less on the core office. Core office costs are lower than the costs for Norfolk and slightly higher than the average for the group.
- When comparing total costs of the office and PCC, Cumbria's costs are lower than the average and the second lowest of the group at £0.81m.
- Commissioned services expenditure remains the highest of the group at £2.9m compared to an average of £2.26m and continues to reflect the high level of expenditure on victim's services and the establishment of the Bridgeway. From 2017/18 commissioned services expenditure will reduce to support budget pressures, with a total budget of £2m by 2018/19. This will take total expenditure to slightly below the msg average but still provides resources to offer a robust programme of preventative and victim support services.

2.3. To better understand the difference in the costs of the Commissioner and the Office, a comparison has also been undertaken of structures, to understand where staffing costs may vary. Appendix Two sets out the establishment grouped by area followed by a summary of the key differences.



- **Commissioner/Deputy:** North Wales has a police and crime commissioner and a deputy police and crime commissioner. Cumbria, Lincolnshire and Norfolk do not have deputy commissioners, (the Norfolk Deputy PCC post was deleted during 2016/17).
- **Statutory Posts:** All have a post of chief executive (CE)/monitoring officer and chief finance officer (CFO). In Cumbria the CFO role is combined with a deputy CE role. All CFO posts are currently part time (Cumbria 0.9 FTE, Lincolnshire 0.8 FTE, Norfolk 0.6 FTE and North Wales 0.6 FTE). Lincolnshire also has a part time deputy CFO post (0.8 FTE).
- **Personal Assistant:** All have a PA post supporting the PCC/Deputy. North Wales is unique with two PA posts, one supporting the PCC and one supporting the CE.
- **Media/Communications & Business:** Cumbria and Norfolk both have a senior post overseeing media/business and communications. Norfolk and Cumbria also employ a supporting communications/media post. North Wales has an executive officer to oversee the business functions.
- **Support and Administration:** Each of the PCCs have two posts to provide business support and administration. North Wales has three posts if the additional PA post is included.
- **Commissioning/Partnerships/Policy/Performance:** Cumbria and Norfolk each have three posts covering this area. Lincolnshire has four posts, one permanent post who is supported by two interns and an apprentice. Norfolk has six posts supporting this area. There are inter-relationships between this section of the office budget and the commissioning budgets. Norfolk has two commissioning posts, North Wales has one. Cumbria has one post and charges a proportion of the Head of Partnership and Commissioning post (25%) to the commissioning budget. Cumbria has a significantly higher commissioning budget than our msg neighbours. This will also influence the staffing resources needed to deliver commissioned services.

2.4. Lincolnshire has the leanest structure with an establishment of 10.6 FTE (1 PCC & 9.6 FTE) posts within the core office. Lincolnshire's total budget for the Commissioner and Office at £0.75m is also the lowest in the group.

2.5. Norfolk has the largest budget at 0.90m and the joint highest establishment at 11.9 FTE posts (1 PCC and 10.9 FTE core office staff and commissioning posts).

2.6. North Wales has the second largest budget at £0.82m and an establishment of 10.9 FTE.

Cumbria has the second lowest budget at £0.81m and the joint highest number of posts: 11.9 FTE posts, (1 PCC/10.9FTE core office and commissioning/grant funded). Plans for 2017/18 to share a joint Chief Finance Officer with the Constabulary will see the FTE reduce from 11.9 FTE to 11.4 FTE and will see the cost of the OPCC reduce by approximately £45k.

### 3. Overall Conclusions

- 3.1. On a per head basis Cumbria's costs are the highest of the statistical neighbour group at £0.41 per head or 34% higher than the msg group average. Cumbria's population is the lowest within the group and 29% below the group average meaning that population differences are the main reason for the variances on a per head of population basis. To achieve group average costs on a per head basis the office would need to reduce expenditure by £0.20m against a budget of £0.71m.
  
- 3.2. Analysis of structures and budgets identifies that Cumbria's actual costs are the second lowest within the group for the PCC and office costs. Staff numbers and structures are broadly consistent across the group and joint highest at 11.9 FTE. Comparison of budgets against staff numbers suggests that the msg partners have differences in the services directly delivered and those that are either commissioned or shared with the constabulary.

## Comparison of Statistical Neighbour Staffing Structures and Funding

	Cumbria £0.81m 2016/17 £0.80m 2015/16	Lincolnshire £0.75m 2016/17 £0.86m 2015/16	Norfolk £0.90m 2016/17 £0.98m 2015/16	North Wales £0.82m 2016/17 £0.83m 2015/16
<b>Posts Funded from PCC/Office Budget</b>				
PCC/ Deputy	Police & Crime Commissioner	Police & Crime Commissioner	Police & Crime Commissioner	Police & Crime Commissioner
				Deputy Police and Crime Commissioner
Statutory Posts	Chief Executive/ Monitoring Officer	Chief Executive/ Monitoring Officer	Chief Executive/ Monitoring Officer	Chief Executive/ Monitoring Officer
	Chief Finance Officer/ Deputy Chief Executive (0.9 FTE)	Chief Finance Officer (0.8 FTE)	Chief Finance Officer (0.6 FTE)	Chief Finance Officer (0.6FTE)
		Deputy Chief Finance Officer (0.8 FTE)		
Personal Assistant	Executive Support Officer (PCC)	Personal Assistant (PCC)	Personal Assistant (CE, CFO & Directors)	Personal Assistant (PCC)
				Personal Assistant (CE)
Media, Communication and Business	Head of Communications and Business Services		Director of Communications and Engagement	
	Communication and Engagement Officer		Media and Communications Officer	
Support and Admin.	Governance Manager	Corporate Administration Officer	Business Manager	Executive Officer
	Administrative Support Officer	Support Services Officer	Business Support Officer	Information Assistant
Commissioning, Partnerships, Policy and Performance	Head of Partnerships and Commissioning		Director of Policy & Commissioning	Policy Officer Performance
	Partnership and Strategy Manager	Research and Performance Officer	Commissioning and Funding Officer	Policy Officer Diversity
			Director of Performance and Scrutiny	
			Performance and Scrutiny Officer	
	Assistant Policy Officer	Apprentice Intern X 2	Policy & Research Officer	Research and Information Officer
			ICV Administrator	
<b>Posts Funded from Commissioning Budgets</b>				
	Victims Advocate		Commissioning Coordinator's - DV/SV - Rehabilitation	Commissioning Officer

## Policy on Reserves 2017/18

Our policy on reserves meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. It sets out the purpose for which reserves are held and the planned movement in reserves over the life of this strategy. Our reserves are held for three main purposes. These are:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted pressures or liabilities

The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. Set out below is a description of the reserves held by the Commissioner, the purpose for which they are held and a table setting out the planned movement in reserves over the life of this medium term financial strategy.

**General Reserves:** The general reserve is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2017/18. The amount represents

approximately 3% of the net recurrent budget (after specific grants & fees and charges). The level of the general reserve takes account of the risks within the budget as set out in the Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.

**Capital Reserves:** Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. Capital schemes are only included within the capital programme on the basis of setting aside funding to meet the expenditure. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast.

**Earmarked Reserves:** Earmarked reserves are held for a number of specific purposes. Future liability reserves provide for areas within the budget where there is a liability but the amount or timing is uncertain. Budget stabilisation reserves are established to smooth the impact of intermittent costs across financial years. Project reserves primarily fund the one off revenue implications of approved capital schemes.

## Planned Movement in Reserves 2017/18 to 2020/21

Reserves Plan 2017-2021	Forecast Balance 31/03/17 £000s	Net Gain/(Use) 2017/18 £000s	Forecast Balance 31/03/18 £000s	Net Gain/(Use) 2018/19 £000s	Forecast Balance 31/03/19 £000s	Net Gain/(Use) 2019/20 £000s	Forecast Balance 31/03/20 £000s	Net Gain/(Use) 2020/21 £000s	Forecast Balance 31/03/21 £000s
General Reserve/Police Fund	3,000	0	3,000	0	3,000	0	3,000	0	3,000
<b>Total General Reserve/Police Fund</b>	<b>3,000</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>3,000</b>
<b>Capital Reserves</b>									
General Capital Reserve	1,080	(1,080)	0	0	0	0	0	0	0
Leadership & Skills Programme	79	(79)	0	0	0	0	0	0	0
Estates North Flood Management	2,268	(1,505)	763	(763)	0	0	0	0	0
Estates West Flood Management	13,000	0	13,000	0	13,000	(750)	12,250	(1,050)	11,200
<b>Total Capital Reserves</b>	<b>16,427</b>	<b>(2,664)</b>	<b>13,763</b>	<b>(763)</b>	<b>13,000</b>	<b>(750)</b>	<b>12,250</b>	<b>(1,050)</b>	<b>11,200</b>
<b>Future Liability Reserves</b>									
Insurance Reserve	587	46	633	46	679	46	725	46	771
PFI Lifecycle Replacements	313	0	313	0	313	0	313	0	313
<b>Total Future Liability Reserves</b>	<b>900</b>	<b>46</b>	<b>946</b>	<b>46</b>	<b>992</b>	<b>46</b>	<b>1,038</b>	<b>46</b>	<b>1,084</b>
<b>Budget Stabalisation Reserves</b>									
Constabulary Operational Reserves	230	20	250	0	250	0	250	0	250
PCC Operational Reserve	250	0	250	0	250	0	250	0	250
Budget Support Reserve	0	805	805	48	853	48	901	48	949
Body Armour (Future Roll Out)	91	50	141	50	191	50	241	50	291
Chief Constable's Contingency	0	500	500	0	500	0	500	0	500
<b>Total Budget Stabalisation Reserves</b>	<b>571</b>	<b>1,375</b>	<b>1,946</b>	<b>98</b>	<b>2,044</b>	<b>98</b>	<b>2,142</b>	<b>98</b>	<b>2,240</b>
<b>Short Term Project Reserves</b>									
Mobility & Digital	290	(290)	0	0	0	0	0	0	0
Cumbria Road Safety Initiatives	55	0	55	0	55	0	55	0	55
ICT Business Plan - Kelvin Apps	47	(47)	0	0	0	0	0	0	0
Commissioned Services	250	0	250	0	250	0	250	0	250
<b>Total Short Term Project Reserves</b>	<b>642</b>	<b>(337)</b>	<b>305</b>	<b>0</b>	<b>305</b>	<b>0</b>	<b>305</b>	<b>0</b>	<b>305</b>
<b>Total Earmarked Revenue Reserves</b>	<b>2,113</b>	<b>1,084</b>	<b>3,197</b>	<b>144</b>	<b>3,341</b>	<b>144</b>	<b>3,485</b>	<b>144</b>	<b>3,629</b>
<b>Total All Reserves</b>	<b>21,540</b>	<b>(1,580)</b>	<b>19,960</b>	<b>(619)</b>	<b>19,341</b>	<b>(606)</b>	<b>18,735</b>	<b>(906)</b>	<b>17,829</b>

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## Cumbria Constabulary: 2016 Published Value for Money Profiles Analysis

The high level analysis in the table on pages 3 to 5 relates to the published 2016 Value for Money Profiles which were published by Her Majesty's Inspector of Constabulary (HMIC) on 17<sup>th</sup> November 2016. The profiles compare the forces within Cumbria's Most Similar Group (MSG) and these are: Lincolnshire, Norfolk and North Wales. The aim of the profiles is to compare performance and the costs of achieving that performance.

Appendix one contains a summary profile which is designed to illustrate how Cumbria differs from other forces within its MSG.

It is also important to recognise that the VFM Profiles in themselves have limitations and that they require more detailed investigation before they can be safely used as basis for decision making. In particular the profiles focus on costs per head of population, which tends to show Cumbria as relatively expensive across all services due to its low resident population – it should be noted that the impact of increased population due to tourism is not taken into account. In addition caution needs to be exercised in ensuring that costs and categorisations give a true comparison on a like for like basis, as forces can - and do - budget in different ways and there may be an element of subjectivity with regard to allocating costs.

The high level analysis only covers areas of service where Cumbria has been identified as an outlier compared with its peer group - that is, either:

- providing better value for money or,
- performing less well and services are, or appear to be, more expensive based on the criteria used in the profiles.

An outlier is defined as being in the top or bottom 10% and where the effect of the difference is greater than £1 per head of population.

The 2016 profiles show that the areas identified as being significantly above the all forces or MSG average cost are broadly the same this year as they have been in previous years and this has been highlighted in the table where this has consistently been the case across the period since value for money profiles were first introduced.

