

Richard Rhodes

Police and Crime Commissioner for Cumbria

Carleton Hall

Penrith CA10 2AU



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Our reference: DC

Date: 27 February 2015

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 **Tuesday 10th March 2015** in **Conference Room Two**, Police Headquarters, Carleton Hall, Penrith, at **11.00 am**.

**S Edwards
Chief Executive**

Note: Members are advised that allocated car parking for the meeting is available in the Visitors Car Park to the left of the main Headquarters building.

Please note – there will be seminar for the members on Treasury Management 09.30am – 10.45am

Please note – there will be a private meeting between the members following on from the main meeting

COMMITTEE MEMBERSHIP

Mr Patrick Everingham (Chair)
Mrs Fiona Daley
Mr Andy Hampshire
Mr Jack Jones

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

To receive and approve the minutes of the committee meeting held on 08 December 2014 (copy enclosed)

5. ANNUAL WORK PROGRAMME

To agree the details of the Committee's work programme for 2015 (copy enclosed)
- *To be presented by the Commissioner's Chief Finance Officer*

6. GRANT THORNTON AUDIT PLAN

To receive from Grant Thornton UK LLP the audit plan for the year ending 31 March 2015 (copy enclosed)

7. GRANT THORNTON – JOINT AUDIT AND STANDARDS COMMITTEE UPDATE – MARCH 2015

To receive a report from Grant Thornton UK LLP on their progress in delivering on responsibilities as external auditors (copy enclosed)

8. 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 (copy enclosed) – *To be presented by the Chief Constable's Chief Finance Officer*

9. INTERNAL AUDIT – PROGRESS REPORT

To receive a report from the Management Audit Unit regarding the progress of the Internal Audit Plan (copy enclosed)

10. INTERNAL AUDIT REPORTS

To receive reports from the Management Audit Unit regarding audits undertaken (copy enclosed)

- i. Governance: Anti-Fraud and Corruption Policy (OPCC)
- ii. Risk Management (Constabulary)
- iii. Risk Management (OPCC)
- iv. Policy Development & Management (Constabulary)
- v. Police Development & Management (OPCC)
- vi. Communications Centre

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. Payroll
- ii. Governance: Anti-Fraud and Corruption Policy (Constabulary)
- iii. Custody Evaluation Review

11. INTERNAL AUDIT PLAN 2014-15

To receive and consider a report from the Management Audit Unit regarding the proposed 2014-15 Internal Audit Plan (copy enclosed)

12. QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

To receive a report from the Management Audit Unit regarding the proposed Quality Assurance & Improvement Programme (copy enclosed)

13. TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES 2015/16

To receive the Commissioner's 2015/16 Treasury Management Strategy and accompanying Treasury Management Practices (copy enclosed) - *To be presented by the Deputy Chief Finance Officer*

14. TREASURY MANAGEMENT ACTIVITIES 2014-15 – OCTOBER TO DECEMBER 2014

To receive a report on treasury management activities for October to December 2014 (copy enclosed) - *To be presented by the Deputy Chief Finance Officer*

15. TERMS OF REFERENCE

To approve the Terms of Reference of the Committee (copy enclosed) – *To be presented by the Governance & Business Services Manager*

16. RISK MANAGEMENT STRATEGY - OPCC

To receive the 2015-16 Risk Management Strategies (copy enclosed) - *To be presented by the Governance and Business Services Manager*

17. OPCC RISK MANAGEMENT MONITORING

To receive a report on OPCC risk management monitoring along with the OPCC Strategic Risk Register (copy to follow) – *To be presented by the Governance and Business Services Manager*

18. RISK MANAGEMENT UPDATE - CONSTABULARY

To receive an update on the Constabulary risk management strategy (copy enclosed) - *To be presented by the Deputy Chief Constable*



CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY

JOINT AUDIT & STANDARDS COMMITTEE

Minutes of a Meeting of the Joint Audit & Standards Committee held
on Monday 8th December 2014 in Conference Room 2, Police Headquarters, Carleton Hall,
Penrith, at 10.30 am

PRESENT

Mr Patrick Everingham (Chair)
Mrs Fiona Daley
Mr Andy Hampshire

Also present:

Audit Manager, Cumbria Shared Internal Audit Service, Cumbria County Council (Emma Toyne)
Engagement Manager, Grant Thornton (Richard McGahon)
Assistant Chief Constable (Michelle Skeer)
Constabulary Chief Finance Officer (Roger Marshall)
Commissioner's Chief Finance Officer (Ruth Hunter)
Budget and Finance Assistant (Dawn Cowperthwaite)

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

124. APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr Jack Jones, Fiona Blatcher (Grant Thornton) and Michelle Bellis (Deputy Chief Finance Officer).

125. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC

There are no items of urgent business to be considered by the Committee.

RESOLVED, that under section 100A(4) of the Local Government Act 1972, (as amended), the press and public be excluded from the meeting during consideration of the following items on the grounds that they involve the likely disclosure of exempt information as defined in the paragraph indicated in Part 1 of Schedule 12A of the Act-

Item No	Item	Paragraph No
15	Appendix 1 – Agenda Item 7	7



126. DISCLOSURE OF PERSONAL INTERESTS

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

127. MINUTES OF MEETING

The minutes of the meeting held on 22 September 2014 had been circulated with the agenda.

The Engagement Manager highlighted that in the September meeting the Chief Constable had been asked about the budget forecast for 2014-15, the question had not been fully answered in the minutes. The members asked that the Deputy Chief Constable and the Chief Constable's Chief Finance Officer (Chief Constable's CFO) provide a written update on this point to be included in the minutes of the December meeting.

Addendum

The Chief Constable responded that based on information available he anticipated that the level of underspend in 2014/15 would be lower than that reported in previous years.

RESOLVED, that, the minutes of the meeting held on 22 September 2014 be approved.
that, the Deputy Chief Constable and the Chief Constable's CFO provide the requested update for the minutes of the December meeting

128. ANNUAL REVIEW OF GOVERNANCE 2014-15

Role of the Chief Finance Officer for the PCC

The CFO for the Commissioner explained to the members that as part of the arrangements for governance within the OPCC, their role had been formally assessed against the CIPFA role. The document set out how compliance was achieved with the CIPFA CFO responsibilities. The assessment provided assurance that the OPCC is 100% compliant with the requirements.

A member commented on the choice of language used stating that it sometimes read as though a particular task was not currently undertaken but would be in the future. The CFO for the Commissioner confirmed that the wording had been used to reflect that work was currently being done and would continue to be done.

A member asked the Engagement Lead what their view of the document was. They stated that it provided good assurance that each element was being covered and that they were happy with the work that had been done. The Chair commented that they were very impressed with the document but were concerned regarding capacity issues as it highlighted what a large workload the Chief Finance Officer had. The CFO agreed that it was a large workload but that they had a very good team working with them which helped to spread the load.



Role of the Chief Finance Officer for the Chief Constable

The CFO for the Chief Constable informed the members that this document had been created in the same format as the Commissioner's document, they stated that this had been a useful exercise and had reflected the differences between the governance arrangements for each organisations.

A member congratulated the Chief Finance Officers for having been through the process of producing the document and the Chair highlighted that the comments made earlier related to both the Constabulary and the Commissioner's documents.

Commissioner's Annual Governance Statement – Development and Improvement Plan 2014/15

The CFO for the Commissioner introduced this document and advised that it was produced as an update on progress previously requested by the members. There were 3 actions that had been completed, 10 were ongoing and none had exceeded their original timescales. They asked for any questions or comments on specific actions.

CP6/1 - this action had been marked as complete but it had been stated previously that work would be ongoing on the statement of accounts and summary financial statements, should this action be relisted as ongoing? The CFO for the Commissioner stated that although a lot of work had already been done to make the accounts more readable there would be a constant drive to improve the presentation of the accounts and make them more accessible for more people. This would be part of the business as usual arrangements for continuous improvement and as such the specific action to make some stepped changes had been complete.

CP4/2 – a member thought that agreement had previously been reached in terms of providing training for members on managing risk. The CFO advised that they would speak with the Chief Executive with a view to arranging refresher training for the members.

CP5/1 – a good start had been made with regards to new policies for the OPCC, the CFO advised that this was progressing. To date, three draft policies have been created and circulated to staff for consultation with further policies to be released for consultation over the next few months. There had been some slippage so the original deadline of 31 March would likely not be met. The OPCC is currently employing the Constabulary's HR policies and will continue to do so until the new ones were ready to be embedded, this has therefore minimised any risk to the OPCC.

A member asked if they would see this report every meeting, the CFO confirmed that they could present a report every 6 months, this would provide the most value as the majority of items had annual timescales against which there would be insufficient progress to update on a quarterly basis.

Chief Constable's Annual Governance Statement – Development and Improvement Plan 2014/15



The Chief Constable's CFO presented the document and stated that work was ongoing on a significant number of the actions. Four of the items showed that timescales had been exceeded, this was due to being a little bit over ambitious on some of the original timescales.

CP1/1 – It was envisaged that work on the evaluation of the Constabulary's governance documents would be complete by the end of the financial year.

CP1/5 – Work on developing strategic resource management performance data had begun but the deadline needed to be extended to 30 September 2015 to coincide with the delivery of new ways of working and new ICT systems.

CP2/3 – there are two governance documents for the Constabulary awaiting completion. The Scheme of Delegation for the Constabulary is in final draft form and will be taken to the next Chief Officer Group (COG) meeting. The update of the Financial Rules is underway but due to a combination of work being done on the final accounts and budget preparation for 15/16, they have had to be put aside for the time being and work will continue on them shortly with the intention that they will be completed by the end of the financial year. For the time being the current Rules are fit for purpose and will continue to be adhered to.

CP6/2 – The Engagement Review started in June 2014 and is currently running alongside the NPT (Neighbourhood Policing Team) restructure project, there has been a delay to the completion of the review but it is anticipated that it will be completed by the end of the year and implemented between March and September 2015.

A member asked what was involved with the NPT restructure project and with a mind to improving public confidence would it be possible to speed up the review. The Deputy Chief Constable explained that the plan was to reduce the current 10 NPT's down to 3, the review was currently out for consultation and due to finish this month at which point it would be possible to get the review back on track.

The chair referred to action CP3/1 and asked if this action should be recorded as timescale exceeded rather than work ongoing. The Deputy Chief Constable advised that this action would most likely never be fully completed as they saw the Code of Ethics being incorporated into the performance monitoring process as an ongoing issue for all staff.

RESOLVED, that, the reports be noted.

129. ANNUAL REVIEW OF GOVERNANCE: FINANCIAL REGULATIONS

The CFO for the Commissioner presented a report regarding the review of the Financial Regulations. Although the Financial Regulations had only recently been subject to review and approval, there were a number of changes in ways of working and legislation which necessitated some amendments to the rules and responsibilities.



- References to Crime and Disorder Reduction Grants were updated to reflect the introduction of the Anti-Social Behaviour, Crime and Policing Act 2014, which provided the Commissioner with wider grant making powers
- The section on the capital programme and delegated limits was amended to support a more risk based approach to authorising capital schemes
- The section on external audit was updated to reflect the introduction of the Local Audit and Accountability Act 2014
- The section on employee payroll pensions and other expenditure was updated to reflect the effect of the Public Services Pensions Act 2013 on the management arrangements for the Police Pension Scheme
- The section on the maintenance of reserves and balances was amended to include the responsibility of the Chief Constable in liaison with their Chief Finance Officer to approve a policy on those reserves and balances designated by the Commissioner to the Chief Constable to manage

A member asked whether the new approach to capital schemes should be supported by criteria that determined whether schemes should be classed as approved or delegated. The Chief Finance Officer responded that the decision making process around the status of the schemes would be subject to the Commissioner's approval and as such the approach was to reserve the Commissioner's autonomy of decision making as there were many different reasons as to why a level of delegation may be granted. The CFO agreed that the matter of documenting the reasons for the decisions would be raised with the Commissioner.

A member asked if the new Regulations covered grant payments, the CFO for the Commissioner advised that grant payments were covered in full in the Grant Regulations. The member went on to ask if External Audit were happy with how grants were administered by the OPCC. The Engagement Manager advised that they had massively reduced the number of grants which they audit nationally. They would expect provisions to be in place to monitor what had been spent and on what i.e. is this what the application stated the money was for? The Commissioner's CFO confirmed that provisions were as reasonable as they could make them.