### General points about the VfM profiles

- Cumbria is a demographic outlier when comparing it to its MSG and this will continue to be the case, regardless of any VfM comparators. Cumbria's geography, topography and socio-economic environment are unique and there are fixed costs associated with this regardless of other comparisons.

- Population is the main determinant used in the profiles for assessing value for money – that is, cost per head. This significantly disadvantages Cumbria, which has the lowest population of 42 forces (excluding City of London), is the fourth largest covering 2,613 square miles, is sparsely populated, is classified as 98% rural and is geographically isolated. The additional cost of delivering services in this physical geography is not taken into account.
- The sparsity of the population, the rural nature of the county and the isolated geographic location of the county in England, results in higher costs to deliver police services compared to other forces and, limits opportunities for cost effective collaborations with other forces for specialist operational services or private companies to provide services. As a result, Cumbria Constabulary requires more people and more equipment to deliver a police service to a small population distributed over a large area.

All of the above result in additional fixed costs irrespective of how and by whom police services are provided and regardless of policy or strategy decisions made by senior management.

**Note – Since the draft profiles were published in October 2016 all forces have had an opportunity to resubmit POA data. As a result of this exercise please note that Cumbria is no longer an outlier with regard to:**

- **Non-staff costs - supplies and services.**
- **Criminal justice arrangements (with the exception of custody costs relating to doctors/nurses and surgeons' costs).**
- **Investigation public protection.**



VfM Category	Cumbria Data	Context and/or Explanation
Non staff costs Capital Financing	£5.9m 7.5% of workforce costs  Differences All - £3.4m MSG - £-0.1m	This is to finance the constabulary's current capital expenditure programme which includes significant investment in ICT.
Income and Expenditure: Earned Income Special police services	£1.4m  Differences All - £0.9m MSG - £0.9m	Special Police Services income includes income we receive from policing football matches and other sporting events as well as concerts, music events fairs, carnivals and parades. It also includes charges we make for transportation of individuals under the Mental Health Act and Escorting Abnormal Loads.  Of the £1.4m figure for 2016-17 £1.3m relates to provision of specialist policing services. The remainder concerns policing football matches and other events such as Kendal Calling.
NRE by function: Dealing with the public	£7.2m 14.40 php  Differences All - £1.7m MSG - £1.8m	Cumbria is the 4 <sup>th</sup> highest in the country and top of its MSG. This reflects the changes made in Command and Control which shifted its focus from handling calls to resolving callers' problems at the earliest opportunity.  In 2015 there were 38 police officers and 116 police staff working in the control room, compared to 70 police officers and 99 police staff in 2016.
NRE by function: Dealing with the public	70 FTE officers 99 FTE staff	
NRE by function: Criminal justice arrangements: Custody police doctors/ nurses and surgeons	£1.3m 2.60 php  Differences All - £0.8m MSG - £0.6m	Cumbria has the highest cost of police doctors/nurses and surgeons in the country.
NRE by function: Roads Policing	£3.7m £7.50php  Differences All - £1.7m MSG - £1.7m	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. Although these costs are the 2 <sup>nd</sup> highest in the country please note that the comparison is not like for like. Cumbria Roads Policing includes the Armed Response Vehicle, because officers are multi-skilled and perform a dual role. Other forces have these as separate units and firearms are categorised as Operational Support.  For Cumbria, Operational Support Unit Firearms is the cheapest in the country and is an outlier.
NRE by function: Roads Policing -Use of resources	74 FTE officers 22 FTE staff	

VfM Category	Cumbria Data	Context and/or Explanation
NRE by function – Firearms Unit	£0.3m £0.6php Differences All - -£1.3m MSG - -£1.2m	
NRE by function: Support functions	£24.4m £49.1php  Differences All - £6.2m MSG - £3.3m	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. In 2015 Cumbria had the highest support function costs in the country. This year support function costs per head of population are the highest when compared with its MSG and the 2 <sup>nd</sup> highest in the country. The areas that make Cumbria more expensive per head of population are ICT (+£1.6m, 2 <sup>nd</sup> highest in the country), fleet services (+£0.3m, 3 <sup>rd</sup> highest in the country) and performance review (+0.5m, 3 <sup>rd</sup> highest in the country).  It should be remembered that the All and MSG averages are not comparing like for like. For example Lincolnshire has outsourced its business support and operational support functions.
NRE by function: Support functions- Use of resources	55 FTE officers 225 FTE staff	
NRE by function: Support functions: ICT	£7.7m £15.40php  Differences All - £3.2m MSG - £1.6m	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. In 2016 Cumbria is joint top in the country and highest in MSG for ICT costs. Some of our ICT fixed costs will be higher than other forces, for example the cost of secure ICT connectivity between police estate and the requirement for additional mobile masts to ensure radio communications coverage compared to less mountainous areas (Cumbria requires 99 masts to cover its geography, compared to Warwickshire's 66 masts – also a large rural county with the closest population and crime levels to Cumbria).  In 2014 Cumbria invested in mobile devices for all front line officers. The case and custody system was replaced in 2015 and there will be significant capital investment to replace the crime and intelligence system in 2017.
NRE by function: Support functions: Fleet	£2.4m £4.9php  Differences All - £0.9m MSG - £0.3m	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. The cost of fleet provision and associated transport costs are high in Cumbria due to the size, geography and topography of the county. In addition, the LSE with HMIC has undertaken some work about factors that provide challenges for policing. Early data identifies that Cumbria's average travel times are 70% more than the national average.  Note that Fleet Services has a significant 3 year reduction target as part of the budgeting process.
NRE by function: Support functions: Performance Review	£2.0m £4php  Differences All - £0.9m MSG - £0.5m	Increased performance review costs reflect the investment in the business improvement unit and additional change team. It also includes additional IMS staff to which was approved to meet increasing demands for management information, HMIC returns and Freedom of Information requests.

## Joint Audit and Standards Committee Proposed Annual Work Programme 2017/18

### 1. Introduction & Purpose of the Report

- 1.1. On an annual basis the Joint Audit and Standards Committee agrees a work programme that informs the reports and information received by the committee to ensure that members fulfil their terms of reference and advisory role. The terms of reference for the committee were approved at the meeting of 25 February 2014, having been reviewed and updated in line with the latest CIPFA guidance on Audit Committees. The guidance made specific reference to the role of committees within the governance framework for policing. This report translates the terms of reference into a proposed work programme. It includes a number of proposed development sessions and takes into account preparation for the earlier production and audit of the statement of accounts.

### 2. Report

- 2.1. This report presents to members an annual work programme. The programme is presented in two formats. The first format sets out each of the terms of reference and the reports/activity that it is proposed the committee would undertake to fulfil the terms (Appendix A). It therefore aims to present an assurance framework in line with CIPFA guidance that identifies the key documents and information that the committee requires to fulfil its purpose. The second format aligns the work programme against each committee meeting (Appendix B). The alignment is managed to ensure wherever possible that meetings are balanced in terms of volume of work and that governance themes are aligned. In practice this means that:

- The meetings in March, July, September and November will receive cyclical audit reports, cyclical monitoring reports and the strategic risk registers. Audit reports will be issued to members at the point they have been finalised and will be listed on the meeting agenda. Members may request the full report to be tabled at any of the above meetings. The above reports are not generally proposed to be presented in May to reduce the business demands on that agenda, the exception to this will be where monitoring or audit reports specifically relate to the year-end process.
  
- The meeting in May will focus on annual reports that review the governance arrangements for the previous financial year. This will include the annual review of effectiveness for the Committee, the review of the effectiveness of internal audit and reviews of the effectiveness of arrangements for anti-fraud and corruption and risk management. The committee will also receive the annual report of the Ethics and Integrity Panel setting out the work of the panel and assurances regarding arrangements for ethics and integrity. The agenda includes the annual opinion of the Group Audit Manager (Head of Internal Audit) and ensures members have all relevant information ahead of considering the Annual Governance Statement and Code of Corporate Governance prior to their publication with the unaudited financial statements. It is also intended that at the meeting in May, members will receive a copy of the Draft Statement of Accounts (subject to audit). It should be noted that, due to the tight timescales for the production of the statements, and the timing of the meeting, it may not be possible to issue hard copies of the accounts with the meeting papers in advance of the meeting. The meeting will provide an opportunity for members to meet privately with the internal auditors.
  
- The meeting in July will consider the Audited Statement of Accounts and the Audit Findings Report of the External Auditor, setting out their opinion on the financial statements and their value for money conclusion. The financial statements are presented with an assurance document. This provides members with advice on the wider financial governance arrangements supporting the production of financial statements. The committee will receive the annual report of the

committee, following the consideration of the committee's review of effectiveness in March. The annual report of the committee will then be presented to the Police and Crime Panel meeting in October by the chair. The committee will also receive the updated annual governance statement prior to publication with the financial statements. The meeting will provide an opportunity for members to meet privately with the external auditors.

- The agenda for the September meeting will cover the standard cyclical reports. Due to the likely lower level of business requirements for this agenda, the timetable proposes that members undertake one of the planned development sessions in September.
- The November meeting will focus on governance arrangements with a cyclical review of one or two of the core elements of the governance framework. A schedule outlining the review schedule for governance documents is included at Appendix C. Members will also receive an annual report on value for money within the Constabulary and within the OPCC including HMIC VFM profile data benchmarking costs with most similar group (msg).
- The meeting in March will consider relevant annual strategies and plans for the following financial year. This includes the proposed internal audit plan, charter and quality assurance programme; the external audit plan and the risk management and treasury management strategies. The meeting includes an annual development session on the medium term financial strategy and change programme. This aims to inform the committee of the financial climate going forward and any resulting operational change and risks in advance of the year.
- Ad-hoc HMIC/Inspection and other reports appropriate to the committee's terms will be circulated to member as they are published and listed on the agenda to provide the opportunity for questions and discussion.

- All meetings provide for a corporate update facilitating briefings from Chief Officers in respect of any issues of a corporate nature that are relevant to the remit of the committee or helpful as background/contextual information.
  
- A minimum of two development sessions will be held annually with members. Arlingclose LTD, the Commissioner's treasury management advisors will meet with members at a minimum annually to provide an update on treasury strategy and developments.

### 3. Recommendations

#### 3.1. Members are recommended to:

- Consider the proposed annual work programme and development sessions as a basis for fulfilling the terms of reference and assurance responsibilities of the committee.
  
- Approve the work programme subject to any proposed changes.

## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Governance, Risk and Control		
Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.  Note - Underlined governance documents are scheduled for review in 2017.	May (Ethics and Integrity Annual Report)	<b>ETHICS AND INTEGRITY GOVERNANCE:</b> To receive an annual report from the Chair of the Ethics and Integrity Panel, advising the Committee of the work of the Panel over the previous year and matters pertaining to governance in respect of the arrangements for ethics and integrity.
	November: (All governance reviews excluding ethics and integrity)	<b>ANNUAL REVIEW OF GOVERNANCE:</b> To review the COPCC and Constabulary arrangements for governance; cyclical review over a three years covering: <ul style="list-style-type: none"> <li>▪ <u>Role of the Chief Finance Officer: annual review (2017)</u></li> <li>▪ Financial Regulations: bi-ennial review (2018)</li> <li>▪ Grant Regulations: tri-annual review (2019)</li> <li>▪ <u>Scheme of Delegation/Consent: annual review (2017)</u></li> <li>▪ <u>Procurement Regulations: bi-ennial review (2017)</u></li> <li>▪ <u>Arrangements for Anti-Fraud and Corruption /whistleblowing: bi-ennial review (2017)</u></li> </ul>
Review the Annual Governance Statements prior to approval and consider whether they properly reflect the governance, risk and control environment and supporting assurances and identify any actions required for improvement	May	<b>ANNUAL GOVERNANCE STATEMENT</b>
	July (updated governance statement prior to approval and publication)	<ul style="list-style-type: none"> <li>▪ <b>Report of the Internal Auditor: Annual Governance Statement:</b> To consider a report from the Internal Auditor reviewing the Annual Governance Statement for the financial year and to the date of this meeting</li> <li>▪ <b>Effectiveness of Governance Arrangements:</b> To receive a report from the PCCCFO/PCC Deputy Chief Executive on the effectiveness of the PCC's arrangements for Governance/ To receive a report from the CCCFO on the effectiveness of the CC's arrangements for governance</li> <li>▪ <b>Code of Corporate Governance:</b> To consider the PCC/CC Code of Corporate Governance</li> <li>▪ <b>Annual Governance Statement:</b> To consider the PCC/CC Annual Governance Statement for the financial year and to the date of this meeting</li> </ul>
	November	<b>ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE:</b> To receive an update on progress against the development and improvement plan within the annual governance statement.

## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Governance, Risk and Control		
Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements	Every meeting excluding May	<b>INTERNAL AUDIT REPORT:</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee <i>(NB audit work in compliance with PSIAS will cover a specific control objective on 'value: the effectiveness and efficiency of operations and programmes'. Specific audit recommendations will be categorised within audit reports under this heading.)</i>
	November	To receive an annual report on Value for Money within the Office of the Police and Crime Commissioner. To receive an annual report on Value for Money within the Constabulary.
	July	<b>AUDIT FINDINGS REPORT:</b> To receive from the external auditors the Annual Audit Findings Report incorporating the External Auditor's Value for Money Conclusion.
Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and Constabulary	March	<b>ANNUAL WORK PROGRAMME: ASSURANCE FORMAT:</b> To review and approve an annual work programme covering the framework of assurance against the Committee's terms of reference.
	July	<b>FRAMEWORK OF ASSURANCE: STATEMENT OF ACCOUNTS:</b> To receive a report from the PCCCFO/Deputy Chief Executive in respect of the PCC's framework of assurance; To receive a report from the Deputy Chief Constable/CC in respect of the CC's framework of assurance.
Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them	March	<b>RISK MANAGEMENT STRATEGY:</b> To provide the annual review of the COPCC and Constabulary Risk Management Strategies.
	May	<b>RISK MANAGEMENT MONITORING:</b> To receive an annual report from the Chief Executive on Risk Management Activity including the Commissioner's arrangements for holding the CC to account for Constabulary Risk Management.
	Every meeting excluding May	<b>STRATEGIC RISK REGISTER:</b> To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy.
Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions	Every meeting excluding May	<b>INTERNAL AUDIT REPORT:</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee.
		<b>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:</b> To receive an updated summary of actions implemented in response to audit and inspection recommendations.
Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources	November – cyclically when updated	<b>ARRANGEMENTS FOR ANTI-FRAUD AND CORRUPTION:</b> To receive the COPCC and Constabulary strategy, policy and fraud response plan.
	May	<b>ANTI-FRAUD AND CORRUPTION ACTIVITIES:</b> To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption.



## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
<b>Terms of Reference: Internal Audit</b>		
Annually review the internal audit charter and resources	March	<b>INTERNAL AUDIT CHARTER:</b> To receive a copy of the internal audit charter from the Internal Auditors.
Review the internal audit plan and any proposed revisions to the internal audit plan	March/Ad-hoc	<b>PROPOSED INTERNAL AUDIT PLAN:</b> To receive a report from the Internal Auditors on the proposed Internal Audit Annual Plan and any proposed revisions.
Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence	March	<b>QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME:</b> To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement.
	May	<b>EFFECTIVENESS OF INTERNAL AUDIT:</b> To receive a report from the PCC Chief Finance Officer in respect of the effectiveness of internal audit.
	Quarterly	<b>INTERNAL AUDIT PERFORMANCE:</b> To receive from the Internal Auditors quarterly reports on the performance of the service against a framework of performance indicators <i>(provided within the internal audit progress reports and annual report.)</i>
	May	<b>PRIVATE INTERNAL AUDIT MEETING:</b> Confidential meeting of Committee members only and the Internal Auditors
Consider the Head of Internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements	May	<b>INTERNAL AUDIT –ANNUAL REPORT:</b> To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion.
	Every meeting excluding May	<b>INTERNAL AUDIT – PROGRESS REPORT:</b> To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.
Consider internal audit reports and such detailed reports as the Committee may request from the Police and Crime Commissioner and the Chief Constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions	Every meeting excluding May	<b>INTERNAL AUDIT REPORTS:</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee.
Consider a report on the effectiveness of internal audit to support the Annual Governance Statement	May	<b>EFFECTIVENESS OF INTERNAL AUDIT:</b> To consider a report of the Commissioner's Chief Finance Officer reviewing the effectiveness of Internal Audit.

## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
<b>Terms of Reference: External Audit/External Inspection</b>		
Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money	March	<b>EXTERNAL AUDIT PLAN:</b> To receive from the external auditors the Annual External Audit Plan
	May	<b>EXTERNAL AUDIT FEES:</b> To receive from the external auditors the proposal in respect of audit fees.
Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance	November/Ad-hoc	<b>ANNUAL AUDIT LETTER:</b> To receive from the External Auditors the Annual Audit Letter and reports
	March	<b>JOINT AUDIT AND STANDARDS COMMITTEE UPDATE:</b> To receive from the external auditors an update report in respect of progress on the external audit plan
Consider specific reports as agreed with the external auditors/specific inspection reports e.g. HMIC, relevant to the Committee's terms of reference	Every meeting excluding May	<b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, HMIC/INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference
Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies and relevant bodies	July	<b>PRIVATE EXTERNAL AUDIT MEETING:</b> Confidential meeting of Committee members only and the external auditors
<b>Terms of Reference: Financial Reporting</b>		
Review the Annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements that need to be brought to the attention of the Commissioner and/or the Chief Constable	July	<b>ASSURANCE FRAMEWORK: STATEMENT OF ACCOUNTS:</b> To receive a report from the PCCFO/Chief Executive in respect of the PCC's framework of assurance; To receive a report from the Deputy Chief Constable/CC in respect of the CC's framework of assurance.
	July	<b>ANNUAL STATEMENT OF ACCOUNTS:</b> To receive the audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts
Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements	July	<b>AUDIT FINDINGS REPORT:</b> To receive from the external auditors the Audit Findings Report in respect of the annual audit of the financial statements and incorporating the External Auditor's Value for Money Conclusion.

## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
<b>Terms of Reference: Accountability Arrangements</b>		
On a timely basis report to the Commissioner and the Chief Constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management	Every meeting (where appropriate)	To be discussed in Committee meetings and noted as feedback in the minutes.
Report to the Commissioner and the Chief Constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements and internal and external audit functions	Every meeting (where appropriate)	To be discussed in Committee meetings and noted as feedback in the minutes.
Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the Commissioner and the Chief Constable	May	<b>JASC Review of Effectiveness:</b> To receive a report reviewing the effectiveness of the committee against the CIPFA framework as a contribution to the overall effectiveness of arrangements for governance
	July	<b>JASC Annual Report:</b> To receive the annual report of the committee (following the review of effectiveness undertaken in May). Following approval, the Annual Report will be presented to the Police and Crime Panel meeting in October by the chair of JASC.
<b>Terms of Reference: Treasury Management</b>		
Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory	March	<b>TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES:</b> To review the annual Treasury Management Strategy incorporating the policy on investment and borrowing activity and treasury management practices.
Review the Treasury risk profile and adequacy of treasury risk management processes		
Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity	Every meeting excluding July	<b>TREASURY MANAGEMENT ANNUAL REPORT/ACTIVITIES:</b> To receive for information the treasury management annual report and an update on Treasury Management Activity.
		<b>TREASURY MANAGEMENT ADVISORS:</b> To receive briefings/training from the Commissioner's Treasury Management advisors.
Review assurances on Treasury Management	Every meeting excluding May (where applicable)	<b>INTERNAL AUDIT REPORT:</b> To receive reports from Internal Audit Unit in respect of specific audits conducted since the last meeting of the Committee

## Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Standards Activity		
To hear and determine appeals in relation to the OPCC's personnel policies and decisions of the Chief Executive where appropriate	n/a	As and when required, to act as an "Appeal Board"
To hear and determine appeals by Independent Custody Visitors and Independent Members of Police Misconduct Panels from decisions of the Chief Executive	n/a	As and when required, to act as an "Appeal Board"

## Joint Audit &amp; Standards Proposed Annual Work Programme 2017/18

Wednesday 24 May 17	Friday 21 July 17	Wednesday 13 September 17	Wednesday 22 November 17	March 2018 - TBC
<b>PRIVATE INTERNAL AUDIT MEETING:</b> Confidential meeting of Committee members only and the <b>Internal</b> Auditors. (IA)	<b>PRIVATE EXTERNAL AUDIT MEETING:</b> Confidential meeting of Committee members only and the <b>external</b> auditors. (GT)	<b>PRIVATE DEVELOPMENT SESSION:</b> TBC	<b>PRIVATE DEVELOPMENT SESSION:</b> , Arlingclose LTD, to provide an update on Treasury Management developments (DCFO)	<b>PRIVATE DEVELOPMENT SESSION:</b> Medium Term Financial Forecast, change programme & value for money (CCCFO)
<b>Regular Reports</b>				
<b>CORPORATE UPDATE:</b> To receive a briefing on matters relevant to the remit of the Committee (DCC)	<b>CORPORATE UPDATE:</b> To receive a briefing on matters relevant to the remit of the Committee (DCC)	<b>CORPORATE UPDATE:</b> To receive a briefing on matters relevant to the remit of the Committee (DCC)	<b>CORPORATE UPDATE:</b> To receive a briefing on matters relevant to the remit of the Committee (DCC)	<b>CORPORATE UPDATE:</b> To receive a briefing on matters relevant to the remit of the Committee (DCC)
<b>TREASURY MANAGEMENT ACTIVITIES:</b> To receive for information reports on Treasury Management Activity - Quarter 4/Annual Report (DCFO)	N/A	<b>TREASURY MANAGEMENT ACTIVITIES:</b> To receive for information reports on Treasury Management Activity - Quarter 1 (DCFO)	<b>TREASURY MANAGEMENT ACTIVITIES:</b> To receive for information reports on Treasury Management Activity - Quarter 2 (DCFO)	<b>TREASURY MANAGEMENT ACTIVITIES:</b> To receive for information reports on Treasury Management Activity - Quarter 3 (DCFO)
N/A	<b>INTERNAL AUDIT – PROGRESS REPORT:</b> To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	<b>INTERNAL AUDIT – PROGRESS REPORT:</b> To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	<b>INTERNAL AUDIT – PROGRESS REPORT:</b> To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	<b>INTERNAL AUDIT – PROGRESS REPORT:</b> To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)
<b>INTERNAL AUDIT REPORT(S):</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	<b>INTERNAL AUDIT REPORT(S):</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	<b>INTERNAL AUDIT REPORT(S):</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	<b>INTERNAL AUDIT REPORT(S):</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	<b>INTERNAL AUDIT REPORT(S):</b> To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)
N/A	<b>STRATEGIC RISK REGISTER:</b> To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE/GM & DCC)	<b>STRATEGIC RISK REGISTER:</b> To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE/GM & DCC)	<b>STRATEGIC RISK REGISTER:</b> To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)	<b>STRATEGIC RISK REGISTER:</b> To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE/GM & DCC)
N/A	<b>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:</b> To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CCCFO)	<b>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:</b> To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CCCFO)	<b>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:</b> To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CCCFO)	<b>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:</b> To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CCCFO)
<b>Cyclical/Annual Reports</b>				
<b>EXTERNAL AUDIT FEES:</b> To receive from the external auditors the proposal in respect of audit fees. (GT)	<b>AUDIT FINDINGS REPORT:</b> To receive from the external auditors the Audit Findings Report in respect of the annual audit of the financial statements and incorporating the External Auditor's Value for Money Conclusion. (GT)	<b>ANNUAL AUDIT LETTER:</b> To receive from the External Auditors the Annual Audit Letter and reports (GT).	<b>ANNUAL REVIEW OF GOVERNANCE:</b> To review the COPCC and Constabulary arrangements for governance; cyclical review over a three years. (Relevant Chief Officers)	<b>TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES:</b> To review the annual Treasury Management Strategy incorporating the policy on investment and borrowing activity and treasury management practices. (DCFO)

## Joint Audit &amp; Standards Proposed Annual Work Programme 2017/18

Wednesday 24 May 17	Friday 21 July 17	Wednesday 13 September 17	Wednesday 22 November 17	March 2018 - TBC
<b>Cyclical/Annual Reports (continued)</b>				
<b>RISK MANAGEMENT MONITORING:</b> To receive an annual report from the Chief Executive on Risk Management Activity including the Commissioner's arrangements for holding the CC to account for Constabulary Risk Management. (CE/GM)	<b>ASSURANCE FRAMEWORK STATEMENT OF ACCOUNTS:</b> To receive a report from the PCCCFO/Deputy Chief Executive in respect of the PCC's framework of assurance; To receive a report from the CCCFO in respect of the CC's framework of assurance. (PCCCFO/CCCFO)		<b>ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE:</b> To receive an update on progress against the development and improvement plan within the annual governance statement (PCC CFO and CC FFO)	<b>RISK MANAGEMENT STRATEGY:</b> To provide the annual review of the COPCC (CE/GM) and Constabulary (DCC) Risk Management Strategies.
<b>ANTI-FRAUD AND CORRUPTION ACTIVITIES:</b> To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption. (CE/GM)	<b>ANNUAL STATEMENT OF ACCOUNTS:</b> To receive the audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts (DCFO)		<b>VALUE FOR MONEY:</b> To receive an annual report on Value for Money within the Office of the Police and Crime Commissioner. (DCFO) To receive an annual report on Value for Money within the Constabulary. (DCI)	<b>ANNUAL WORK PROGRAMME: ASSURANCE FORMAT:</b> To review and approve an annual work programme covering the framework of assurance against the Committee's terms of reference. (DCFO)
<b>ETHICS AND INTEGRITY GOVERNANCE:</b> To receive an annual report from the chair of the Ethics and Integrity Panel.				<b>EXTERNAL AUDIT PLAN:</b> To receive from the external auditors the Joint Annual External Audit Plan. (GT)
<b>INTERNAL AUDIT –ANNUAL REPORT:</b> To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion.(IA)				<b>EXTERNAL AUDIT UPDATE REPORT:</b> To receive from the external auditors an update report in respect of progress on the external audit plan. (GT)
<b>EFFECTIVENESS OF INTERNAL AUDIT:</b> To receive a report from the PCC Chief Finance Officer in respect of the effectiveness of internal audit. (DCFO)				<b>PROPOSED INTERNAL AUDIT PLAN/ INTERNAL AUDIT CHARTER:</b> To receive a report from the Internal Auditors on the proposed Internal Audit Annual Plan and any proposed revisions. To receive a copy of the internal audit charter from the Internal Auditors.(IA)
<b>JOINT AUDIT AND STANDARDS COMMITTEE REVIEW OF EFFECTIVENESS:</b> To receive a report reviewing the effectiveness of the Committee as a contribution to the overall effectiveness of arrangements for governance.(DCFO)	<b>JOINT AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT:</b> To receive an annual report of the Committee. Once approved this annual report will be presented to the Police and Crime Panel by the chair of JASC.(DCFO)			<b>QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME:</b> To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement. (IA)

## Joint Audit &amp; Standards Proposed Annual Work Programme 2017/18

Wednesday 24 May 17	Friday 21 July 17	Wednesday 13 September 17	Wednesday 22 November 17	March 2018 - TBC
<b>Cyclical/Annual Reports (continued)</b>				
<p><b>ANNUAL GOVERNANCE STATEMENT</b></p> <ul style="list-style-type: none"> <li>▪ <b>Report of the Internal Auditor: Annual Governance Statement:</b> To consider a report from the Internal Auditor reviewing the Annual Governance Statement for the financial year and to the date of this meeting. (PCCCFO &amp; CCCFO)</li> <li>▪ <b>Effectiveness of Governance Arrangements:</b> To receive a report from the PCCCFO/PCC Chief Executive on the effectiveness of the PCC's arrangements for Governance/ To receive a report from the CCCFO on the effectiveness of the CC's arrangements for governance</li> <li>▪ <b>Code of Corporate Governance:</b> To consider the PCC/CC Code of Corporate Governance</li> <li>▪ <b>Annual Governance Statement:</b> To consider the PCC/CC Annual Governance Statement for the financial year and to the date of this meeting</li> </ul>				
<p><b>ANNUAL STATEMENT OF ACCOUNTS:</b> To receive the un-audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts (DCFO)</p>				
<b>Ad Hoc Reports</b>				
<p><b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference</p>	<p><b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference</p>	<p><b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference</p>	<p><b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference</p>	<p><b>ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:</b> To consider any other reports falling within the remit of the Committee's terms of reference</p>

## Governance Documents Cyclical Review Schedule

Documents	Review Cycle	Lead Officer	December 2014	December 2015	November 2016	November 2017	November 2018	November 2019	November 2020
Role of the PCC's Chief Finance Officer	annual	Deputy CFO Michelle Bellis	✓	✓	✓	✓	✓	✓	✓
Role of the CC's Chief Finance Officer	annual	Deputy CFO Michelle Bellis	✓	✓	✓	✓	✓	✓	✓
Procurement Regulations	bi-ennial	Head of Procurement Les Hopcroft	✗	✓	✗	✓	✗	✓	✗
Scheme of Delegation/Consent	annual	Chief Executive Stuart Edwards and/or Governance Manager Joanne Head	✓	✓	✓	✓	✓	✓	✓
Arrangements for Anti-fraud & Corruption/Whistleblowing	bi-ennial	Chief Executive Stuart Edwards and/or Governance Manager Joanne Head	✗	✓	✗	✓	✗	✓	✗
Financial Regulations	bi-ennial	Deputy CFO Michelle Bellis	✓	✗	✓	✗	✓	✗	✓
Grant Regulations	tri-ennial	Head of Partnerships and Commissioning Vivian Stafford	✗	✗	✓	✗	✗	✓	✗



# Joint Audit Plan for the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary

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**Year ended 31 March 2017**

March 2017

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March 2017

Dear Mr McCall and Mr Graham

### **Joint Audit Plan for the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria for the year ending 31 March 2017**

This Joint Audit Plan sets out for the benefit of those charged with governance (the Police and Crime Commissioner (PCC) for the Office of the PCC (OPCC), and the Chief Constable for the Constabulary) an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the OPCC, the Constabulary and your environment. The contents of this Joint Audit Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the financial statements of the Chief Constable, the PCC and the Group
- satisfy ourselves the PCC and the Chief Constable have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the OPCC or the Constabulary or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Robin Baker

Engagement Lead

#### **Chartered Accountants**

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# Understanding your business and key developments

## Developments

### Blue light collaboration

Provisions are in place to enable the transfer of Fire and Rescue and Police and Crime Commissioner functions to the elected mayor of a combined authority area.

The Policing and Crime Act 2017 received Royal Assent on 31 January 2017, and:

- introduces a high level duty on all three emergency services to collaborate; and
- enables Police and Crime Commissioners to take on the functions of Fire and Rescue Authorities, and create a single employer for Police and Fire personnel.

### Transformation funding

The transformation fund is designed to continue to reform and shape policing for the future by investing in new capabilities to respond to changing crimes and threats.

On 30 November, the Home Secretary awarded over £26m to 28 successful bids for transformation projects.

### Police and Crime Plan

The first Police and Crime Plans created by PCCs covered the four years between 2013 and 2017.

Each PCC is required to have created a new Police and Crime Plan, to cover the four years 2017 to 2021, by 31 March 2017.

## Key challenges

### Police Funding Formula

At the beginning of 2016, the implementation of the revised police funding formula in England and Wales was delayed.

These revisions are still expected to be implemented, perhaps as soon as the 2018/19 financial year.

For some forces this may represent a significant reduction in annual funding, and will have an impact on forward planning.

The potential impact on Cumbria of changes to the Police Funding Formula would be significant and could mean significant changes to how policing is delivered in Cumbria.

### Financial outturn 2016/17

At the end of December 2016 the Constabulary was projecting an overspend for 2016/17 of £1.079 million. The funding pressures have been discussed by the Chief Constable and Commissioner, and the Constabulary is currently seeking to manage expenditure during 2016/17 within its overall funding. If this is not possible, a number of options are being developed including the use of the Chief Constable's contingency, reducing the amount of revenue funding required to finance the capital programme and a drawdown of reserves.

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require authorities to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

Cumbria PCC and Chief Constable have achieved the 31 May production of their accounts since 2014/15. Given the size of the finance team this represents a significant achievement and most notably without any reduction in quality. We gave our opinions on 28 July last year and planned to give the 2016/17 opinions on 21 July 2017 and therefore achieving the new deadline for the two years prior to its implementation.

## Our response

- We aim to complete all our substantive audit work of your financial statements by 30 June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review both the Police and Crime Commissioner's and the Chief Constable's progress in managing their responsibilities and how they are working with partners, as part of our work in reaching our VfM conclusions.
- We will review the arrangements in place for the delivery of the new Police and Crime Plan, and the PCC's holding the Chief Constable to account for its delivery, as part of our work in reaching our VfM conclusions and our consideration of your governance arrangements during our audit.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based on professional judgment in the context of our knowledge of the PCC and the Chief Constable. In line with previous years, we have calculated materiality for the statements as a whole as a proportion of the smaller of gross revenue expenditure of the Police and Crime Commissioner and gross revenue expenditure of the Chief Constable. For the purposes of planning the audit we have determined overall materiality to be £2,750,000 (being 2% of the gross revenue is kept under review throughout the audit process and will advise you if we revise this during the audit. expenditure of the PCC (Single Entity). In the previous year, we determined materiality to be £2,687,000 (being 2% of gross revenue expenditure of the PCC (Single Entity). Our assessment of materiality

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. 'Trivial' matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £137,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels if there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance / transaction / disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000 – individual mis-statements will also be evaluated with reference to how material they are to the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Relevant to PCC, Chief Constable or both?	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	Both	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cumbria PCC, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Cumbria PCC, mean that all forms of fraud are seen as unacceptable</li> </ul> <p><b>Therefore we do not consider this to be a significant risk for Cumbria PCC.</b></p> <p>For the Chief Constable, revenue is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resources from the PCC to the Chief Constable for the cost of policing services. Income for the Chief Constable is received entirely from the PCC.</p> <p><b>Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for the Chief Constable of Cumbria Constabulary.</b></p>
<b>Management over-ride of controls</b>	Both	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Updating our understanding of accounting estimates, judgments and decisions made by management</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Relevant to PCC, Chief Constable or both?	Description	Audit procedures
<b>Valuation of pension fund net liability</b>	Both	<p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in its balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• We will review the consistency of the pension fund asset (LGPS only) and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Relevant to PCC, Chief Constable or both?	Description of risk	Audit procedures
<b>Operating expenses</b>	Both	Year end creditors and accruals are understated or not recorded in the correct period.	<ul style="list-style-type: none"> <li>• <b>Work completed to date:</b></li> <li>• Identification of controls and walkthrough testing of the operating expenses transaction cycle</li> <li>• <b>Further work planned:</b></li> <li>• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts</li> </ul>
<b>Employee remuneration</b>	Both	Employee remuneration accruals are understated	<ul style="list-style-type: none"> <li>• <b>Work completed to date:</b></li> <li>• Identification of controls and walkthrough testing of the employee remuneration transaction cycle</li> <li>• <b>Further work planned:</b></li> <li>• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• Analysis of trends and relationships to identify any anomalous areas for further investigation</li> <li>• Testing to confirm the completeness of payroll transactions and appropriate cut-off</li> </ul>



# Other risks identified

Reasonably possible risks	Relevant to PCC, Chief Constable or both?	Description of risk	Audit procedures
<b>Police Pensions Benefits Payable</b>	Both	Benefits improperly computed / Claims liability understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Identification of controls and walkthrough testing of the pension benefit payments transaction cycle</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Testing the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with a comparison of pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</li> <li>• Substantive testing of monthly pension benefit payments made in the year</li> <li>• Substantive testing of lump sum pension benefit payments made in the year</li> </ul>
<b>Valuation of property, plant and equipment</b>	PCC	The PCC revalues its assets on a rolling basis over a five year period. The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the PCC's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

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# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Investments
- Cash and cash equivalents
- Borrowings and other liabilities (long and short term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grant
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Police Pension Fund Account and related notes

# Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Planned audit approach
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton UK LLP
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton UK LLP

#### Audit scope:

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the components financial statements is required

**Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

**Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

# Value for Money

## Background

The Code requires us to consider whether the Police and Crime Commissioner and the Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. These are known as the Value for Money (VfM) conclusions. We issue separate conclusions for the Police and Crime Commissioner and for the Chief Constable.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Police and Crime Commissioner and Chief Constable have each put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out to the right:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We completed an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of both the PCC and Chief Constable and their organisations, including work performed in previous years in respect of the VfM conclusions and the opinions on the financial statements.
- the findings of other inspectorates and review agencies, including HMIC.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Joint Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give on 21 July 2017.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	PCC / CC / Both	Link to sub-criteria	Work proposed to address
<p><b>Financial sustainability</b></p> <p>The PCC has set a balanced budget for 2017/18 but even so there is still a need to find around £2 million of savings between 2018/19 and 2020/21. At the end of December 2016 the Constabulary was projecting an overspend for 2016/17 of £1.079 million. Even though Cumbria Police has a good record of delivering savings through its 'Change Strategy' delivering further savings of £2 million and ensuring that the Constabulary can continue to delivery policing services but within budget represents a significant challenge.</p>	Both	This links to the PCC's and Chief Constable's arrangements for ensuring they plan finances effectively to support their strategic functions and arrangements for ensuring informed decision making.	We will review the PCC's and Chief Constable's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the delivery of the Change Strategy and how the Constabulary has planned to ensure it can stay within budget in future years.
<p><b>Police effectiveness, efficiency and legitimacy (PEEL) review</b></p> <p>The PEEL review 2016 has assessed Cumbria Constabulary overall as 'Good' with individual assessments for effectiveness, efficiency and legitimacy all rated as 'Good'. This represents an overall improvement in respect of effectiveness which was assessed in 2015 as 'Requires improvement'. However, the key area within HMIC's effectiveness inspection still requiring improvement relates to protecting vulnerable people. The Constabulary has arrangements to monitor the delivery of the required improvements. The risk is that these arrangements are not sufficiently robust to deliver the required improvements.</p>	Both	This links to the PCC's and Chief Constable's arrangements for acting in the public interest through demonstrating and applying the principles of good governance.	We will review how the Constabulary has monitored delivery of plans to address the findings of Her Majesty's Inspectorate of Constabulary (HMIC) reviews.