A member queried the responsibilities of the Head of Partnerships and Commissioning as there was no mention of compliance issues, they suggested that the first bullet point could be expanded the read;

'To maintain robust and up to date grant regulations and to ensure that grant regulations were complied with'

The Commissioner's CFO agreed that this would be added to both the Financial Regulations and the Grant Regulations

RESOLVED, that, the

- (i) report has been reviewed and noted;
- (ii) members approved the proposed changes to their Terms of Reference



- (iii) the Commissioner be advised of the Committee's advice that the financial regulations are amended to incorporate documenting the reasons for the status of capital schemes
- (iv) amendment would be made to the Financial and Grant Regulations to reflect the changes suggested above

130. HMIC REPORTS

The Deputy Chief Constable presented a report summarising the HMIC inspections over the last 12 months. There have been a number of inspections carried out and they are shown below;

- 21st Century Child Sexual Exploitation
- Domestic Abuse
- Undercover Policing
- Making Best Use of Police Time (recently renamed core policing)
- Valuing the Police 4 (known as VtP4)
- Crime Data Integrity
- Police Integrity and Corruption
- Crime

A grading of good was given for Efficiency and Effectiveness. The score for Crime Data Integrity was very positive and Cumbria scored in the middle of the most similar group (msg) with a score of 83%. This reflects that all of the measures that had been put in place have had a more positive effect than expected and the statistics are even better than they were when crime desks were employed. It is now procedure to take action against staff and officers who continue doing things wrong following training. HMIC were impressed with this.

A member asked what the score had been for legitimacy, the Deputy Chief Constable advised that no force had received a score for this aspect as it would not be graded until next year. The member went on to say that the force showed a high level of maturity for how the inspections had been approached.

A member asked how monitoring would be done going forward. The Commissioner's CFO advised that monitoring would be ongoing through both COG and the Executive Board.

RESOLVED, that, the reports be noted;

131. GRANT THORNTON ANNUAL AUDIT LETTER

The Engagement Manager presented the 2013/14 Annual Audit letter advising that it summarised the year for both the Police and Crime Commissioner and the Chief Constable. The highlights of the letter are:



- A lot of time had been spent improving the presentation of the accounts making them a lot more readable
- Unqualified opinions were given on the accounts for both the Commissioner and Chief Constable
- Unqualified opinions were given on Value for Money for both the Commissioner and Chief Constable
- The approach taken in completing the accounts shows resilience

The chair commented that the accounts being more accessible was a result of a lot of hard work by the finance team.

RESOLVED, that, the report be noted.

132. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS

The CFO for the Chief Constable presented the updated Audit Monitoring Report and stated that it was very positive. There were no new actions, 16 had been completed and one had exceeded its timescale.

Seized and Held Property had previously been an ongoing issue but was completed with the launch of the new policy on 1st October 2014. Procedures have been put in place so that on a five weekly basis all seized/held property is to be reviewed and officers to be held accountable for any items still being held.

The action relating to the Origin HR system had exceeded its timescale, mainly due to prioritisation of ICT work. A member asked if it was right that this item should be marked as timescale exceeded or whether the timescale could legitimately be moved back to March 2016. The Deputy Chief Constable agreed that this was a good suggestion and advised they would look into this.

RESOLVED, that, the report be noted.

133. INTERNAL AUDIT PROGRESS REPORT

The Audit Manager presented a progress report which summarised the outcomes of the work of internal audit for 2014/15. They were satisfied that enough audit work had been completed to provide their opinion. The key points of the report are given below:

- Work has progressed according to plan. The percentage of planned days delivered is lower than for the same period last year (34% against 40%), this is due to the increased time period in delivering the audit under new methodology



- There was a delay in starting the audit for custody arrangements due to the Constabulary's review of custody, this has now been completed. The audit is currently underway
- Planning meetings for the 2015/16 Internal Audit plan are scheduled to take place with Senior Managers in the OPCC and Constabulary throughout November and December

A member asked if there were any plans in 2015/16 to carry out a cost benefit analysis for increasing ICT capacity and if not, was this something that could be looked at. The Audit Manager advised that this was not something Internal Audit would be looking at for the time being. The Deputy Chief Constable advised that they were currently looking at bringing consultants in to review this as it has historically proved difficult to recruit ICT posts on the open market. The Commissioner's CFO advised that money had been ring-fenced for 2015/16 for this purpose and that discussions between the Commissioner and Chief Constable were ongoing.

A member referred to paragraph 2.3 and asked that once the new regulations had been published the members be made aware of any significant changes. The Audit Manager confirmed that the members would receive an update.

RESOLVED, that, the report be noted.

Note – 12.00pm - The Governance and Business Services Manager joined the meeting at this point.

134. TREASURY MANAGEMENT ACTIVITIES 2014-15 – JULY TO SEPTEMBER 2014

The CFO for the Commissioner presented to members the Treasury Management Activities for July to September 2014. They advised that this was a cyclical report and was consistent with what had been reported in the previous quarter and highlighted that there remained an overachievement in investment income. The CFO touched lightly on issues around bail in risk and asked members if it would be useful to them to have Arlingclose conduct a seminar to discuss bail in risk in more detail? The members agreed that this would be useful.

RESOLVED, that, the report be noted.

135. OPCC RISK MANAGEMENT MONITORING

The Governance and Business Services Manager presented an update report on Risk Management Monitoring for the OPCC. As advised in the September meeting, Diversity Risk had been moved out of the Strategic Risk Register into the Operational Risk Register.

Since the last meeting the new Head of Partnerships and Commissioning has started work and both the Strategic and Operational Risk Registers have been reviewed in light of this. It was felt that for the time being any risks in relation to this post were operational in nature and



therefore there has been nothing added to the strategic register, this will of course be reviewed on a quarterly basis.

Quarterly meetings between the Governance and Business Services Manager and the Director of Corporate Improvement are ongoing to review the Risk Registers of both the OPCC and the Constabulary to ascertain if there are any joint issues.

Scoping work is currently being undertaken to provide training to staff, it is anticipated that the insurers that undertook training for the Constabulary will be tasked with the training of the staff of the OPCC, this would assure consistency between the two organisations.

A member asked if the higher rate of staff turnover for the Constabulary was a concern that should be reflected within the OPCC Risk Register. The Governance and Business Services Manager advised that if this did become an issue it would be taken to the Executive Board meetings and may be included in the OPCC Risk Register as and when it was deemed necessary.

The Chair commented that in future, actions and mitigations may be improved if they included notes from the meetings between the Governance and Business Services Manager and the Director of Corporate Improvement.

RESOLVED, that, the report be noted;

136. RISK MANAGEMENT UPDATE - CONSTABULARY

The Deputy Chief Constable presented an update report on the Constabulary's risk management practices advising that the position was broadly the same as at the September meeting and that there were a number of operational risks which sit underneath the Strategic Risk Register.

The Chair asked that an amendment be made to the third recommendation on the report to remove 'hopefully' so that the recommendation read:

'Note the results of the risk management audit will be reported at the next meeting'

A member commented that it would be useful to also see the post mitigation scores.

RESOLVED, that, the register be received.
that, the 3rd recommendation be amended in line with the recommendation of the chair

Note – 12.20pm - The Governance and Business Services Manager left the meeting at this point.

137. VALUE FOR MONEY



Office of the Police and Crime Commissioner

The CFO for the Commissioner presented a report on the review of Value for Money in the OPCC. The costs for the PCC were slightly below those for the most similar group (msg) when considered on a cost per head of population but more expensive when looked at as an office. Commissioned Services is also much higher per head of population. The HMIC profile identified that Cumbria's commissioning expenditure is £5.73 higher than the equivalent per head figure for the msg average. This is primarily attributable to the higher level of expenditure on commissioning Victims and SARS services. Cumbria came out broadly similar to the msg with regards to office staffing when comparing staff structures.

The CFO advised that there was a plan to reduce the office budget to £800,000 for the next two years, to achieve the lowest cost within the most similar forces group. The Chair expressed some concerns regarding the impact of reducing the budget. The CFO advised that care had been taken to ensure the reduction was achievable and reasonable and that the budget included a level of contingency.

A member commented that having a target was a good idea and that they felt a risk based approach was appropriate. The Engagement Manager advised that Value for Money wasn't worked out only on cost and that deliverability was also considered.

The Commissioner's CFO advised on the overall position regarding reserves. Following the autumn statement there was a large risk that changes to formula funding could result in much harsher changes than previously anticipated. Despite this it was felt that the medium term financial strategy should remain unchanged at the current time as there were likely to be even more changes following the general election in May 2015. The approach to reserves ensures there is some capacity to manage this risk. Reserves are expected to reduce substantially over the next four years however their use may well change should there be an adverse settlement. This hopefully gives confidence to members that reserves levels will be reducing.

Cumbria Constabulary

The CFO for the Constabulary presented the Value for Money review for the Constabulary advising that it was based on Police Objective Analysis and was utilised as a high level indicator and care should be taken when reading. One issue is that the statistics are worked on a per head of population basis, in an county such as Cumbria this tends to show the force as being comparatively expensive as there is a relatively small population spread over a large geographic area.

Overall Cumbria is seen as providing good Value for Money although there are areas where drawing comparisons is not straightforward, for example, Cumbria employs a combined Roads Policing and Firearms department which is not mirrored in all other forces.



Cumbria appears relatively expensive in areas of fleet and ICT when compared with other forces, this can be tied to some extent to Cumbria being a large rural county and more money goes into communications and transport.

A member commented that the analysis fit well with the HMIC report giving a good level of assurance and asked if there was anything that the members should be focussing on. The Chief Constables CFO confirmed that if there was something specific for the members to focus on their attention would have been drawn to this in the report.

The Engagement Manager stated that the key point was whether you understand your costs, you may be expensive for ICT costs but do you know why? It gives confidence that Cumbria knows what is happening within the organisation.

RESOLVED, that the report and register be received.

PART 2 – ITEMS CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

138. HMIC REPORTS – APPENDIX 1

The Deputy Chief Constable presented Appendix 1 from agenda item 7 which discussed highlights from the HMIC inspections. As the reports had been discussed thoroughly in agenda item 7 they did not propose to discuss in detail unless there were any questions from the members. There were no questions.

Meeting ended at 1.15 pm

Signed: _____

Date: _____

Joint Audit and Standards Committee Proposed Annual Work Programme 2015-16

1 Introduction & Purpose of the Report

2.1 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 25th 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 Committee's within the governance framework for policing. This report translates the terms of reference into a proposed work programme. It takes into account the additional meeting form 2015-16 scheduled for May and agreed by members in September 2014. It also 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. 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. 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 June, September, December and March will receive cyclical audit reports, monitoring reports on audit activity, treasury activity reports¹ and the strategic risk registers.

¹ The Treasury Management Activities update for January to March will be reported as part of the outturn report at the meeting in May. There will be no update at the June meeting.

- The meeting in March will consider relevant annual strategies and plans for the following financial year including the internal audit plan and charter, the external audit plan, risk management strategy, and treasury management strategy.
- The meeting in May will focus on annual reports that review the governance arrangements for the previous financial year. This will include the annual report of the Committee, the review of the effectiveness of internal audit, anti-fraud and corruption arrangements and arrangements for standards. The agenda for the May meeting has been extended to also present to members the Corporate Code of Governance and Annual Governance Statements as a consequence of the earlier timetable for producing the financial statements.
- The meeting in June will consider the un-audited Annual Financial Statements in accordance with best practice and ahead of their presentation in September for publication following the audit. This follows the earlier timetable for accounts closure.
- The meeting in September will consider the Audited Statement of Accounts and the report of the External Auditor on the accounts. This will include the auditor's value for money conclusion.
- The December meeting will focus on governance arrangements with a cyclical review of the core elements of the governance framework. Members will also receive an annual report based on the HMIC value for money profiles, reviewing value for money within the Constabulary and OPCC.
- Ad-hoc HMIC/Inspection and other reports appropriate to the Committee's terms will be included on the agenda subsequent to their publication.
- In June and September the programme provides for the Committee to conduct independent meetings with the External and Internal Auditors.