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in the PCC's and Chief Constable's Annual Governance Statements are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the OPCC and the Constabulary.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the PCC and the Chief Constable, copied to the Secretary of State
- We certify completion of our audit.

# Results of interim audit work

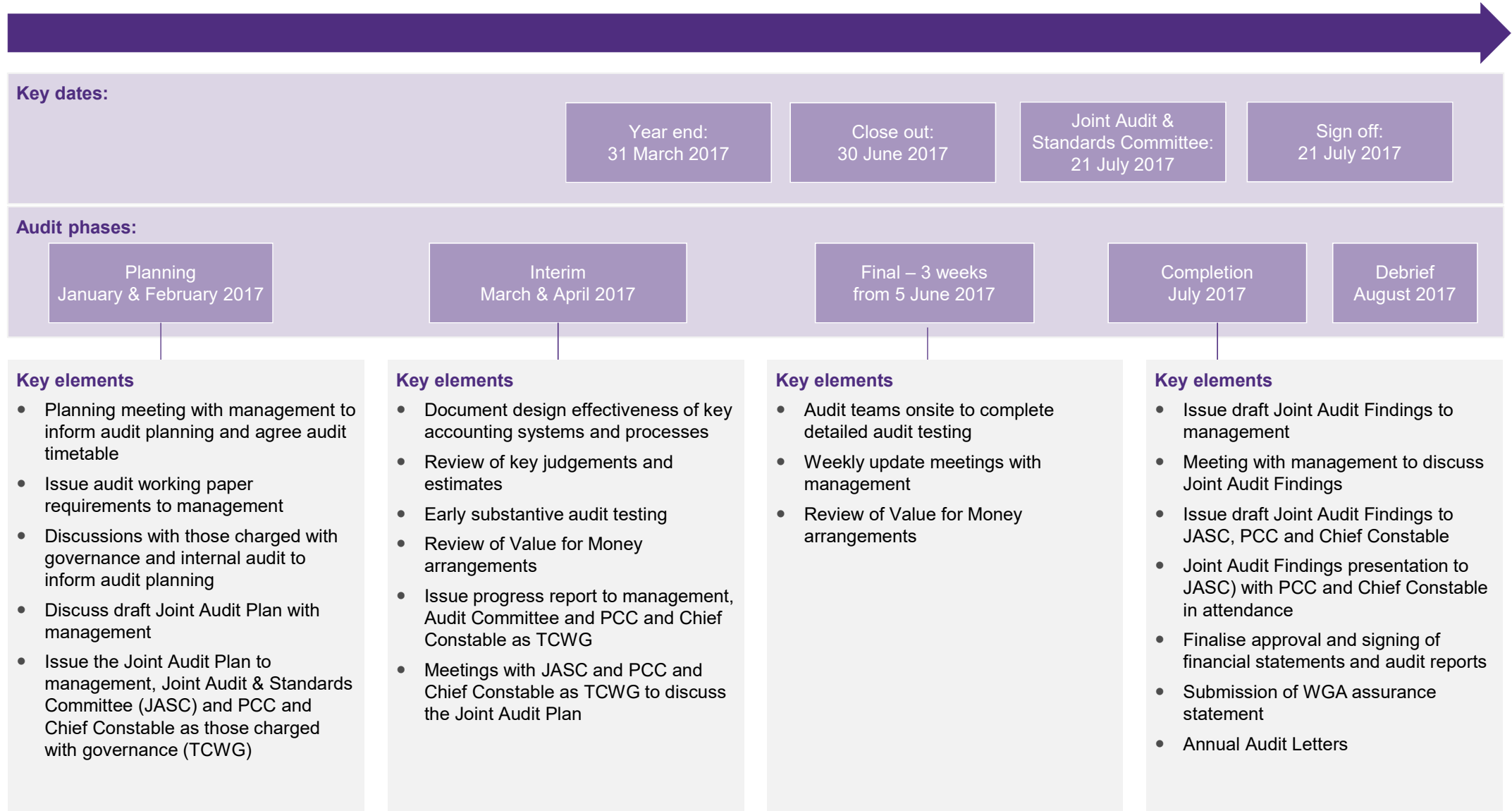
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Police and Crime Commissioner's or the Chief Constable's financial statements.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Police and Crime Commissioner's and the Chief Constable's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Police and Crime Commissioner and the Chief Constable in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>



# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Police and Crime Commissioner audit	30,338
Chief Constable audit	15,000
<b>Total audit fees (excluding VAT)</b>	<b>45,338</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Police and Crime Commissioner and Chief Constable and their activities, have not changed significantly
- The Police and Crime Commissioner and the Chief Constable will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Joint Audit Plan. Any changes will be reported in our Joint Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified:

## Fees for other services

Service	Fees £	Planned outputs
<b>Non-audit related</b>		
• Tax Advisory Services	11,200	Provision of a tax helpline (£2,500), VAT healthcheck (£7,500) and Review of VAT Manual (£1,200)

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Joint Audit Findings report at the conclusion of the audit.

The above services are consistent with the Police and Crime Commissioner's and Chief Constable's policy on the allotment of non-audit work to your auditors.

## Ethical Standard – June 2016

We must abide by ethical standards to ensure that appropriate safeguards are in place to preserve auditor independence. The tax services we are providing to you in 2016/2017 are subject to the ethical standards that applied pre 17 June 2016. From 17 June 2016, the new ethical standards apply although in the case of the services we provide to you, this will take effect from 1 April 2017. The new ethical standards introduced a list of non-audit services which cannot be provided to a public body while the firm is, or is proposed to be, the auditor. These prohibited services are set out in the Annex to the Auditor Guidance Note 1 (AGN 01) and include tax advice. Therefore, we are unable to provide you with tax helpline after 31 March 2017.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Joint Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Joint Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Police and Crime Commissioner and the Chief Constable.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Police and Crime Commissioner's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Police and Crime Commissioner and the Chief Constable to ensure that proper arrangements are in place for the conduct of their business, and that public money is safeguarded and properly accounted for. We have considered how the Police and Crime Commissioner and the Chief Constable are fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



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<b>JOINT POLICE &amp; CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE</b>	<b>Paper No. 18</b>
<b>Meeting date: 15 March 2017</b>	
<b>From: Audit Manager (Cumbria Shared Internal Audit Service)</b>	

## **INTERNAL AUDIT: DRAFT INTERNAL AUDIT PLAN 2017/18**

### **1.0 EXECUTIVE SUMMARY**

- 1.1 The draft audit plan has been prepared in consultation with senior management and in conformance with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The Standards require that the Audit Manager prepares an annual risk based audit plan for review by Senior Management and Joint Audit & Standards Committee and approval by the Board.
- 1.3 The attached draft plan has been prepared in accordance with the planning methodology agreed by the Shared Internal Audit Services Board. The approach included:
- Consultation with senior management across the Office of the Police and Crime Commissioner and Cumbria Constabulary
  - Review of the strategic risk register and annual governance statement action plans for 2016/17
  - Review of outcomes of previous audit reviews and other inspections
  - Consideration of national, regional or emerging issues; and
  - A risk assessment to rank the audits in priority order.
- 1.4 The Internal Audit Charter is included as appendix 3 to the audit plan for information. Approval of the Charter rests with the Board. The Charter has been updated to reflect changes in the 2016 review of the Public Sector Internal Audit Standards.
- 1.5 The arrangements for follow up of internal audit reviews is also attached as an appendix to the plan.

**2.0 RECOMMENDATION**

**2.1 *Members are asked to note the draft internal audit plan for 2017/18.***



# **Joint Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary Internal Audit Plan 2017/18**

## **1. Introduction**

- 1.1 Internal Auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Internal audit helps the Commissioner’s Office and Constabulary to achieve their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.” (Chartered Institute of internal Auditors).
- 1.2 The Accounts and Audit Regulations 2015 require the Commissioner’s Office and Constabulary to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance.
- 1.3 The PSIAS affirm the need for annual risk based audit plans to be developed in order that the Head of Internal Audit can form an annual opinion on the organisations’ systems of risk management, governance and internal control.
- 1.4 This Internal Audit Plan has been prepared in line with the Public Sector Internal Audit Standards and following consultation with the senior management of both the Commissioner’s Office and Constabulary to identify the areas where it is considered that Internal Audit can add the greatest value. The Plan is attached at Appendix 1.

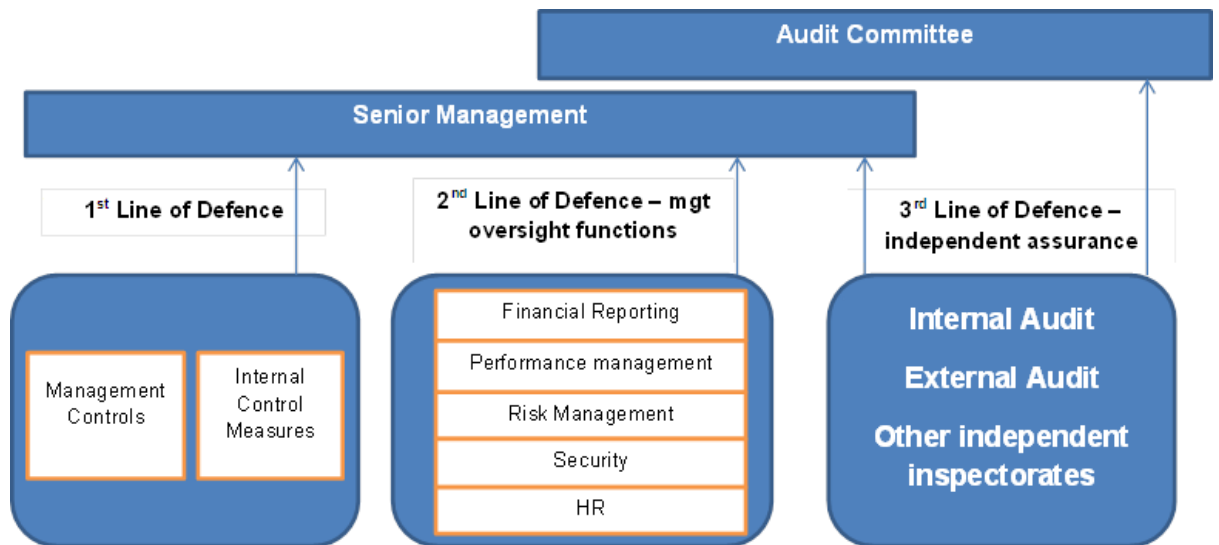
## **2. Internal Audit Service delivery**

- 2.1 The PSIAS require that the Internal Audit plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 2.2 Internal Audit at the Commissioner’s Office and Constabulary is delivered through a Shared Internal Audit Service with Cumbria County Council (the host authority). The Shared Internal Audit Service is governed by a Shared Services Operations Board comprising the Section 151 Officers of the County Council and the OPCC (also representing the Constabulary). A Shared Service Agreement is in the process of being finalised and will be signed up to by both organisations.
- 2.3 Internal audit reviews are undertaken using a risk-based approach in line with the PSIAS. This ensures that audit reviews focus on the areas of risk

and that assurance covers the wider framework of governance, risk management and internal controls.

### 3. Roles of Management and of Internal Audit

3.1 The respective roles of managers and internal audit are summarised in the three lines of defence model shown below which sets out the position of internal audit in providing assurance that the management arrangements over governance, risk management and internal control are adequate and effective.