3 Recommendations

3.1 Members are recommended to:

- a) Consider the proposed annual work programme as a basis for fulfilling the terms of reference and assurance responsibilities of the Committee
- b) Approve the work programme subject to any proposed changes

Joint Audit and Standards Committee: Annual Work Programme Assurance Format

Terms of Reference: Governance, risk and control	Meeting	Work Programme Assurance Activity
Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances. Underlined governance documents are scheduled for review in 2015.	December May (Code of Corporate Governance)	ANNUAL REVIEW OF GOVERNANCE: To review the COPCC and Constabulary arrangements for governance; cyclical review over a three years covering: <ul style="list-style-type: none"> ▪ <u>Code of Corporate Governance (2015) (annual review)</u> ▪ <u>Role of the Chief Finance Officer (2015) (annual review)</u> ▪ Scheme of Delegation (2016) ▪ Scheme of Consent (n/a) ▪ Financial Regulations: bi-annual review (2016) ▪ <u>Procurement Regulations: bi-annual review (2015)</u> ▪ Arrangements for Anti-Fraud and Corruption /whistleblowing (2017) ▪ <u>Arrangements for Integrity including Codes of Conduct, Complaints and Integrity protocols (2015)</u>
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 (draft) September (final statements prior to approval and publication)	ANNUAL GOVERNANCE STATEMENT <ul style="list-style-type: none"> ▪ Report of the Internal Auditor: Annual Governance Statement: To consider a report from the Internal Auditor reviewing the Annual Governance Statement for the financial year and to the date of this meeting ▪ Effectiveness of Governance Arrangements: 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 ▪ Code of Corporate Governance: To consider the PCC/CC Code of Corporate Governance ▪ Annual Governance Statement: To consider the PCC/CC Annual Governance Statement for the financial year and to the date of this meeting ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE: To receive an update on progress against the development and improvement plan within the annual governance statement.
Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of	Every meeting excluding May	INTERNAL AUDIT REPORT: 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</i>

these arrangements	September December/Ad-hoc	<p><i>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></p> <p>ANNUAL GOVERNANCE REPORT: To receive from the external auditors the Annual Governance Report incorporating the External Auditor's Value for Money Conclusion.</p> <p>HMIC REPORTS: To receive an annual report on the HMIC Value for Money Profile and arrangements for securing value for money & HMIC value for Money inspection reports.</p>
Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and Constabulary	March September	<p>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.</p> <p>FRAMEWORK OF ASSURANCE: STATEMENT OF ACCOUNTS: To receive a report from the PCCCFO/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.</p>
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 Every meeting excluding May May	<p>RISK MANAGEMENT STRATEGY: To provide the annual review of the COPCC and Constabulary Risk Management Strategies.</p> <p>STRATEGIC RISK REGISTER: To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy.</p> <p>RISK MANAGEMENT MONITORING: 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.</p>
Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions	Every meeting excluding May	<p>INTERNAL AUDIT REPORT: To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee.</p> <p>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND</p>

		ACTION PLANS: 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	December – cyclically when updated May	ARRANGEMENTS FOR ANTI-FRAUD AND CORRUPTION: To receive the COPCC and Constabulary strategy, policy and fraud response plan. ANTI-FRAUD AND CORRUPTION ACTIVITIES: To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption.

Terms of Reference: Internal Audit	Meeting	Work Programme Assurance Activity
Annually review the internal audit charter and resources	March	INTERNAL AUDIT CHARTER: 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	PROPOSED INTERNAL AUDIT PLAN: 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	May Quarterly June	EFFECTIVENESS OF INTERNAL AUDIT: To receive a report from the PCC Chief Finance Officer in respect of the effectiveness of internal audit. INTERNAL AUDIT PERFORMANCE: 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> PRIVATE INTERNAL AUDIT MEETING: 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 Every meeting excluding May	INTERNAL AUDIT –ANNUAL REPORT: To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion. INTERNAL AUDIT – PROGRES REPORT: 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	INTERNAL AUDIT REPORTS: 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	EFFECTIVENESS OF INTERNAL AUDIT: To consider a report of the Commissioner's Chief Finance Officer reviewing the effectiveness of Internal Audit.

Terms of Reference: External Audit	Meeting	Work Programme Assurance Activity
Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money	March May	EXTERNAL AUDIT PLAN: To receive from the external auditors the Annual External Audit Plan EXTERNAL AUDIT FEES: 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	December/Ad-hoc	ANNUAL AUDIT LETTER: To receive from the External Auditors the Annual Audit Letter and reports JOINT AUDIT AND STANDARDS COMMITTEE UPDATE: 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	Every meeting excluding May (where appropriate)	ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION: 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	September	PRIVATE EXTERNAL AUDIT MEETING: Confidential meeting of Committee members only and the external auditors

Terms of Reference: Financial Reporting	Meeting	Work Programme Assurance Activity
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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	June	ASSURANCE FRAMEWORK: STATEMENT OF ACCOUNTS: To receive a report from the PCCCFO/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.
	June/September	ANNUAL STATEMENT OF ACCOUNTS: To receive the unaudited/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	September	AUDIT FINDINGS REPORT: 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.

Terms of Reference: Accountability Arrangements	Meeting	Work Programme Assurance Activity
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 excluding May (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 excluding May (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	ANNUAL REPORT OF THE AUDIT AND STANDARDS COMMITTEE: To receive a report reviewing the activities of the Committee as a contribution to the effectiveness of arrangements for governance

Terms of Reference: Treasury Management	Meeting	Work Programme Assurance Activity
Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory	March	TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES: To review the annual Treasury Management Strategy incorporating the policy on

Review the Treasury risk profile and adequacy of treasury risk management processes		investment and borrowing activity and treasury management practices.
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 June Annually	TREASURY MANAGEMENT ACTIVITIES: To receive for information reports on Treasury Management Activity/Outturn. TREASURY MANAGEMENT ADVISORS: To receive briefings/training from the Commissioner's Treasury Management advisors.
Review assurances on Treasury Management	Every meeting excluding May (where applicable)	INTERNAL AUDIT REPORT: To receive reports from Internal Audit Unit in respect of specific audits conducted since the last meeting of the Committee

Terms of Reference: Standards Activity	Meeting	Work Programme Assurance Activity
Monitoring the operation and effectiveness of the PCC's Code of Conduct	May	MONITORING AND EFFECTIVENESS OF THE CODE OF CONDUCT: To receive an annual report from the Chief Executive with regard to the operation and effectiveness of the Code of Conduct
Monitoring the operation and effectiveness of the PCC's/ Officer Protocol	May	MONITORING AND EFFECTIVENESS OF THE PCC/OFFICER PROTOCOL: To receive an annual report from the Chief Executive with regard to the operation and effectiveness of the PCC/Officer Protocol
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 & Standards Proposed Annual Work Programme 2015/16

10 March 2015	6 May 2015	23 June 2015	22 September 2015	8 December 2015
<p>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.</p> <p>EXTERNAL AUDIT PLAN: To receive from the external auditors the Annual External Audit Plan.</p> <p>JOINT AUDIT AND STANDARDS COMMITTEE UPDATE: To receive from the external auditors an update report in respect of progress on the external audit plan</p> <p>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. (DCFO)</p> <p>TREASURY MANAGEMENT ACTIVITIES: To receive for information reports on Treasury Management Activity (DCFO)</p> <p>PROPOSED INTERNAL AUDIT PLAN/ INTERNAL AUDIT CHARTER: To receive a report from the Internal Auditors on the proposed</p>	<p>PRIVATE INTERNAL AUDIT MEETING: Confidential meeting of Committee members only and the Internal Auditors.</p> <p>EXTERNAL AUDIT FEES: To receive from the external auditors the proposal in respect of audit fees.</p> <p>RISK MANAGEMENT MONITORING: 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 or GM)</p> <p>ANTI-FRAUD AND CORRUPTION ACTIVITIES: To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption. (CE or GM)</p> <p>MONITORING AND EFFECTIVENESS OF THE PCC/OFFICER PROTOCOL AND THE CODE OF CONDUCT: To receive an annual report from the Chief Executive with regard to the operation and effectiveness of the PCC/Officer Protocol and Code of Conduct (CE or GM)</p> <p>INTERNAL AUDIT –ANNUAL</p>	<p>ASSURANCE FRAMEWORK STATEMENT OF ACCOUNTS: To receive a report from the PCCCFO/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. (PCCCFO or CE)</p> <p>ANNUAL STATEMENT OF ACCOUNTS: 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 (PCCCFO & CCCFO)</p> <p>INTERNAL AUDIT – PROGRES REPORT: To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.</p> <p>INTERNAL AUDIT REPORT: To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee</p> <p>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</p>	<p>PRIVATE EXTERNAL AUDIT MEETING: Confidential meeting of Committee members only and the external auditors.</p> <p>AUDIT FINDINGS REPORT: 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.</p> <p>ANNUAL STATEMENT OF ACCOUNTS: 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 (PCCCFO & CCCFO)</p> <p>INTERNAL AUDIT – PROGRES REPORT: To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.</p> <p>INTERNAL AUDIT REPORT: To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee</p> <p>MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION</p>	<p>ANNUAL AUDIT LETTER: To receive from the External Auditors the Annual Audit Letter and reports.</p> <p>ANNUAL REVIEW OF GOVERNANCE: To review the COPCC and Constabulary arrangements for governance; cyclical review over a three years covering:</p> <ul style="list-style-type: none"> Code of Corporate Governance Role of the Chief Finance Officer Scheme of Delegation Scheme of Consent Financial Regulations Procurement Regulations Arrangements for Anti-Fraud and Corruption Arrangements for Integrity including Codes of Conduct, Complaints and Integrity protocols (PCCCFO, GM? & CCCFO) <p>ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE: To receive an update on progress against the development and improvement plan within the annual governance statement.</p> <p>HMIC REPORTS: To receive an annual report on the HMIC Value for Money Profile and</p>

<p>Internal Audit Annual Plan and any proposed revisions. To receive a copy of the internal audit charter from the Internal Auditors.</p> <p>INTERNAL AUDIT – PROGRES REPORT: To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.</p> <p>INTERNAL AUDIT REPORT: To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee</p> <p>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. (CCCFO)</p> <p>RISK MANAGEMENT STRATEGY: To provide the annual review of the COPCC and Constabulary Risk Management Strategies. (CE or GM)</p> <p>STRATEGIC RISK REGISTER: To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)</p>	<p>REPORT: To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion.</p> <p>EFFECTIVENESS OF INTERNAL AUDIT: To receive a report from the PCC Chief Finance Officer in respect of the effectiveness of internal audit. (PCCCFO)</p> <p>ANNUAL REPORT OF THE AUDIT AND STANDARDS COMMITTEE: To receive a report reviewing the activities of the Committee as a contribution to the effectiveness of arrangements for governance.</p> <p>TREASURY MANAGEMENT ACTIVITY/OUTTURN: To receive for information reports on Treasury Management Activity for Jan – Mar and Treasury Management Outturn for the financial year. (DCFO)</p> <p>ANNUAL GOVERNANCE STATEMENT</p> <ul style="list-style-type: none"> ▪ Report of the Internal Auditor: Annual Governance Statement: 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 & CCCFO) ▪ Effectiveness of Governance Arrangements: To receive a report from the PCCCFO/PCC Chief Executive on the effectiveness of the PCC's arrangements for Governance/ 	<p>recommendations. (CCCFO)</p> <p>STRATEGIC RISK REGISTER: To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)</p>	<p>PLANS: To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CCCFO)</p> <p>TREASURY MANAGEMENT ACTIVITIES: To receive for information reports on Treasury Management Activity (DCFO)</p> <p>STRATEGIC RISK REGISTER: To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)</p>	<p>arrangements for securing value for money & HMIC value for Money inspection reports. (CE or GM)</p> <p>INTERNAL AUDIT – PROGRES REPORT: To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.</p> <p>INTERNAL AUDIT REPORT: To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee</p> <p>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. (CCCFO)</p> <p>TREASURY MANAGEMENT ACTIVITIES: To receive for information reports on Treasury Management Activity (DCFO)</p> <p>STRATEGIC RISK REGISTER: To consider the COPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)</p>
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	<p>To receive a report from the CCCFO on the effectiveness of the CC's arrangements for governance</p> <ul style="list-style-type: none"> ■ Code of Corporate Governance: To consider the PCC/CC Code of Corporate Governance ■ Annual Governance Statement: To consider the PCC/CC Annual Governance Statement for the financial year and to the date of this meeting 			
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Joint Audit Plan for the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary

Year ended 31 March 2015

February 2015

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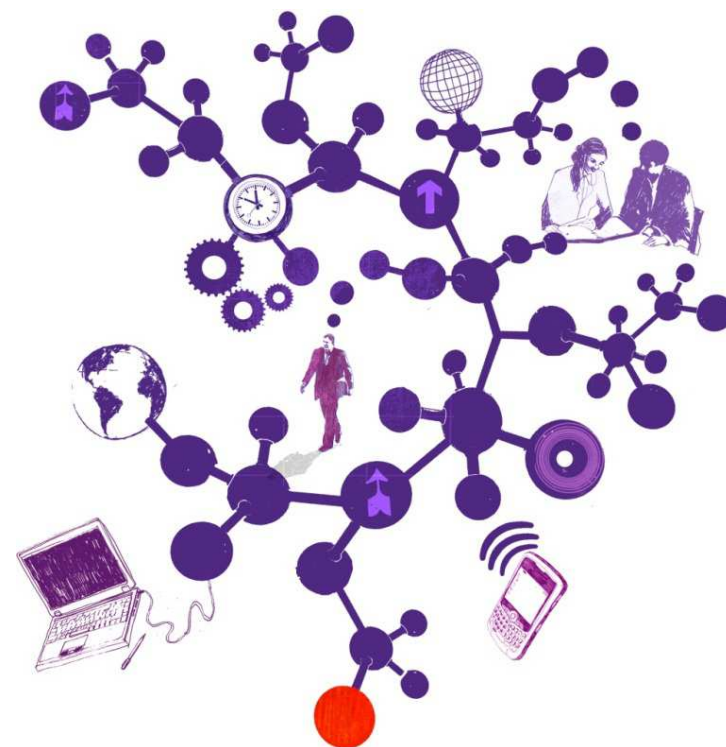
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Police and Crime Commissioner (PCC) and the Chief Constable are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Delivering Major Change

- An ambitious transformation programme is already underway. The Constabulary's 'Change Strategy 2013-15' is its strategic approach to delivering spending reductions.
- The PCC receives updates on progress of delivery of the strategy to assure himself that the programme remains on track.

2. Ensuring Financial Resilience

- The PCC and CC will need to continue to deliver their planned savings. Savings of £8.1 million will be required between 2015/16 and 2017/18 of which £7.9 million has been identified but are still to be delivered. Savings of £1.8 million are planned to be delivered in 2015/16.

3. Workforce strategy

- The Constabulary has had a history of underspending on Police Officer Pay & Allowances and Police Community Support Officers (PCSOs).
- There has been an emphasis on improving workforce planning and a workforce strategy for police officers and PCSOs has been developed covering the period of the MTFP. The workforce strategy is regularly scrutinised at both strategic and tactical levels.

4. Commissioning, Strategic Partnerships and Collaboration

- From October 2014 the PCC is responsible for commissioning victim support services in the area
- There is an expectation from government that police bodies should work collaboratively to improve services and achieve efficiencies

5. Stage 2 Transfer

- The Stage 2 Transfer came into effect on 1 April 2014 and formalised the legal allocation of staff, assets and liabilities between the PCC and the CC.

Our response

- As part of our value for money conclusion we will review progress on delivering the 'Change Strategy 2013-15' and how this is reported.

- We will review the PCC and CC arrangements for setting and monitoring the savings plans and its progress on achieving the savings.

- As part of our value for money conclusion we will review progress on delivering the workforce strategy and how this has impacted on 2014/15 revenue spending.

- We will review the PCC's arrangements for commissioning victim support services as part of our value for money conclusion work
- We will consider your plans for collaboration and partnership working as part of our value for money conclusion work

- We will consider the impact of the transfer on your arrangements to secure value for money
- We will discuss with you the potential impact on your financial statements for 2014/15 and future accounting periods

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and other relevant guidance.

Developments and other requirements

1. Reducing the overall cost of policing

- The Home Office released details of the 2015/16 police funding formula in December 2014
- Fiscal austerity is expected to continue until at least 2019, regardless of the outcome of the next general election
- The Home Office budget has already been cut by almost 25% over the five years to 2015/16 (*Institute for Fiscal Studies*)

2. Financial reporting

- Changes to the CIPFA Code of Practice for 2014/15

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Other requirements

- The PCC is required to submit a Whole of Government Accounts (WGA) consolidation pack which summarises the group accounts

Our response

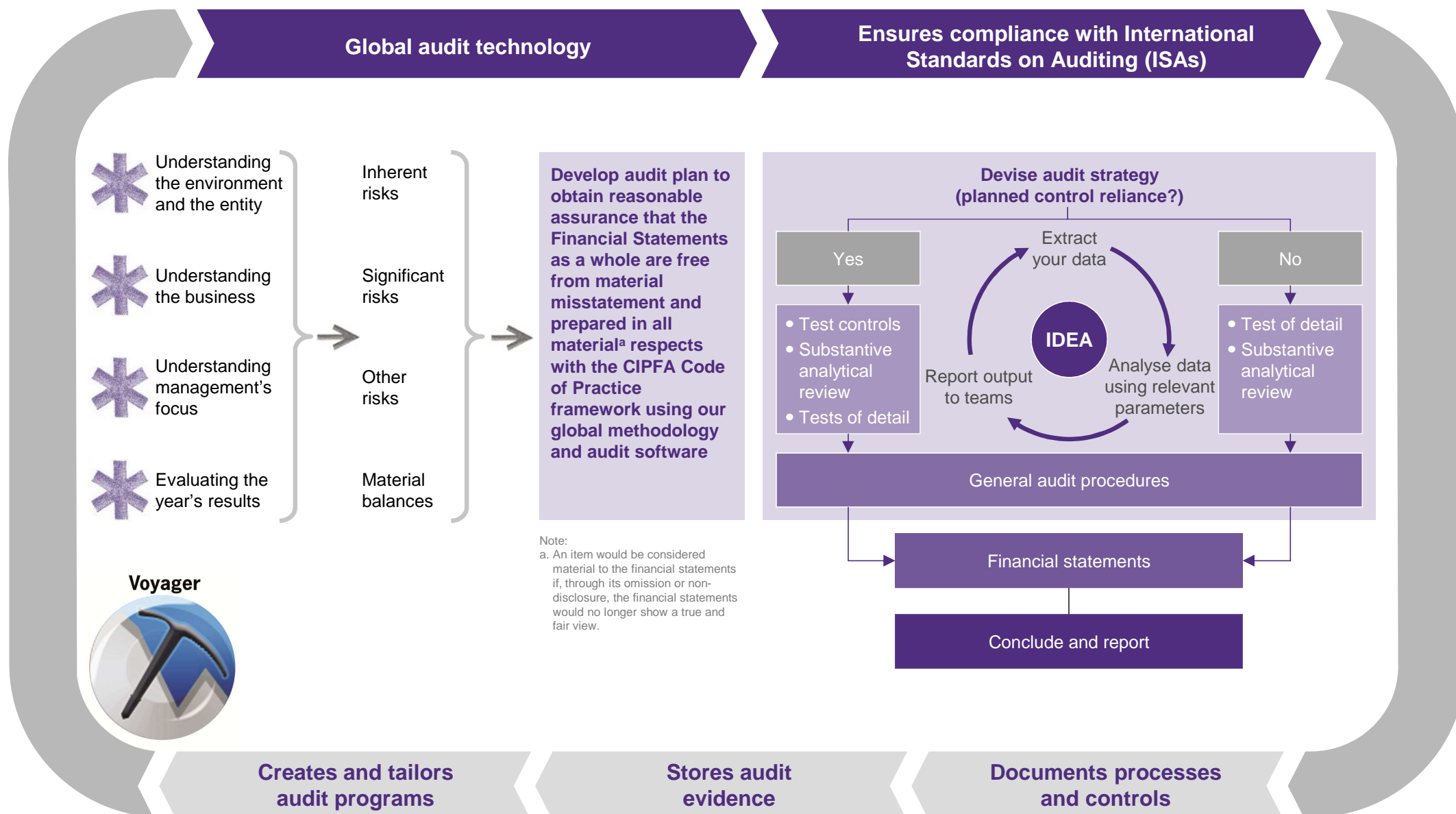
- We will discuss the impact of the settlement on the medium term financial strategy and police and crime plan through our regular meetings with you
- We will review your performance against the 2014/15 budget, including consideration of performance against savings targets included in the Medium Term Financial Plan (MTFP) and police and crime plan
- We will undertake a review of financial resilience as part of our value for money conclusion

- We will work with you to determine the impact of any changes to the Code on your financial statement
- Our audit opinion will provide assurance that the financial statements have been prepared in accordance with the applicable financial reporting framework

- We will review your arrangements for the compilation and publication of Annual Governance Statements for both the PCC and the Chief Constable
- We will review both AGSs and the explanatory forewords to consider whether they are consistent with our knowledge and with your accounts

- We will carry out work on the PCC and Group's WGA consolidation pack on behalf of the National Audit Office

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Relevant to PCC / CC / both?	Description of risk	Work planned to address the risk
The revenue cycle includes fraudulent transactions	Both	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumed risk for the PCC because:</p> <ul style="list-style-type: none"> revenue is principally grant allocations from central government and council tax income from the taxpayers <p>We have rebutted this presumed risk for the Chief Constable because:</p> <ul style="list-style-type: none"> revenue is an inter group transfer from the PCC revenue does not involve cash transactions <p>We therefore do not consider this to be a significant risk for either the PCC or the Chief Constable</p>
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Updating our understanding of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> Review and challenge of significant accounting estimates, judgments and decisions made by management Detailed testing of high risk journal entries Review accounting treatment for significant, unusual transactions

Other risks identified

'The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures' (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Cycle	Relevant to PCC / CC / both?	Description of risk	Work completed to date	Further work planned
Operating expenses	Both	Creditors related to core activities understated or not recorded in the correct period	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the operating expenses transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces 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 Substantive testing of operating expenses
Employee remuneration	Both	Employee remuneration and benefit obligations and expenses understated	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the employee remuneration transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces Analysis of trends and relationships to identify any anomalous areas for further investigation Testing to confirm the completeness of payroll transactions and appropriate cut-off
Pensions Benefits Payable	Both	Benefits improperly computed / claims liability understated	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the pension benefit payments transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces 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. Substantive testing of monthly pension benefit payments made in the year Substantive testing of lump sum pension benefit payments made in the year

Group audit scope and risk assessment

ISA 600 requires that as group auditors we 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.

For accounting purposes, the Chief Constable is considered a subsidiary of the PCC and the Chief Constable's financial results are consolidated into the PCC group accounts. We will comply with the requirements of ISA 600 in carrying out our audit of the Chief Constable's financial statements.

Component	Significant?	Level of response required under ISA 600	Planned audit approach
PCC (parent)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP

Value for money

Value for money

The Code requires us to issue a conclusion on whether the PCC and the Chief Constable have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

We are currently undertaking a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work to address any issues raised within the risk assessment.

The results of our VfM audit work and the key messages arising will be reported in our Joint Audit Findings report to the PCC and Chief Constable and in the Annual Audit Letter.