3.2 It is the role of management to establish effective systems of governance, risk management and internal controls in order to:

- safeguard resources and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and procedures;
- promote operational efficiency demonstrate the achievement of value for money; and
- manage risk

3.3 It is the responsibility of management to establish the checks and balances needed to confirm that their systems are working effectively, that all information within them is accurate, that they are free from fraud or error.

3.4 Internal audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of internal audit to re-perform management's checks or to undertake such checking on management's behalf.

- 3.5 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within either the OPCC's Office or the Constabulary.

#### **4. Internal Audit Resources**

- 4.1 The Commissioner's Office and the Constabulary are part of the Shared Internal Audit Service. Internal Audit days to be provided are agreed annually with the Commissioner's Chief Finance Officer. The level of Internal Audit resource in the proposed plan has been determined so as to ensure that both organisations have appropriate internal audit coverage in order to provide an opinion on the systems of governance, risk and internal control, for each organisation, in line with the PSIAS and in order to support the preparation of the Annual Governance Statements.

#### **5. Categories of Internal Audit Work**

- 5.1 **Cross-cutting Reviews** – Reviews which are strategic in nature or which cut across both organisations. These reviews are designed to provide assurance that the Commissioner's Office and Constabulary have effective governance and risk management arrangements to mitigate strategic risks.
- 5.2 **Constabulary Risk-Based audit reviews** – these reviews have been identified in consultation with senior management.
- 5.3 **Non-risk based audit reviews** – these reviews have been requested by management and have not been risk assessed for inclusion in the plan.
- 5.4 **Financial System reviews** – A three year rolling programme of financial systems has been determined in conjunction with the OPCC and Chief Constable's Chief Finance Officers. The programme is attached at Appendix 2.
- 5.5 **Follow up of previous audit recommendations** - all audits resulting in partial or limited assurance statements are followed up to confirm that agreed actions have been implemented, and a revised assurance level provided where appropriate.
- 5.6 **Consultancy** – Provision for advice and challenge for the Admin Review project.
- 5.7 **Audit planning and management** – provision for management of internal audit activity in relation to the work undertaken for the Commissioner's Office and Constabulary has been built into the plan. This includes preparation of the annual internal audit plan, attendance at and preparation

of progress reports for the Joint Audit and Standards Committee and liaison with management and the external auditor.

5.8 A summary of the number of days allocated to each category of audit work is shown below. Percentage figures from the 2016/17 audit plan are included for reference.

Category	2017/18		2016/17
	Days	% of total days	% of total days
Constabulary cross cutting risk based audit reviews	50	18	7
Constabulary risk-based audit reviews	115	41	54
OPCC cross cutting risk based audit reviews	20	7	7
Non-risk based reviews	18*	6	2
Financial Systems	35	12	15
Follow up	15	5	5
Consultancy	2	1	0
Contingency	0	0	0
Police audit training and development event	2	1	1
Overhead (planning / management time)	24	9	9
<b>TOTAL</b>	<b>281</b>	<b>100</b>	<b>100</b>

5.9 \* Detailed testing of procurement and AGS review for OPCC

5.10 Key points to note:

- An increase in the proportion of Constabulary cross cutting reviews to give assurance at the highest level.

## 6. Performance Standards

6.1 A suite of performance measures has been developed and reported to Joint Audit & Standards Committee during previous years. It is proposed that the same measures will be used during 2017/18 and will continue to be reported quarterly to Joint Audit & Standards Committee.

## **7. Internal Audit Charter**

- 7.1 It is a requirement of the PSIAS that the Joint Audit and Standards Committee regularly reviews and approves an internal audit charter. The charter sets out the role, purpose and responsibilities of internal audit. The charter provides for annual review and approval alongside the annual draft internal audit plan. The charter is attached at Appendix 3 changes proposed are shown as tracked changes for ease of reference. A final version is available.

## Appendix 1 - Draft proposed internal audit plan 2017/18

Audit Review	Description	Days
Finances (Funding formula) <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance. This area features on the Constabulary's strategic risk register.  High level review to provide independent assurance that the Constabulary has appropriate governance and planning arrangements in place to manage the uncertainty around changes to the police funding formula.	10
Vulnerability <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance.  Scope to be agreed with management on this wide ranging area.	20
Firearms licencing <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance.  Review to provide independent assurance over the arrangements for firearms licencing, including application of Home Office guidance and the Authorised Professional Practice and implementation of recommendations in the 2015 HMIC report on 'targeting the risk'.	20
Use of force <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance.  The Home Office require greater transparency in this area. Review to provide independent assurance over management's arrangements in place for collection, recording, analysis and dissemination of use of force data in readiness for the requirement by the Home Office to publish data.	20
Commissioning <i>(OPCC)</i>	Identified through management consultation as a priority for Internal Audit assurance.  Review to provide assurance that policies, procedures and grant regulations are complied with.	10
Five and fifteen week reviews / Professional Development Reviews (PDRs) <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance. Joint Audit and Standards Committee are interested in this area.  The Constabulary have reviewed the arrangements in place to conduct five and fifteen week performance reviews and a new regime has been launched for PDRs. Internal Audit will provide assurance over the arrangements in place for performance management in this area.	20
Resourcing – Duty Management <i>(Constabulary)</i>	Identified through management consultation as a priority for Internal Audit assurance.  Duties are managed throughout the County. Review will provide independent assurance over management's	15

<b>Audit Review</b>	<b>Description</b>	<b>Days</b>
	arrangements to ensure consistency of operational resourcing and the process of managing duties.	
IT capacity (Constabulary)	Reliance on IT to deliver systems which improve officer productivity and reduce manual intervention in processes is a key part of the Change Programme. This is included on the Constabulary's strategic risk register.  High level review to provide assurance over management's arrangements to proactively manage the IT programme of work.	10
Fleet (Constabulary)	Identified through management consultation as a priority for Internal Audit assurance.  Fleet is the second highest cost area for the Constabulary. Audit review to provide assurance that management have arrangements in place to ensure fleet vehicles are used to best effect.	20
Digital Media Investigation Unit (Constabulary)	Identified through management consultation as a priority for Internal Audit assurance.  The Digital Media Investigation Unit was set up in 2016/17. Internal Audit review to provide assurance that management's arrangements for assessing risk at the initial stage of the process is robust.	15
Business Improvement Unit (Constabulary)	Identified through management consultation as a priority for Internal Audit assurance.  The Business Improvement Unit was established in May 2016 to support senior managers in the Constabulary to deliver on their plans. Review to provide assurance that the Unit is operating in accordance with its terms of reference and is delivering its objectives for the Constabulary.	15
OPCC – Information security (OPCC)	Identified through management consultation as a priority for Internal Audit assurance.  The OPCC has two websites which are managed internally. Review will provide independent assurance over management's arrangements to keep these websites secure.	10
	<b>Subtotal for risk based audits</b>	<b>185</b>
	<b>Subtotal for non-risk based audits (see table below for detail)</b>	<b>96</b>
	<b>Total for all proposed audit work for 2017/18</b>	<b>281</b>

## Other audit work to be included in the audit plan

Some audits are undertaken on a cyclical basis or because there are other requirements for the work to be done. This section outlines any additional non-risk assessed work planned for both organisations.

<b>Audit Review</b>	<b>Description</b>	<b>Days</b>
Annual Governance Statement (OPCC)	Review to provide assurance that sufficient and suitable evidence is available to support the Commissioner's Annual Governance Statement.	3
Financial System Reviews: <ul style="list-style-type: none"> <li>• Creditors</li> <li>• Treasury Management</li> <li>• Cash receipting</li> </ul>	A rolling programme of financial systems audits is undertaken. The frequency of each review has been considered by the OPCC and Chief Constable's Chief Finance Officers and a risk assessment prepared taking into account internal management assurance statements, transaction volume, value, system changes and assurance provided from Internal Audit work.	15 10 10
Procurement - detailed testing <i>(OPCC and Constabulary)</i>	Detailed testing to provide assurance that procurement routes, as set out in the procurement regulations, are adhered to. This work will complement the procurement follow up.	15
Follow up <i>(Constabulary)</i>	Internal audit follow up methodology includes the follow up of all audits resulting in less than Reasonable assurance.	10
Follow up - Safeguarding Hub	Internal audit follow up methodology includes the follow up of all audits resulting in less than Reasonable assurance.	5
Consultancy (Adesse)	Internal Audit input to the Admin review project.	2
Attendance at police audit training and development event	n/a	2
Internal Audit Management	Time is built into the audit plan for the management of the shared service in relation to the work undertaken for the constabulary and the Commissioner's Office. To include;  Attendance at Audit & Standards Committee (5 meetings in year)	4



Audit Review	Description	Days
	Preparation of progress reports and annual reports and opinions	6
	Audit planning	9
	Management liaison	4
	Effectiveness of Internal Audit – Compliance with PSIAS	1
	<b>Subtotal for non-risk based audits</b>	<b>96</b>

## Appendix 2 – Financial System Reviews

The table below shows an indicative three year programme of financial system audit reviews designed to ensure that all key financial systems are audited on a regular basis. The OPCC and Chief Constable's Chief Finance Officers have risk assessed the financial systems taking into account assurances provided in management control questionnaires. The risk assessment will be undertaken annually to factor in any changes.

2017/18		2018/19		2019/20	
Review	Days	Review	Days	Review	Days
Creditors	15	Debtors	15	Pensions	15
Treasury Management	10	Payroll	15	Main accounting	10
Cash receipting	10				
<b>Totals</b>	<b>35</b>		<b>30</b>		<b>25</b>



Cumbria Office of the Police and Crime  
Commissioner and Cumbria  
Constabulary

Internal Audit Charter

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## Introduction

1.1 This charter describes the purpose, authority, responsibilities and objectives of Internal Audit. It establishes Internal Audit's position within the entities of the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary and the nature of the Head of Internal Audit's functional reporting relationships with the [Executive Boardboard](#) and the Joint Audit and Standards Committee. For the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary the role of the Head of Internal Audit is fulfilled by the Audit Manager of the Cumbria Shared Internal Audit Service.

1.2 The charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements. Final approval of the audit charter rests with the [Executive Boardboard](#) having been subject to review by the Joint Audit and Standards Committee.

1.3 The Cumbria Shared Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise

- \_\_\_\_\_ a Definition of Internal Auditing,
- \_\_\_\_\_ a Code of Ethics and the Standards by which Internal Audit work must be conducted
- \_\_\_\_\_ the mission of Internal Audit
- \_\_\_\_\_ core Principles for the Professional Practice of Internal Auditing and
- \_\_\_\_\_ the standards by which internal audit work must be conducted.

~~4.3~~ Any instances of non-conformance with the PSIAS must be reported to the [Executive Boardboard](#) and the Joint Audit and Standards Committee and significant deviations must be considered for inclusion within Annual Governance Statements and may impact on the external auditor's value for money conclusion.

1.4 An audit charter is one of the key requirements of the PSIAS. As such, failure to approve an internal audit charter may be considered to be a significant deviation from the requirements of the Standards.

1.5 The charter must be presented to senior management, reviewed by the Joint Audit and Standards Committee and must be approved by the Police and Crime Commissioner and the Chief Constable, as the body charged with governance.

1.6 The Public Sector Internal Audit Standards use the terms 'board' and 'senior management' and require that the audit charter defines these terms for the purpose of the internal audit activity.

For the purposes of this charter the 'board' refers to the ~~Executive Board~~board, a board comprising the Police and Crime Commissioner, the Chief Constable, the Commissioner's Chief Executive (Monitoring Officer) and the Commissioner's Chief Finance Officer. The Joint Audit and Standards Committee for the Cumbria OPCC and Cumbria Constabulary is an independent Committee fulfilling an assurance role in support of the overall arrangements for governance. The terms of reference of the Committee, in accordance with the recommendations of the CIPFA publication "Audit Committees Practical Guidance for Police and Local Authorities" incorporate review of the Internal Audit Charter. 'Senior management' refers to the Police and Crime Commissioner, Chief Executive and Chief Finance Officer for the OPCC and for Cumbria Constabulary the Chief Officer Group.

## The Role, Mission and Core Principles of Internal Audit

2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Commissioner and Chief Constable's operations. Internal Audit helps the Commissioner and Chief Constable to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Arrangements for internal audit are secured by the Commissioner's Chief Finance Officer on behalf of the Commissioner and Chief Constable through the Cumbria shared Internal Audit Service.