Table one: Value for money criteria

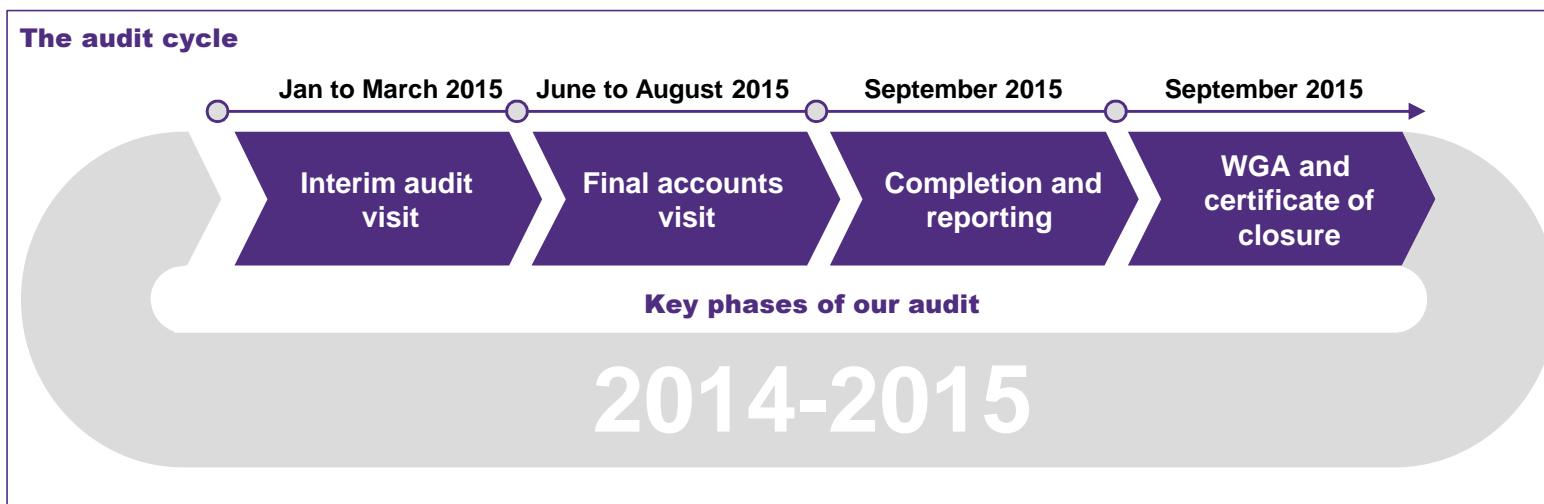
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

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:

	Relevant to PCC / Chief Constable / Both?	Work performed and findings to date	Conclusion
Internal audit	Both	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to the PCC's or the Chief Constable's attention.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the PCC and the Chief Constable and that internal audit work contributes to an effective internal control environment at both entities.
Walkthrough testing	Both	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements of the PCC and the Chief Constable. Our work has not identified any issues which we wish to bring to the PCC's or the CC's attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Both	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This will include a follow up of the issues raised in the previous year.	This work will be undertaken in April / May 2015. We will report any significant findings to you in our Audit Findings Report.

Key dates



Date	Activity
On-going	Planning
January to March 2015	Interim site visit
10 March 2015	Presentation of audit plan to the Joint Audit and Standards Committee
10 March 2015	Present audit plan to PCC and the Chief Constable as Those Charged with Governance
June to August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with the PCC's and the Chief Constable's Chief Finance Officers
3 September 2015	Report audit findings to the Joint Audit and Standards Committee. The PCC and Chief Constable will be present at this meeting, as those charged with governance, prior to their approval of the accounts.
September 2015	Assurance work on Whole of Government Accounts (WGA) return (on behalf of the National Audit Office)
By 30 September 2015	Issue certificate of closure of the audit, including consideration of any significant subsequent events that would impact on our financial statements opinion or value for money conclusion

Fees and independence

Statutory audit fees

	Planned fee
Police and Crime Commissioner Audit	£40,450
Chief Constable Audit	£20,000
Total fees for the group (excluding VAT)	£60,450

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 PCC and the Chief Constable and their activities, have not changed significantly
- The PCC and the Chief Constable will make available management and accounting staff to help us locate information and to provide explanations.

Fees for other services

Service	Fees billed to date
Tax Advisory Services	£6,500

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. These relate to the provision of a tax helpline at an annual cost of £2,500 and an additional piece of work to assist with the updating of the notice of dispensation for the PCC and CC at a cost of £4,000. Any additional work or changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

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 therefore we confirm that we are independent and are able to express an objective opinion on the financial statements. The tax work is undertaken by a separate team, should not impact materially on any items of account and is purely advisory. We do not therefore consider that this work impacts on our independence.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, 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 Audit Plan, outlines our audit strategy and plan to deliver the audits, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audits, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audits on a timely basis, either informally or via a report to the PCC and the Chief Constable.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the PCC's and the Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers the PCC's and the Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and of the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
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 issue 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		✓



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Joint Audit and Standards Committee Update for The Cumbria Police & Crime Commissioner and The Chief Constable for Cumbria Constabulary

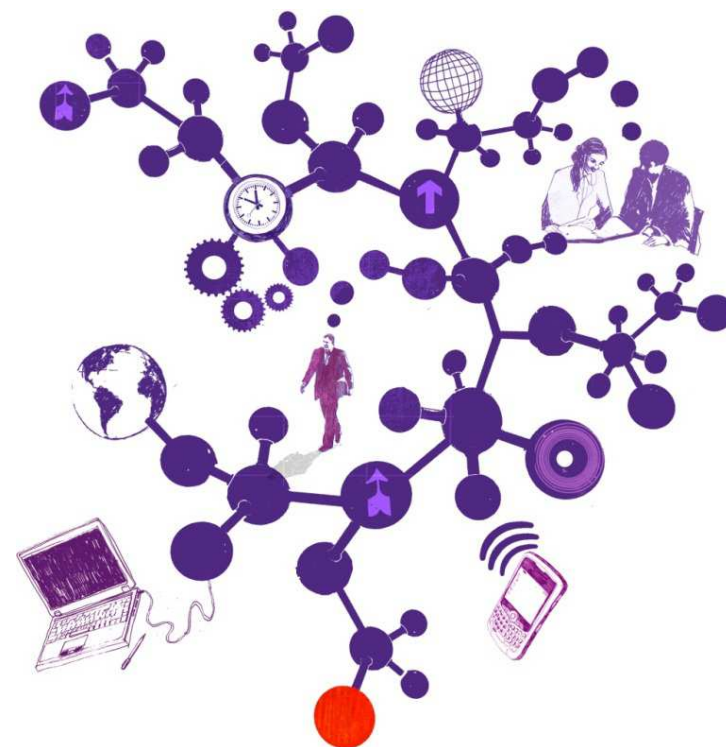
Year ended 31 March 2015

February 2015

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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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Introduction

This paper provides the Joint Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Joint Audit and Standards Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Developing picture, our first national report, which evaluates how the sector is responding to the Police Reform and Social Responsibility Act 2011 (PRSRA).

There are also a number of reports aimed at Local Government, which you may also find to be of interest:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at February 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Police and Crime Commissioner and the Chief Constable setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner (PCC) and Group and the Chief Constable's 2014-15 financial statements.	10 March 2015	Yes	The Audit Plan includes the results of the interim visit to date. The interim visit work is scheduled to be completed by mid March 2015. The Plan will be presented to the 10 March 2015 Joint Audit and Standards Committee. This report provides an update on current progress and emerging issues and gives the Committee an understanding of the audit process at Grant Thornton.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the PCC's and Chief Constable's control environment including Information Technology (IT) • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January to March 2015	Partial	Work on the interim audit is scheduled to be completed by mid March 2015. We will discuss with Officers the key financial systems for which we need to gain an updated understanding for 2014/15. <ul style="list-style-type: none"> • We will meet with senior finance staff and internal audit to assess the internal control environment. • An Information Technology risk assessment will be undertaken by a Grant Thornton IT specialist. • We will complete our initial risk assessments for our Value for Money Conclusion.
2014-15 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Police and Crime Commissioner (PCC) and Group and the Chief Constable's 2014-15 accounts • proposed Value for Money conclusion. 	Late June to mid August 2015	No	We will have discussions with the Senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit. A joint CIPFA / FAN and Grant Thornton workshop on local government based final accounts issues was provided in February 2015.

Progress at February 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none">• Securing Financial Resilience<ul style="list-style-type: none">- Key indicators of financial performance- Strategic financial planning- Financial governance- Financial control• Securing Economy, Efficiency and Effectiveness<ul style="list-style-type: none">- Prioritising Resources- Improving Efficiency and Productivity	By end of August 2015	No	<p>There are no significant changes in approach to the VFM conclusion work from that carried out last year.</p> <p>In February 2015 we will provide senior officers with a listing of the evidence we will require to complete our work on the VFM Conclusion.</p>

Emerging issues and developments

Frontline Consulting / Grant Thornton

The future of policing accountability: Learning the lessons

'Flawed' was the main word used at the third national conference for police and crime panels to describe the present police governance structure and system. With the general election fast approaching, the conference gave chairs, members and officers of police and crime panels (PCPs) the opportunity to express their views, share experiences and discuss lessons learnt from activities to date.

Areas that were covered included:

- the value and legitimacy of PCPs
- options for the future organisation of force areas
- regional collaboration
- the importance of PCPs joining the debate ahead of the general election in May 2015.

The key areas of debate were introduced by three key note speakers:

- Paddy Tipping, Police and Crime Commissioner for Nottinghamshire, discussing what he considered to be a good relationship with his PCP
- Paul Grady, Grant Thornton's Head of Police and Director of Audit, talking about governance and accountability in the police sector
- Tim Young, Frontline Consulting Associates' lead on policing and crime, who focused on a national perspective of PCP activities and achievements to date.

Drawing together the three emerging challenges for PCPs: workload demands; a lack of powers and insufficient resources, the report summarising the main discussions at the conference, sponsored by Grant Thornton, explores how to achieve good practice for panels and ideas for developing policing accountability.

Emerging issues and developments

HMIC

Value for money profiles

Her Majesty's Inspectorate of Constabulary (HMIC) published the latest value for money profiles on 31 October 2014.

The value for money (VFM) profiles provide comparative data on a wide range of policing activities. For instance: does your force spend more or less than other similar forces? Does it receive fewer or more 999 calls? How does the crime rate differ from other force areas?

It is important to note that the profiles highlight what these differences are, but not why they exist. There are many reasons why (for instance) a force might spend more on a particular function than other forces, or pay its officers more.

The VFM profiles are:

- designed for use by force management and police and crime commissioners (PCCs) and local policing bodies as well as HMIC;
- wide ranging, covering a large amount of information in a single, easy to use, document;
- presented in a single format to allow you to focus attention on the main differences which require explanation and action to improve;
- timely - being published during October, when key budget decisions are being taken;
- not league tables or targets – they are designed to give information, not judgments.

On the final page of the summary document, there is a list of all of the categories from the full VFM profile in which the force's spend is an outlier. The force's figures are compared to the spend of other forces. To be flagged as an outlier, the spend must be one of the highest or lowest 10 percent of any force, and the effect of the difference must be at least £1 per head of population.

Issue to consider:

- Have the Chief Finance Officers reviewed the constabulary's report? If so, is the reason for any significant variances understood?

Emerging issues and developments

HMIC

Strategic policing requirement

The Strategic Policing Requirement (SPR) was issued in July 2012. It sets out the Home Secretary's view of the national threats that the police must prepare for and the appropriate national policing capabilities that are required to counter those threats. The SPR respects the operational independence of the police service, advising what, in strategic terms, it needs to achieve, but not how it should achieve it.

The particular threats specified in Part A of the SPR, and referred to as the national threats in this report, are:

- terrorism;
- civil emergencies;
- organised crime;
- public order threats; and
- large-scale cyber incidents.

Part B specifies the policing response that is required nationally, in conjunction with other national agencies, to counter these threats.

Between September and November 2013, HMIC inspected 18 forces as part of its three-year programme to examine the arrangements that forces have in place to meet the strategic policing requirement. In addition data and documentary evidence was provided by all 43 police forces in England and Wales in July 2013. The reports on these inspections were issued in November 2014. No recommendations are made in the reports.

HMIC has stated that the breadth of requirements that are set out in the strategic policing requirement are outside the scope of a single inspection. Therefore, it has been necessary for HMIC to plan a series of inspections over three years so that the police response to all the national threats can be examined individually and in-depth over that period.

Issue to consider:

Cumbria was not one of the 18 forces inspected but has the Constabulary's senior officers reviewed the overall report to assess whether there are any areas where they need to take action to improve the constabulary's capacity and capability?

Emerging issues and developments

HMIC

Crime recording

In its 2013/14 inspection programme, approved by the Home Secretary under section 54 of the Police Act 1996, HMIC committed to carry out an inspection into the way the 43 police forces in England and Wales record crime data. The inspection was carried out between December 2013 and August 2014.

The inspection focussed on three broad themes: leadership and governance; systems and processes; and the people and skills involved.

Overall, the report '*Crime-recording: making the victim count*' concluded that "victims of crime are being let down. The police are failing to record a large proportion of the crimes reported to them. Over 800,000 crimes reported to the police have gone unrecorded each year. This represents an under-recording of 19 percent. The problem is greatest for victims of violence against the person and sexual offences, where the under-recording rates are 33 percent and 26 percent respectively. This failure to record such a significant proportion of reported crime is wholly unacceptable".