2.2 The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

2.3 The Cumbria Shared Internal Audit Service ("Internal Audit") provides an Internal Audit function for each of the organisations that form part of the shared service, namely;

2.3 The services provided by Internal Audit are designed to assist the Commissioner and Chief Constable to continually improve the effectiveness of their respective risk management, control and governance framework and processes and to allow an independent, annual opinion to be provided on the adequacy of these arrangements.

#### 2.4 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based Internal Audit reviews focusing on risk management, internal control and governance
- Review of arrangements for preventing, detecting and dealing with fraud and corruption
- Review of overall arrangements for risk management and corporate governance
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high
- Provision of advice on risk and control related matters
- Consultancy services which may include hot assurance on projects or service and system development (provided the assignment contributes to improved governance, risk management and internal control and does not impact on the level of core assurance work)
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation
- Advice on strengthening controls following such an incident

#### 2.5 The Core Principles, taken as a whole, articulate internal audit effectiveness. The Principles as set out in the PSIAS are:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

## Purpose, Authority, Responsibility and Objectives

### Purpose

- 3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management, the Board and Audit Committees inside their organisations, giving an unbiased and objective view on what's happening in the organisation.

- 3.2 Internal Audit's core purpose is to provide Senior Management, the Joint Audit and Standards Committee and the [Executive Board](#) with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.
- 3.3 By undertaking an annual risk assessment and using this to prepare the annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Commissioner and Chief Constable. This then allows Internal Audit to give an overall opinion on the Commissioner and Chief Constable's systems of risk management, internal control and governance.
- 3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Commissioner and Chief Constable's Annual Governance Statements which accompany the annual statement of accounts. The Governance Statement provides assurance that an effective internal control framework is in place.
- 3.5 Internal Audit supports the respective Section 151 Officers to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable. This Statement places on the Chief Finance Officers, the responsibility for ensuring that the Commissioner and Chief Constable have put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.6 Internal Audit supports the Chief Executive and Chief Constable in providing high level assurances relating to the OPCC and Constabulary's Governance arrangements.
- 3.7 Internal Audit also supports the Monitoring Officer in discharging his / her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

#### Authority

- 3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, the Commissioner and Chief Constable have approved

this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Cumbria Shared Internal Audit service.

3.9 This charter delegates to the Audit Manager for the Commissioner and Chief Constable, the responsibility to undertake an annual risk assessment in consultation with each organisation's management, and from this, prepare a risk based plan of audit work for review by the Joint Audit and Standards Committee and approval by the [Executive Board board](#).

3.10 Internal Audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.

3.11 The charter establishes that the Group Audit Manager and Audit Manager of the Shared Internal Audit Service has free and unfettered access to the [Executive Board board](#) and the Joint Audit and Standards Committee and has the right to request a meeting in private with the Commissioner, Chief Constable and/or Chair of the Joint Audit and Standards Committee should it become necessary.

## Responsibilities and Objectives

3.12 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance for the Commissioner and Chief Constable.

3.13 The Audit Manager and her staff have responsibility for the following areas:

### Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management
- Submit the annual audit plan to senior management and the Joint Audit and Standards Committee for review prior to approval by the [Executive Board board](#).
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to the Joint Audit and Standards Committee and [Executive Board board](#) as appropriate.



### **Implementation**

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and to the Joint Audit and Standards Committee
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Joint Audit and Standards Committee

### **Reporting**

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses
- Quarterly progress reports will be prepared and reported formally to the Joint Audit and Standards Committee
- Internal Audit has a responsibility to report to the [Executive Board](#) any areas where there is considered that management have accepted a level of risk that may be unacceptable to the organisation
- Internal Audit has a duty to bring to the attention of the [Executive Board](#) and the Joint Audit and Standards Committee should the Group Audit Manager believe that the level of agreed resources will impact adversely on the provision of the annual audit opinion

### **Relationships with other Inspectorates**

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers

### **Non-Audit / management responsibilities**

In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:

- Internal Audit does not have any operational responsibilities
- Internal Audit does not have any part in decision making within the organisation or for authorising transactions

- Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented

3.14 The presence of Internal Audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.

3.15 Internal Audit does not have responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal Audit's role is to provide senior management, the ~~Executive Board~~[board](#) and the Joint Audit and Standards Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.

3.16 It is the responsibility of the Commissioner and Chief Constable's management to maintain adequate systems of internal control and to review their systems to ensure that these controls continue to operate effectively.

3.17 The role of Internal Audit vs the Management of the organisation is summarised in the diagram at appendix A.

## Scope of Internal Audit Work

4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance across each participating organisation. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:

- The organisations risks are being appropriately identified, assessed and managed;
- Information is accurate, reliable and timely;
- Employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
- Resources are utilised efficiently and assets are secure;
- The organisations plans, priorities and objectives are being achieved;
- Legal and regulatory requirements are being met

## Position and Reporting Lines for Internal Audit

- 5.1 Internal Audit reports operationally to the PCC's Chief Finance Officer (S151 Officer). Functional reporting is to the Joint Audit and Standards Committee.
- 5.2 On a day to day basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the PCC's Chief Finance Officer and the Chief Constable's Chief Finance Officer who are charged with ensuring each organisation has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Joint Audit and Standards Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work. Where audit activity has raised significant matters with regard to weaknesses in internal control, defined as audit reports providing either only 'limited/none' or 'partial' assurance or recommendations graded 'High', indicating significant risk exposure identified arising from a fundamental weakness in the system of internal control, reports will be escalated by the Chief Finance Officer to the [Executive Boardboard](#).
- 5.4 On an annual basis, Internal Audit will prepare and present to the [Executive Boardboard](#) and Joint Audit and Standards Committee, an annual report containing:
- The overall opinion of the responsible Audit Manager
  - A summary of the work undertaken to support the opinion; and
  - A statement of conformance with the Public Sector Internal Audit Standards
- 5.5 Should significant matters arise in relation to the work of Internal Audit; these will be escalated through the management hierarchy to the Commissioner, Chief Constable and/or to the Chair of the Joint Audit and Standards Committee as appropriate.
- 5.6 Where major changes are required to the agreed audit plan or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the PCC's Chief Finance Officer and reported to the [Executive Boardboard](#) and Joint Audit and Standards Committee. All changes to approved audit plans will be reported to the next meeting of the Joint Audit and Standards Committee.

## Ethics, Independence and Objectivity

### Ethics

- 6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this code has been adopted by the Shared Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the shared service are also required to comply with the code of ethics of their professional bodies.

### Governance and Independence of the Shared Internal Audit Service

- 6.3 Internal Audit is a Shared Audit Service between Cumbria County Council, ~~Carlisle City Council, Copeland Borough Council, and the Office of the Police and Crime Commissioner (representing also Cumbria Constabulary).~~ ~~Cumbria Constabulary and the Police and Crime Commissioner.~~ The host authority for the delivery of the Shared Audit Service is Cumbria County Council.
- 6.4 The governance of the provision of the Shared Internal Audit Service shall be carried out by the 151 Officers of the County Council and OPC~~Shared Service Board~~ whose role is to:
- Ensure that the Shared Internal Audit Service meets the requirement of the proper practices for Internal Audit
  - Reach common agreement over issues such as standards, goals and objectives and reporting requirements
  - Agree on the range of audit outputs
  - Confirm the scope and remit of the audit function
  - Agree reporting and performance arrangements for Internal Audit, including performance measures, delivery of plan, cost and impact tracking

### Independence

- 6.5 Internal Audit is independent of all of the activities it is required to audit which ensures that the ~~Executive Board~~board and Joint Audit and Standards Committee can be assured that the annual opinion they are given is independent and objective. Whilst the Audit Manager reports

operationally to the PCC's Chief Finance Officer, there is also a functional reporting line to the [Executive Board board](#) and the Joint Audit and Standards Committee and the Audit Manager has direct access to the Commissioner, Chief Constable and the Chair of the Joint Audit and Standards Committee.

6.6 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.

6.7 Internal auditors will report annually to the [Executive Board board](#) and Joint Audit and Standards Committee to confirm that the independence of Internal Audit is being maintained.

#### Resourcing, Proficiency and Due Professional Care

6.8 For Internal Audit to provide an opinion to the Commissioner and Chief Constable there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programme of work.

6.9 It is the responsibility of each organisation to ensure that it approves a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.

6.10 In line with the requirements of the Standards, in the event that the Audit Manager considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the [Executive Board board](#) and the Joint Audit and Standards Committee.

6.11 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2010, the Group Audit Manager and Audit Manager are professionally qualified and appropriately experienced.

#### The Role of Internal Audit in Fraud-related work

6.12 The PSIAS require that the role of Internal Audit in any fraud-related work is defined within the audit charter.

6.13 It is a requirement of the arrangements for Anti-fraud and Corruption within the COPCC and Constabulary that Internal Audit will be made aware of any actual incidence of fraud and

corruption and will undertake a review where necessary with regard to providing assurance on any associated weaknesses within internal control. The arrangements for the Commissioner provide for internal audit to undertake any necessary investigation.

### Advice / Consultancy work

6.14 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the Audit Manager. Such assignments will be accepted only where it is considered the following criteria are met:

- The work requested can be accommodated within the agreed audit days and Internal Audit has the skills to deliver the work
- The assignment will contribute to strengthening the control framework
- No conflict of interest could be perceived from Internal Audit's acceptance of the assignment

6.15 In line with the PSIAS, approval will be sought from the [Executive Board board](#) for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

## Management Responsibilities

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from the Commissioner and Chief Constable's senior management. In approving this charter, the [Executive Board board](#) is mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing terms of reference for individual audit assignments on a timely basis
- Sponsoring each audit assignment at Chief Officer level or above
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis
- Responding to Internal Audit reports and making themselves available for audit closeout meetings to agree draft audit reports
- Implementing audit recommendations within agreed timescales

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the S151 Officers and ultimately to the [Executive Board board](#) if necessary.

7.3 While Internal Audit is responsible for providing independent assurance to the Commissioner and Chief Constable, it is the responsibility of management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurance to senior management that they are maintaining appropriately controlled systems.

## Quality Assurance

8.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Joint Audit and Standards Committee through its regular reports.

### Internal assessments

8.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS
- Work is planned and undertaken in accordance with the level of assessed risk
- Appropriate testing is undertaken to support the conclusions drawn

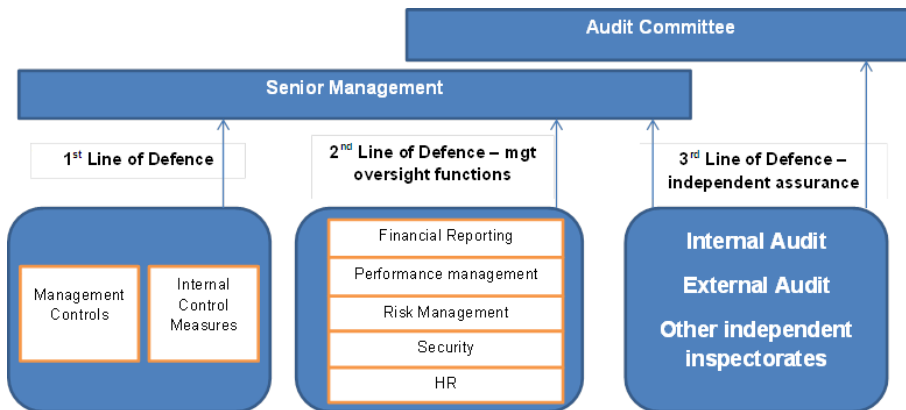
### External assessments

8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The Group Audit Manager will discuss options for the assessment with the Shared Services Board before making recommendations for approval by the respective [Executive Board board](#)/Audit Committees.

## Review of Audit Charter

9.1 The charter will be reviewed annually and submitted to Senior Management and the Joint Audit and Standards Committee for review prior to approval by the [Executive Board board](#) alongside the annual audit plan.

## Internal Audit – The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example the risk management policies and strategies that determines how risks within the organisation will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implements and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Commissioner and Chief Constable with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by their respective organisations.