The report also noted that "even when crimes are correctly recorded, too many are removed or cancelled as recorded crimes for no good reason. Of the 3,246 decisions to cancel, or no-crime, 664 were incorrect. These included over 200 rapes and more than 250 crimes of violence against the person".

The report also notes that where the magnitude of the crime-recording shortcomings is recognised, rapid improvements can be made. To address these shortcomings, the police service can either "shore up the existing processes which are often flawed, and possibly review some of the more serious errors which attract the most public concern or it can design a better process that will make a long-lasting and more permanent difference".

Issue to consider:

Has the Chief Constable reviewed HMIC's report and developed an action plan to address any shortcomings identified for the constabulary?

Emerging issues and developments

National Audit Office (NAO)

Financial sustainability

The NAO has recently started a review of financial sustainability in the police service and is due to report in June 2015. The report will provide a national examination of whether the Home Office, together with other police stakeholders, effectively manage the risks to value for money of changes to police funding.

The key issues to be examined relate to:

- the Home Office's understanding of the implications of its police funding decisions and whether the its actions support police forces' financial management and capacity effectively;
- how well the Home Office monitors, analyses and utilises the work of local accountability systems to support sustainable financial management and secure value for money;
- whether the Home Office has clear definitions of what force financial and service failure would look like and a clear intervention strategy if either happened.
- whether the Home Office, as well as individual police forces, fully understand how funding reductions, have affected service delivery across forces.

Various methods will be used to undertake the study including visits to a number of police forces.

The fieldwork for the study will take place between October 2014 and February 2015.

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

The PCC's CFO and Chief Constable's CFO have started the process of bringing the closedown process forward and are looking to produce the 2014/15 accounts in early June 2015.

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parties and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Issue to consider:

- Have the CFOs assessed the potential impact of these standards for the PCC (and Group) financial statements?

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December. (Please note that this includes Police and Crime Commissioners and Chief Constables.)

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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Monitoring Key Audit Recommendations

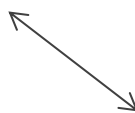
Introduction





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	
Open actions b/fwd from last report	1
New actions since last report	13
Total actions this report	14
Actions completed since last report	4
Open actions c/fwd to next report	10



Key to Actions	Summary of Total Actions by Status
 Completed	4
 Ongoing	1
 timescale exceeded	3
 not yet due	6
Total	14

Key to Grade:***Cumbria Shared Internal Audit Service***

The shared internal audit service have recently changed the format of their reports and the grading applied to audit recommendations. The table below provides a key to both the new and old grading.

New Grade/Priority		Previous Grade/Priority	
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control.	1	Major recommendation that indicates a fundamental control weakness that must be addressed
Medium	Some risk exposure identified from a weakness in the system of internal control.	2	Recommendation to be addressed in order to establish a satisfactory level of internal control
Advisory	Minor risk exposure/suggested improvement to enhance the system of control.	3	Minor recommendation made to improve the system under review

Members have requested that this summary of recommendations report provides an update on actions where the recommendation was graded High/Medium (previously 1 or 2) only. Minor Advisory (previously grade 3) recommendations are monitored by individual managers.

External Audit – Grant Thornton

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

Audit Report	Report Date	To JASC	Report of:	Recommendation	Grade	Person Responsible	Agreed / Intended Action / Progress Update	Target Date	Status
Police Absence Management	15/07/2014	21/07/2014	Shared Internal Audit Service	R5.2 b. Consideration should be given to including the following enhancements within the scope of planned developments to the Origin HR system:- - Greater automation -Comprehensive record keeping -Improved reporting -Enhancing the interface with the duty management systems (DMS)	Medium	Head of Human Resources Andrew Taylor	Discussions are currently underway regarding prioritising ICT resources. Priority is being given to operational policing systems although developments to the Origin HR system will commence during 2014/15 . Sept 14 - This is now subject to the presentation of a report to October 2014 COG highlighting the future direction/potential for Origin balanced against ICT resources and operational requirements. Nov 14 - Report included in latest Quarterly Report to Chief Officer. Work may continue to scope improvements with Capita but further progress is still subject to ICT prioritisation and is unlikely before 2015/16. Feb 15 - A further comprehensive report was considered by the Business Board in January 2015. The board agreed to maintain only routine Origin upgrades, due to limited ICT Resources and greater priorities. This will prevent significant developments to support HR management including sickness absence reporting until at least 2016/17.	Aug-14	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R1 The updated Anti-Fraud and Corruption Policy should be formally approved so that it can be published within the Constabulary's Policy Library and fully implemented in accordance with the Constabulary's Policy and Procedure Guidelines.	Medium	Director of Professional Standards Paul Duhig	The policy was approved at the Constabulary Business Board on 15/12/14. The approved policy has now been published on the Constabulary e-library imminently. February 2015 - The Anti-fraud and Corruption procedure is provided in the policy and procedures section of the intranet site.	Dec-14	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R2 A job description for the post of Director of Professional Standards Department is required to document the duties, responsibilities and reporting relationships of this post.	Medium	Director of Professional Standards Paul Duhig	The Director of Professional Standards will progress the matter with HR and the Deputy Chief Constable. February 2015 - Initial discussions with regard to developing a specific job description for the Director of PSD role have taken place but will need to be consistent with those of other senior police officer roles.	Jan-15	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R3 Provisions should be made in the gift and gratuity reporting system for an appropriate level of supervisory review and challenge of gift and gratuity submissions. This supervisory activity should be properly evidenced. There is a need to agree the scope and timetable for this piece of development work with the ICT team.	Medium	DS Anti-Corruption Unit Jason McKenna	We will confirm a scope and deadline for the development work with ICT. February 2015 - An IT workflow is now in place to ensure all gift and gratuities submitted by officers are viewed by their supervisors on submission.	Jan-15	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R4 Monitoring activity in respect of gifts and gratuities should be reported to the Professional Standards Department management team for review and action on a regular basis.	Medium	Director of Professional Standards Paul Duhig	The PSD analyst will bring gifts and gratuities details to the attention of the Director of Professional Standards as part of the monthly Tactical Task and Co-ordination Group (TT&CG) meeting so that they can be compared against intelligence data. February 2015 - This is now discussed as part of the monthly meetings.	Jan-15	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R5 A mechanism for periodic cross checking contract / procurement records with gifts & hospitality registers, records of business interests, details of secondary occupations and intelligence data should be fully documented with responsibilities clearly defined. Outcomes should be reported to the Professional Standards Department management team for review and action. Monitoring arrangements should be detailed in the Anti-Fraud and Corruption procedures for transparency and clarity.	Medium	Director of Professional Standards Paul Duhig	The Procurement Manager will report conflicts of interest to PSD in early January 2015. Thereafter for key procurement decisions made PSD will cross check against appropriate department records. February 2015 - Discussions are still to take place between PSD and Procurement. Procedures will be developed for cross referencing to annual statutory accounts as at 31 March 2015 and will be put in place on an ongoing basis thereafter.	Jan-15	
Audit of Governance - Anti Fraud & Corruption Policy	14/01/2015	04/02/2015	Shared Internal Audit Service	R6 Anti-Fraud and Corruption procedures should include a requirement to promptly report incidents as they arise to the Chief Finance Officers of both the Constabulary and the OPCC so that they can discharge their respective responsibilities effectively.	Medium	DS Anti-Corruption Unit Jason McKenna	As an interim measure PSD supervisors will refer any investigations or intelligence linked to fraud to the Director of Professional Standards who will decide whether the matter should be referred to the Constabulary and OPCC Chief Finance Officers. This process will be written into the policy by the end of February 2015. February 2015 - The CFOs are now regularly updated on emerging issues, procedures have been updated to document this requirement and communicated to relevant staff within the PSD department.	Feb-15	

Audit Report	Report Date	To JASC	Report of:	Recommendation	Grade	Person Responsible	Agreed / Intended Action / Progress Update	Target Date	Status
Audit of Communications Centre	11/02/2015	11/02/2015	Shared Internal Audit Service	R1 The review of the format of the plan should be used as a means to develop it into a single point for identifying actions required, and monitoring and reporting of progress. Including, making more explicit: <ul style="list-style-type: none"> • The source of the action, and to whom progress should be reported; • Who is responsible for the action, who should be taking the action and any target dates for implementation • Prioritisation of the actions; • Steps to address any slippage • Details of when and by whom it was last updated. 	Medium	Chief Inspector Communications	The Action Plan will be reviewed monthly and subject to TP command oversight.	May-15	☀
Audit of Communications Centre	11/02/2015	11/02/2015	Shared Internal Audit Service	R2 All staff should receive regular, diarised one-to-ones.	Medium	Chief Inspector Communications	Staff 1:1's to be recommended immediately. February 2015 - Staff 1:1 meetings are being arranged and conducted within the different shifts.	May-15	☀
Policy Development & Management	16/02/2015	16/02/2015	Shared Internal Audit Service	R1 Policy developments should be properly identified and documented in a plan, which has been given appropriate approval and shared with the team. There should be regular review and reporting of progress against the plan with management actions to deal with issues in performance to ensure accountability.	Medium	Head of Partnerships and Commissioning Vivian Stafford	Policy identification: <ul style="list-style-type: none"> • We will list our existing policies with assigned owners and a process for review. • Policies to be developed separately from the Constabulary's will be identified together with an owner. A plan will be put in place for monitoring and action	Aug-15	☀
OPCC Policy Development & Management	16/02/2015	16/02/2015	Shared Internal Audit Service	R2 Policies should be dated or version controlled and only the latest versions should be available for staff to follow. There should be clarity within the document library regarding the application of constabulary policies and these policies should be readily available.	Medium	Governance and Business Services Manager Joanne Head	We will review the current content of the document library and remove any out of date versions. We will ensure appropriate links are in place to the Constabulary's policies where these are being relied on.	Aug-15	☀
OPCC Audit of Risk Management	16/02/2015	16/02/2015	Shared Internal Audit Service	R1 Strategic risks should clearly focus on the delivery of strategic objectives as outlined in the Police and Crime Plan and other core strategies.	Medium	Governance and Business Services Manager Joanne Head	We look to review our risk register following the outcome of the audit and comments from the Joint Audit and Standards Committee.	Jun-15	☀
OPCC Audit of Risk Management	16/02/2015	16/02/2015	Shared Internal Audit Service	R2 COPCC and Constabulary risk reporting formats for Joint Audit & Standards Committee should be aligned.	Medium	Governance and Business Services Manager Joanne Head	We will consider the risk reporting format as part of our review of the risk register and following advice from the Joint Audit and Standards Committee.	Jun-15	☀
Audit of Custody Review Evaluation	16/02/2015	17/02/2015	Shared Internal Audit Service	R1 The evaluation record sheet should contain robust identification of further efficiencies and further actions required.	Medium	Change programme Manager	Following discussion at the close out meeting for this audit, it became apparent that the issues identified were about terminology and clarity of that terminology rather than process issues. It is not always possible to identify exact efficiencies as further work may need to be done e.g. for the performance framework example quoted, the framework may be used to inform any future improvements and potential efficiencies, but the framework itself would not yield any and these efficiencies / or actions taken as a result of the performance framework for the area in question could not be identified at this stage. The column headings and the instructions for use that are part of the template used for review evaluations will be changed to ensure clarity for the user and the reader.	Apr-15	☀

JOINT POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE	Paper No.
Meeting date: 10 March 2015	
From: Audit Manager (Cumbria Shared Internal Audit Service)	

INTERNAL AUDIT: PROGRESS REPORT TO 19 FEBRUARY 2015

1.0 EXECUTIVE SUMMARY

1.1 *This report provides a summary of the work of Internal Audit for the period to 19 February 2015.*

1.2 *Key points are:*

- *Work is progressing according to plan. The percentage of planned days delivered is slightly higher than the same period last year (81% compared to 78% in 2013/14). The number of audits delivered to final stage in the period is 76%.*
- *All of the risk based audits completed have resulted in at least reasonable assurance for the year to date.*
- *All internal audits completed in the period have been well received by management with completed action plans in place.*
- *The draft audit plan for 2015/16 has been prepared following consultation with Senior Managers in the OPCC and Constabulary. The proposed draft plan is presented to this meeting.*

2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS, AND LINKS TO COUNCIL PLAN

- 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 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 2011 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 Audit and Standards Committee enables emerging issues to be identified during the year.*

3.0 RECOMMENDATION

- 3.1 *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 2011 require that the PCC and Chief Constable maintain an adequate and effective system of internal audit of their accounting records and systems of internal control conducted in accordance with the proper internal audit practices. '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 1st April 2013.
- 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 2014/15 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 first ten months of 2014/15. It reports progress on the delivery of the 2014/15 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 19 February 2015

The table below shows the number of internal audit reviews completed, in progress and still to be started for the 2014/15 audit plan. Further detail on this is included at Appendix 2.