Internal Audit Performance Measures

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KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Annual Measures to be reported in the Annual Report			
Output Measures			
Compliance with Public Sector Internal Audit Standards	Quality Assurance and Improvement Programme & checklist for assessing conformance with the PSIAS	100%. On-going and annual review to demonstrate conformance with the definition of Internal auditing, code of ethics and standards.	The internal audit service is required to comply with the PSIAS
Preparation of audit plan	Preparation of risk based audit plan to meet client timetables	100%. Measured annually	Annual agreed audit plan is required to enable delivery for the client.
People Measures			
CPD / Training	Average number of days for skills training per auditor	6 days per person. Reported annually.	CPD is a requirement of the PSIAS. An appropriately skilled workforce will ensure that staff within Internal Audit are continuously improving and adding value to the service provided to clients.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Monthly management measures to be reported to Audit Committees Quarterly			
Output Measures			
Planned audits completed	% of planned audit reviews (or approved amendments to the plan) completed in respect of the financial year.	95% (annual per shared service agreement, 95% target reflects need for audit plans to be dynamic and respond to emerging risks). This indicator will be monitored and reported quarterly to ensure the plan is on track to be delivered.	To enable an annual opinion to be provided on the overall systems of risk management, governance and internal control.
Audit scopes agreed	% of audit scopes agreed with management and issued before commencement of the audit fieldwork	100%  Measured monthly  Reported quarterly	To ensure the audit is targeted to key risks, has management buy in and adds value.  Recommended in the Grant Thornton review of Internal Audit.
Draft reports issued by agreed deadline	% of draft internal audit reports issued by the agreed deadline or formally approved revised deadline agreed by Audit Manager and client.	80% (target is a reflection that this is a new way of working and deadlines may be impacted by several factors including client availability)  Measured monthly  Reported quarterly	Timely reports add impact & this was a recommendation in the Grant Thornton report.
Timeliness of final reports	% of final internal audit reports issued for Corporate Director comments within 5 working days of management response or closeout.	90% (target recognises that there may on occasion be delays in finalising reports, e.g. where further work is required to resolve matters identified at closeout meeting)  Measured monthly.	Timely reports add impact & this was a recommendation in the Grant Thornton report.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
		Reported quarterly	
Recommendations agreed	% of recommendations accepted by management	95% quarterly benchmark (the benchmark reflects that it is management's responsibility to assess their risks and take final decision on whether risk may be accepted)	Measures the quality and effectiveness of internal audit recommendations
Follow up	% of high priority audit recommendations implemented by target date	100% Quarterly	Indicates that Internal Audit are adding value to the organisation.
Assignment completion	% individual reviews completed to required standard within target days or prior approved extension by Audit Manager	75% (target reflects that this is a new way of working for the audit service and systems for monitoring time spent on assignments may need to be further developed)  Measured monthly.  Reported quarterly.	To ensure that all audit plans across the shared service can be delivered.
Quality Assurance checks completed	% QA checks completed	100%.  Measured monthly  Reported quarterly	To ensure compliance with the Public Sector Internal Audit Standards.  Provides on going feedback to the audit team and identifies areas of good practice and areas for improvement
Customer Measures			

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Post audit customer satisfaction survey feedback	% of customer satisfaction surveys scoring the service as 'good'	80% (target reflects the need for internal audit to strive to deliver a customer focused service, but that due to the nature of internal audit roles and responsibilities, may not always elicit positive feedback)  Measured monthly.  Reported quarterly	Gauge customer satisfaction and continuously improve the audit service.
People Measures			
Efficiency	% chargeable time	80% (target takes account of non-chargeable activities such as staff holidays, service development projects and team meetings).  Measured monthly.  Reported quarterly	Measure of productivity.

## **Internal Audit Approach to Follow Up**

It is a requirement of the PSIAS that the head of internal audit maintains a system to follow up the implementation of agreed actions from internal audit work.

In order to ensure the most effective use of resources, internal audit will follow up the implementation of agreed actions arising from all audits that result in partial or limited assurance.

Follow up will be undertaken approximately six months after the issue of the final audit report or in line with the latest agreed timescales for implementation. Where appropriate a revised audit opinion will be issued and reported to Joint Audit & Standards Committee.

Internal audit do not propose to follow up audit reviews where the initial assessment is reasonable or substantial as there is little merit in directing further audit resources at areas deemed to be effectively controlled.

Where a follow up is due, but management advise that all actions have not been fully implemented, the follow up will be deferred for a maximum of a month to allow actions to be fully implemented. Internal audit will undertake one follow up and the outcomes will be reported to Joint Audit & Standards Committee. Where the follow up does not allow for a revised audit opinion, the Chief Officer / Director will be informed and requested to continue to monitor the implementation within the directorate. A summary report will be provided to Joint Audit & Standards Committee. Internal audit will write to the Chief Officer / Director after a further six months to gain assurance that the remaining actions have been implemented.

Wherever possible, follow ups will be undertaken in the same year as the original audit in order that revised assurance can be incorporated within the annual report and opinion.

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<b>JOINT POLICE &amp; CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE</b>	<b>Paper No. 19</b>
<b>Meeting date: 15 March 2017</b>	
<b>From: Audit Manager (Cumbria Shared Internal Audit Service)</b>	

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

### **1.0 EXECUTIVE SUMMARY**

- 1.1 *The Public Sector Internal Audit Standards require that the ‘chief audit executive’ must develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity’. For the Shared Internal Audit Service the Chief Audit Executive is the Group Audit Manager.*
- 1.2 *The QAIP is designed to provide assurance that the work of internal audit is undertaken in conformance with the Public Sector Internal Audit Standards.*
- 1.3 *Key elements of the QAIP are:*
- *Ongoing monitoring of the performance of the internal audit activity*
  - *Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices; and*
  - *External assessments conducted in accordance with the PSIAS*

### **2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS**

- 2.1 Internal Audit’s work is designed to provide assurance to management and members that effective systems of governance, risk management and internal control are in place in support of the delivery of the PCC and Constabulary’s priorities.
- 2.2 The Accounts and Audit Regulations 2015 impose certain obligations on the PCC and Chief Constable including a requirement that they undertake an adequate and effective internal audit of their accounting records and of their systems of internal control in accordance with proper practices in relation to

internal control. From 1<sup>st</sup> April 2013, proper practices are defined as the Public sector Internal Audit Standards.

### **3.0 RECOMMENDATION**

3.1 Members are asked to note the Quality Assurance and Improvement Programme.

### **4.0 BACKGROUND**

4.1 The PCC and Chief Constable must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2015 require that the PCC and Chief Constable to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance. 'Proper audit practices' are defined as those stated within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1<sup>st</sup> April 2013.

4.2 The PSIAS require that a Quality Assurance and Improvement Programme is in place to provide reasonable assurance that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics;
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving Internal Audit's operations as well as contributing to the organisation achieving its objectives.

4.3 Specific requirements of the PSIAS are that it:

- Monitors the Internal Audit activity to ensure it operates in an effective and efficient manner (1300)
- Assures compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics (1300)
- Helps the Internal Audit activity add value and improve organisational operations (1300)
- Includes both periodic and ongoing internal assessments (1311)
- Includes an external assessment at least once every five years (1312)
- Reporting on the results of the QAIP and any improvements plans in the annual report (1320)
- Disclosure of non conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards (1322)

4.4 A core element of the QAIP is the measures of performance that will allow internal audit to monitor its performance, identify improvements and demonstrate the value it adds to the OPCC and Constabulary. The suite of



performance measures is appended to the Cumbria OPCC and Constabulary Internal Audit Charter.

4.5 The QAIP is documented in Appendix A.

**Emma Toyne**  
**Audit Manager**  
*February 2017*

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## **APPENDICES**

### ***Appendix A - Quality Assurance and Improvement Programme***

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## Appendix A – Quality Assurance and Improvement Programme

### INTERNAL ASSESSMENTS (PSIAS ref: 1311)

On-going reviews conducted through	Elements
Supervision of engagements	<ul style="list-style-type: none"> <li>• Work is allocated from the annual risk based plan by the internal audit management team across the shared service</li> <li>• Staff are involved in developing audit scope in conjunction with audit clients prior to commencement</li> <li>• Work is supervised to ensure that it complies with the approved methodology for carrying out an audit</li> <li>• Audit Manager / Principal Auditor attend close out meetings to support the auditor and ensure that key messages are relayed appropriately</li> <li>• Internal Audit reports signed off by Audit Manager</li> <li>• Audit reports with less than Reasonable Assurance subject to final review by Group Audit Manager</li> </ul>
Regular, documented review of working papers during engagements	<p>Audit Manager / Principal Auditor review each audit file to ensure:</p> <ul style="list-style-type: none"> <li>• The scope and objectives of the audit have been agreed with clients and adequately documented and communicated</li> <li>• Key risks have been identified</li> <li>• The audit testing strategy has been designed to meet the objectives of the audit and testing undertaken to the extent necessary to provide an audit opinion for each piece of work</li> <li>• Audit has been completed in a thorough, accurate and timely manner</li> <li>• The standard of working papers and evidence collected during the audit are in accordance with audit processes and procedures</li> <li>• The draft audit report fully reflects all findings from the audit and these are properly explained and practical recommendations made</li> <li>• The assurance rating is fully supported by the working papers and can be justified by the auditor</li> </ul>

On-going reviews conducted through	Elements
	<ul style="list-style-type: none"> <li>• The audit has been completed within the time allocation</li> <li>• The audit report has been produced to a good standard in an accurate and timely manner</li> <li>• Training and development needs are identified through the review process.</li> </ul> <p>Periodic reviews by the Group Audit Manager to ensure that the quality assurance process is being applied consistently.</p>
<p>Audit manual containing all key policies and procedures to be used for each engagement to ensure compliance with applicable planning, fieldwork and reporting standards</p>	<p>Audit manual was refreshed during 2014/15. The manual contains the risk based audit methodology and key working papers, the code of ethics and performance measures for the shared internal audit service.</p> <p>The audit manual is updated on an on-going basis as required.</p>
<p>Feedback from customer survey on individual assignments</p>	<ul style="list-style-type: none"> <li>• Customer feedback form reviewed in April 2014 and linked to performance measures for internal audit.</li> <li>• Feedback form issued for all internal audit assignments</li> <li>• Feedback from client satisfaction forms passed on to individual auditors. Any areas identified for learning and development are taken forward</li> <li>• Any common issues are identified and action taken where necessary</li> </ul>
<p>Analysis of performance measures established to improve internal audit effectiveness and efficiency</p>	<ul style="list-style-type: none"> <li>• Monthly monitoring of performance measures by the audit management team</li> <li>• Feedback to individuals / teams as appropriate</li> <li>• Reporting to audit committees on a quarterly basis.</li> </ul>
<p>All final reports and recommendations are reviewed and approved by the Audit Manager</p>	<p>Formal sign off and issue of all final reports and recommendations by Audit Manager.</p> <p>Audit report template includes comments from Director or equivalent.</p>

Periodic reviews conducted through	Elements
Annual risk assessments for the purposes of annual audit planning	<ul style="list-style-type: none"> <li>Annual risk assessment of each organisation's audit universe as part of the planning process</li> </ul>
Annual assessment of Internal Audit's conformance with its Charter, PSIAS with an improvement plan produced to address any areas of non-conformance identified	<ul style="list-style-type: none"> <li>Review of Charter for conformance</li> <li>Annual completion of CIPFA checklist for assessing conformance with the PSIAS</li> <li>Improvement plan produced to address areas of non-conformance.</li> <li>Service development plan identifying actions for service improvement.</li> </ul>
Benchmarking with other Internal Audit service providers	<ul style="list-style-type: none"> <li>CIPFA benchmarking</li> <li>Networking at Police Audit Group Conference (national event)</li> </ul>
Quarterly reports to audit committees on progress with delivery of the audit plan	<ul style="list-style-type: none"> <li>Preparation of progress report for each Joint Audit and Standards Committee and attendance at JASC by Group Audit Manager and / or Audit Manager.</li> </ul>
Annual sign up to Code of Ethics by all internal audit staff	<ul style="list-style-type: none"> <li>Signed declaration from all internal audit staff</li> </ul>
Annual completion of declaration of business interests from by all internal audit staff	<ul style="list-style-type: none"> <li>Signed declaration from all internal audit staff</li> </ul>

### **EXTERNAL ASSESSMENTS (PSIAS ref:1310)**

External Assessments will be carried out in accordance with the requirements of the PSIAS and reported to Audit and Standards Committee as appropriate.

### **REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (PSIAS ref: 1320)**

The results of the quality assurance programme and progress against any improvement plans must be reported in the annual report.

**Internal Assessments** – outcomes of internal assessments will be reported to the Joint Audit and Standards Committee on an annual basis;

**External Assessments** – results of external assessments will be reported to the Joint Audit and Standards Committee and S151 officer at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by a written plan in response to significant findings and recommendations contained in the report.

**Follow up** – The Audit Manager will implement appropriate follow up actions to ensure that recommendations made in the reports and action plans developed are implemented in a reasonable timescale.