Audit plan year	Audit Status	Number of reviews
2014/15	<u>Audits completed:</u> Risk based audits Governance work Financial Systems	<u>13</u> 10 2 1

	<u>Audits in progress:</u>	<u>3</u>
	Risk based audits	2
	Financial systems	1
	<u>Audits to be started</u>	<u>1</u>
	Risk based audits	0
	Financial systems	1
	Contingency	0

Outcomes from Final Audit Reports to 19 February

- 3.8 Nine pieces of risk based audit work were completed in the period; including one financial system review conducted using the risk based approach. Levels of assurance are high with all audits providing at least reasonable assurance.
- 3.9 We consider that the management response to internal audit reports during the year to date has been positive, with agreed action plans in place for all audit recommendations.

Draft Reports Issued to 19 February

- 3.10 There are no reports currently in draft.

Work in progress at 19 February

- 3.11 The audits of business continuity planning for both the Constabulary and OPCC are underway as is the audit of budget management.
- 3.12 The audit of debtors will be scheduled prior to the year end and the outcome of this audit will be reported to the next meeting of the JASC.

Emma Toyne
Audit Manager
February 2015

APPENDICES

Appendix 1: Final reports issued to 19 February 2015

Appendix 2: Progress on all risk based audits from the 2014/15 plan

Appendix 3: Internal audit performance measures to 31 January 2015

Contact: Emma Toyne, 01228 226254, emma.toyne@cumbria.gov.uk

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
Annual report 13/14	Presented to Audit and Standards Committee 23 June 2014.	N/A	Complete
Annual Governance Statement 13/14 - PCC	Presented to Audit and Standards Committee 23 June 2014.	N/A	Complete
Annual Governance Statement 13/14 - Constabulary	Presented to Audit and Standards Committee 23 June 2014.	N/A	Complete
Absence Management – Constabulary	<p>The purpose of the audit was to provide assurance over the arrangements in place within the Constabulary to manage attendance.</p> <p>The audit identified the level of commitment to reducing employee absence as a strength.</p> <p>Three recommendations were made in respect of:</p> <ul style="list-style-type: none"> • Documenting procedures for the collation and reporting of quarterly absence data (<i>medium priority</i>) • Further developing the Origin HR system (<i>medium priority</i>) and; • Completing the review of the absence management policy by the revised target date (<i>advisory issue</i>). 	Reasonable Assurance	Report circulated to Audit and Standards Committee 22/09/14
Project Management Arrangements – New Barrow Police Station	<p>The purpose of the audit was to provide assurance over the project management arrangements for the new police station at Barrow.</p> <p>The audit identified several areas of good practice including:</p> <ul style="list-style-type: none"> • Sound governance arrangements; • A suitably qualified and skilled project team; 	Substantial assurance	Report presented to Audit and Standards Committee 22/09/14

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
	<ul style="list-style-type: none"> • Input from internal specialists as required (eg finance and legal) • Budget monitoring and financial processes • Systems for recording and reporting risks. <p>No recommendations were made.</p>		
Payroll	<p>The purpose of the audit was to provide assurance over the arrangements in place for payroll data, deductions, procedures and security.</p> <p>The audit identified several areas of good practice including:</p> <ul style="list-style-type: none"> • Clearly stated targets which are consistently achieved; • Regular monitoring and reporting of payroll performance; • Good level of training • Robust access controls • Management review of input and reconciliation prior to payment; • Strict adherence to timetables. <p>No recommendations were made.</p>	Substantial Assurance	Report circulated to Audit and Standards Committee
Governance – Anti Fraud & Corruption policy (Constabulary)	<p>The purpose of the audit was to provide assurance over the arrangements in place for the anti-fraud and corruption policy.</p> <p>A number of strengths were identified during the audit including:</p> <ul style="list-style-type: none"> • Quarterly reporting to the OPCC on anti-fraud and corruption activity; • Clear promotion and publication of anti-fraud and corruption activity and procedures through an on-going programme of staff awareness raising and training presentations; • Promotion of high standards of integrity, conduct and ethical behaviour within the organisation. <p>Six medium priority recommendations were made regarding:</p>	Reasonable Assurance	Report circulated to Audit and Standards Committee

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
	<ul style="list-style-type: none"> • Timely approval, publication and implementation of the anti-fraud and corruption policy; • No job description for the Director of Professional Standards • The need for supervisory review and challenge of gifts and gratuity submissions; • Reporting monitoring activity for gifts and gratuities to Professional Standards Department management team for review and action on a regular basis. • Cross checking of contract / procurement records with other records • The need to promptly report incidents as they arise to the Chief Finance Officers of both organisations. 		
Governance – Anti Fraud & Corruption policy (OPCC)	<p>The purpose of the audit was to provide assurance over the arrangements in place for the anti-fraud and corruption policy.</p> <p>A number of areas of good practice were identified including:</p> <ul style="list-style-type: none"> • Comprehensive and up to date arrangements for anti-fraud and corruption • Strong accountability through reporting on anti-fraud and corruption activity • Clarity of roles and responsibilities and the duty of all staff in respect of their own conduct • Monitoring adherence to the policy and procedures. <p>No recommendations were made.</p>	Substantial Assurance	Report presented to Audit and Standards Committee 10/03/15
Risk Management (Constabulary)	<p>The purpose of the audit was to provide assurance over the constabulary's risk management arrangements.</p> <p>The review confirmed that:</p> <ul style="list-style-type: none"> • there is an approved, current risk management policy, clearly stating 	Substantial Assurance	Report presented to Audit and Standards Committee

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
	<p>risk management responsibilities, which has been communicated to staff.</p> <ul style="list-style-type: none"> Quarterly quality assurance processes are in place to monitor compliance with the policy and there is challenge of both strategic and operational risks at an appropriate level. The constabulary have taken on board the findings of an independent review of their risk management arrangements. <p>No recommendations were made.</p>		10/03/15
Risk Management (OPCC)	<p>The purpose of the audit was to provide assurance over the arrangements in place for risk management.</p> <p>A number of areas of good practice were identified during the audit including:</p> <ul style="list-style-type: none"> An approved, up to date risk management strategy is in place and has been clearly communicated to staff; Clear roles and responsibilities for risk management Arrangements are in place to oversee the Constabulary's risk management arrangements. <p>Four recommendations were made in respect of:</p> <ul style="list-style-type: none"> Clearly focussing strategic risks on the delivery of strategic objectives; (<i>medium priority</i>) Aligning OPCC and Constabulary risk reporting formats (<i>advisory issue</i>) Provision of a risk management training course (<i>advisory issue</i>) Providing guidance to staff on risk identification (<i>medium priority</i>). 	Reasonable Assurance	Report presented to Audit and Standards Committee 10/03/15

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
Policy development and management (Constabulary)	<p>The purpose of the audit was to provide assurance over the Constabulary's arrangements for policy development and management.</p> <p>Points of good practice identified during the audit included:</p> <ul style="list-style-type: none"> • Clear allocation of responsibility / accountability to Strategic Development Unit; • Development of a programme of policy review; • Use of Authorised Professional Practice published by the College of Policing to avoid duplication of effort and ensure best practice; • Withdrawal of out of date policies from the policy library. <p>No recommendations were made.</p>	Substantial Assurance	Report presented to Audit and Standards Committee 10/03/15
Policy development and management (OPCC)	<p>The purpose of the audit was to provide assurance over the OPCC's arrangements for policy development and management.</p> <p>Areas of good practice identified include:</p> <ul style="list-style-type: none"> • Clear allocation of responsibility / accountability to the recently appointed Head of Partnerships and Commissioning; • A defined process for consulting on and approving policies; • Arrangements for communication of and training on new policies. <p>Two medium priority recommendations were made in respect of :</p> <ul style="list-style-type: none"> • A policy development plan • Maintenance of the document library. 	Reasonable Assurance	Report presented to Audit and Standards Committee 10/03/15
Communications Centre	<p>The purpose of the audit was to provide assurance over the Constabulary's arrangements in place within the Communications Centre.</p> <p>Areas of good practice identified included:</p> <ul style="list-style-type: none"> • A comprehensive induction and training programme for staff 	Reasonable Assurance	Report presented to Audit and Standards Committee

Appendix 1 – Final reports issued to 19 February 2015

Assignments	Main Points	Assessment	Current Status
	<ul style="list-style-type: none"> Clearly defined roles and responsibilities A standard framework for call logging. <p>Two medium priority recommendations were made in respect of:</p> <ul style="list-style-type: none"> The Communications Centre Action Plan Regular 1:1's between staff and their managers. 		10/03/15
Custody Evaluation Review	<p>The purpose of the audit was to provide assurance over the arrangements for the review of custody evaluation.</p> <p>Areas of good practice identified during the audit included:</p> <ul style="list-style-type: none"> A clear documented process through the use of the 'review evaluation toolkit' <p>One medium priority recommendation was made in respect of completion of the evaluation record sheet.</p>	Reasonable Assurance	Report circulated to Audit and Standards Committee

In addition to the above, a member of the Internal Audit team attended the Police Audit Group Conference in July. The event was a useful networking opportunity and identified some areas for consideration in future internal audit plans. Particular emphasis at the Conference was placed on ethics and governance issues.

The draft internal audit plan for 2015/16 has been prepared in accordance with the Shared Service audit planning methodology. The draft plan will be presented to this meeting.

Appendix 2 – Progress on 2014/15 Audit Plan

PCC / Constabulary Review	Audit	Stage
Constabulary	Communications Centre	Complete
Constabulary	Project Management arrangements for new Barrow Police Station	Complete
Constabulary	Custody Arrangements	Complete
Cross cutting review (2 separate reports)	Business Continuity Planning	Fieldwork underway. Draft reports due to be issued by 24/04/15
Cross cutting review (2 separate reports)	Governance	Complete
Constabulary	Absence Management	Complete
Cross cutting review (2 separate reports)	Policy Development and Management	Complete
Cross cutting review (2 separate reports)	Risk Management	Complete
Constabulary	Annual Governance Statement 13/14	Complete
PCC	Annual Governance Statement 13/14	Complete
Cross cutting review	Payroll (financial system review)	Complete
Cross cutting review	Budget management (financial system review)	Fieldwork underway. Draft report due to be issued by 30/04/15
Cross cutting review	Debtors (financial system review)	Not yet started
PCC / Constabulary	Contingency	N/A

Appendix 3 – Internal audit performance measures

Measure	Description	Benchmark	Actual	Explanations for variances / remedial action required
Completion of audit plan	% of audits completed to final report	95% (annual target)	76%	Finalisation of audit reports is not expected to be evenly profiled across the year. This figure is comparable to the position at the end of February 2014.
	Number of planned days delivered	180	147	The plan is progressing as expected.
Audit scopes agreed	Scoping meeting to be held for every risk based audit and client notification issued prior to commencement of fieldwork.	100%	100%	
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 corporate director comments within five working days of management response of 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%	

Appendix 3 – Internal audit performance measures

Measure	Description	Benchmark	Actual	Explanations for variances / remedial action required
Quality assurance checks completed	% of QA checks completed	100%	100%	
Customer Feedback	% of customer satisfaction survey scoring the service as good.	80%	67%	<p>Three feedback forms have been returned out of ten issued. Two of the three customer satisfaction surveys scored the service as good.</p> <p>Where feedback has indicated there is room for improving the service, this has been taken on board and fed into our process.</p>
Chargeable time	% of available auditor time directly chargeable to audit jobs.	80%	79%	<p>Whilst not quite at target, this indicator has shown an increase from Q2 as a result of greater focus on chargeable time across the team.</p>



Audit of Governance: Anti-Fraud & Corruption Policy

Draft Report Issued: 11th December 2014

Final Report Issued: 12th January 2015

Audit Resources

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Audit Report Distribution

For Action:	Joanne Head (Governance & Business Services Manager)
For Information:	Ruth Hunter (Chief Finance Officer / Deputy Chief Executive) Stuart Edwards (Chief Executive, PCC)
Audit Committee	The Audit Committee, which is due to be held on 10 th March 2015, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Office of the Police and Crime Commissioner (COPCC) Governance. The focus of this audit was the Anti-Fraud and Corruption Policy. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Audit Plan.
- 1.2. Anti-Fraud and Corruption arrangements are important to the organisation because they are 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.
- 1.3. 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 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 Governance and Business Services manager and the agreed scope areas for consideration were identified as follows:
 - Roles and Responsibilities
 - Implementation
 - Monitoring
 - Review
- 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 in respect of anti- fraud and corruption provide **Substantial** 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 no audit recommendations arising from this review.

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-
3. Information - reliability and integrity of financial and operational information	-	-	-
4. Security - safeguarding of assets	-	-	-

5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	0	0	0

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

- Comprehensive and up to date COPCC Arrangements for Anti-Fraud and Corruption which incorporates the strategy, policy, procedures and plan. These are approved by the Police and Crime Commissioner and published on the COPCC website.
- Quarterly reporting by the Constabulary to the OPCC Executive Board on anti-fraud and corruption activity to enable the Police and Crime Commissioner to hold the Chief Constable to account. Although there is no arrangement for reporting of serious incidents in the interim period.
- Clear definitions of fraud, corruption, theft and irregularity within the Anti-Fraud and Corruption Strategy.
- Clarity over roles and responsibilities and the duty of all staff in respect of their own conduct, the conduct of others and to protect the organisation from fraud, corruption, theft and irregularity. The Anti-Fraud and Corruption Policy is published on the OPCC network and internet site, new staff received a briefing paper on integrity procedures during induction and staff meetings are used to remind the team of the policy and various requirements on a regular basis.
- Arrangements for whistleblowing / confidential reporting are published with clear contact information.
- Regular monitoring of adherence to the Anti-Fraud and Corruption policy and procedures, at an appropriate level. There is also a new requirement in the refreshed 2014/15 Anti-Fraud and Corruption Policy for the Deputy Monitoring Officer to undertake annual dip sampling between the gifts, gratuities and hospitality registers, the supplier contact register and contracting activity undertaken within the COPCC.
- Commitment to developing and improving the governance framework through the establishment of an independent panel to scrutinise decision making and ethical working across Cumbria Constabulary and the OPCC.
- Clear promotion of high standards of integrity and ethical behaviour within the organisation. A joint Ethics & Integrity Panel is currently being established with the Constabulary to 'scrutinise decision making and ethical working within Cumbria Constabulary and the Office of the Police and Crime Commissioner in order to achieve such assurances and provide openness to scrutiny and accountability to the public'.

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:*

- No medium priority issues were identified

4.4.3. *Advisory issues:*

- No advisory issues were identified

Comment from the Chief Executive

I am very pleased with the findings of this audit during which no issues for improvement were identified, which provides a substantial level of assurance and recognises the many strengths and examples of good practice in place regarding procedures for anti-fraud and corruption activity within the OPCC.

The lack of any recommendations is a testament to the excellent efforts of all involved in this important area of activity.

I would like to thank both the staff of the Cumbria Shared Internal Audit Service and OPCC colleagues for their work in undertaking this audit.

Audit Assurance Opinions

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

	Definition:	Rating Reason
Substantial	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 & management of risks.</p>
Reasonable	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>
Partial	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>
Limited / None	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:
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

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 Risk Management

Draft Report Issued: 26th January 2015

Final Report Issued: 16th February 2015

Audit Resources

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Audit Report Distribution

For Action:	Julie Johnstone (Strategic Development Manager)
For Information:	Jane Sauntson (Director of Corporate Support) Roger Marshall (Chief Finance Officer: Constabulary)
Audit Committee	The Audit Committee, which is due to be held on 10 th March 2015, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1 Background

- 1.1 This report summarises the findings from the audit of Cumbria Constabulary Risk Management. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Audit Plan.
- 1.2 Risk Management arrangements are important to the organisation because they are 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 and operational policing objectives.
- 1.3 The Chief Constable is responsible for putting proper governance arrangements in place within the Constabulary. The Police and Crime Commissioner has a statutory responsibility for holding the Chief Constable to account and this includes ensuring that adequate and effective risk management arrangements are in place within the Constabulary.

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 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 Director of Corporate Support and the agreed scope areas for consideration were identified as follows:
 - Appropriate governance arrangements are in place for risk management, including roles and responsibilities and reporting arrangements.
 - There is a defined risk management policy, strategy and procedures and these have been communicated appropriately.
 - Risk registers are in place for all key services, partnerships and projects and are subject to regular review and reporting.
 - Risks identified cover the full range of strategic and operational risks and have been properly assessed and controls identified and assigned.
 - Arrangements are in place to ensure that risk management is embedded in the organisation.

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 in respect of risk management provide **Substantial** 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 no audit recommendations arising from this review.
- 4.3 **Strengths:** The following areas of good practice were identified during the course of the audit:
- An approved, up to date Risk Management Policy is in place that has been clearly communicated to staff.
 - Clarity regarding risk management responsibilities and access to risk documentation.
 - Quarterly reporting by the Constabulary to the Joint Audit and Standards Committee on strategic risks.
 - Clear definition of risk within the Risk Management Policy.
 - Effective challenge of relevant strategic and operational risks by Corporate Improvement, senior management and chief officers.
 - Regular measure of compliance with the Risk Management Policy through the established, quarterly, quality assurance process.
 - Clear and comprehensive guidance regarding risk assessment.
 - The findings of an independent review of the constabulary's risk management arrangements by Gallagher Bassett have fed into the recent Risk Management Policy revision.

4.4 **Areas for development:** No areas for development were identified during this review.

Comment from the Director of Corporate Improvement

I am very pleased that the Constabulary's risk management arrangements have received an audit assurance of substantial and that the Constabulary's good practice and continuous improvement in this area has been recognised.

Appendix A

Audit Assurance Opinions

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

	Definition:	Rating Reason
Substantial	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 & management of risks.</p>
Reasonable	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>
Partial	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>
Limited / None	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:
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

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 Office of the Police & Crime Commissioner



Audit of Risk Management

Draft Report Issued: 26th January 2015

Final Report Issued: 16th February 2015

Audit Resources

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Audit Report Distribution

For Action:	Joanne Head (Governance and Business Services Manager)
For Information:	Stuart Edwards (Chief Executive)
Audit Committee	The Audit Committee, which is due to be held on 10 th March 2015, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Office of the Police and Crime Commissioner (COPCC) Risk Management. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Audit Plan.
- 1.2. Risk Management arrangements are important to the organisation because they are 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 and operational policing objectives.
- 1.3. The Police and Crime Commissioner has a statutory responsibility for holding the Chief Constable to account and this includes ensuring that adequate and effective risk management arrangements are in place 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 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 Governance and Business Services Manager and the agreed scope areas for consideration were identified as follows:
 - Appropriate governance arrangements are in place for risk management, including roles and responsibilities and reporting arrangements.
 - There is a defined risk management policy, strategy and procedures and these have been communicated appropriately.
 - Risk registers are in place for all key services, partnerships and projects and are subject to regular review and reporting.
 - Risks identified cover the full range of strategic and operational risks and have been properly assessed and controls identified and assigned.
 - Arrangements are in place to ensure that risk management is embedded in the organisation.
- 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 in respect of risk management 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 4 audit recommendations arising from this review.

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved	-	1	2
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	1	-
3. Information - reliability and integrity of financial and operational information	-	-	-
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	0	2	2

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

- An approved, up to date Risk Management Strategy is in place that has been clearly communicated to staff.
- Clarity regarding risk management responsibilities and access to risk documentation.
- Quarterly reporting to the Joint Audit and Standards Committee on strategic risks.
- Clear definitions of risk within the Risk Management Strategy.
- Arrangements now established to regularly oversee Constabulary risk management arrangements.
- Regular scrutiny and challenge of relevant risks by senior management.
- Established quarterly quality assurance process in place with input from the Chief Executive.
- Clear and comprehensive guidance regarding risk assessment.

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:*

- Strategic risk register is not clearly focused on key strategic objectives.
- Guidance has not been given to staff regarding risk identification, including the provision of standard risk headings for consideration.

4.4.3. *Advisory issues:*

- Inconsistent risk reporting formats to Joint Audit and Standards Committee.
- Limited progress has been made organising risk management training for staff.

Comment from the Chief Executive

It is reassuring that a considerable number of strengths have been identified with regard to this crucial area of OPCC activity. Of the issues raised two will be addressed before the end of the financial year and the remaining two within the next four months. The OPCC takes very seriously its risk management responsibilities.

5. Matters Arising / Agreed Action Plan

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

● **Medium**

Audit finding	Management response
<p>(a) Strategic Risk Register</p> <p>There are currently 14 risks detailed in the COPCC strategic risk register, in contrast to 5 risks in the Constabulary's strategic risk register. Many of the COPCC's strategic risks relate to the core functions of the organisation and could therefore be considered operational rather than strategic, as per the risk definitions outlined in the Risk Management Strategy.</p> <p>There is a need for strategic risks to better focus on the delivery of strategic objectives as outlined in the Police and Crime Plan and other core strategies. Too many strategic risks can dilute risk management's effectiveness.</p> <p>Recommendation 1: Strategic risks should clearly focus on the delivery of strategic objectives as outlined in the Police and Crime Plan and other core strategies.</p>	<p>Agreed management action: We look to review our risk register following the outcome of the audit and comments from the Joint Audit and Standards Committee.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Risks to achieving strategic objectives are not managed effectively. • Strategic objectives are not achieved. 	<p>Responsible manager for implementing: Governance and Business Services Manager</p> <p>Date to be implemented: 06/2015</p>

● Advisory

Audit finding	Management response
<p>(b) Strategic Risk Reporting</p> <p>The strategic risk registers are presented to Joint Audit and Standards Committee in different formats and levels of detail. Some alignment of COPCC and Constabulary reporting formats would provide more consistent scrutiny and monitoring of strategic risk management.</p>	<p>Agreed management action:</p> <p>We will consider the risk reporting format as part of our review of the risk register and following advice from the Joint Audit and Standards Committee.</p>
<p>Recommendation 2:</p> <p>COPCC and Constabulary risk reporting formats for Joint Audit & Standards Committee should be aligned.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Risks to achieving strategic objectives are not monitored effectively. 	<p>Responsible manager for implementing:</p> <p>Governance and Business Services Manager</p> <p>Date to be implemented:</p> <p>06/2015</p>

● Advisory

Audit finding	Management response
<p>(c) Training</p> <p>The OPCC has been trying for some time to organise a tailored risk management training session for all staff. Training is needed to ensure knowledge and skills in relation to risk management are up to date and to provide an opportunity to discuss and agree a risk appetite for the OPCC.</p> <p>Contact has been made with a number of potential training providers and whilst every effort has been made to organise this, limited progress has been made.</p>	<p>Agreed management action:</p> <p>CIPFA, who have provided risk management training to other OPCC's and understand our business, will provide risk management training on 23 March 2015.</p>
<p>Recommendation 3:</p> <p>A suitable risk management training course should be agreed and scheduled.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Risks not identified for management due to limited knowledge and understanding amongst staff. • Failure to achieve business objectives. 	<p>Responsible manager for implementing:</p> <p>Governance and Business Services Manager</p> <p>Date to be implemented:</p> <p>03/2015</p>

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

● **Medium**

Audit finding	Management response
<p>(d) Risk Identification</p> <p>Guidance on how to identify risk has not been produced and communicated to all staff. There is guidance in the Risk Management Strategy regarding risk assessment, scoring, mitigation and management but guidance on risk identification is limited.</p> <p>Guidance on risk identification would typically include recognised risk headings for consideration to ensure all key risks are identified e.g. political, economic, social, technological, environmental, legal / regulatory, health & safety and organisation / management / human factors (PESTELO).</p> <p>The Risk Management Strategy states that all employees have a responsibility for ensuring that risks that may impact on the delivery of their business objectives are recorded and actively managed.</p> <p>Recommendation 4:</p> <p>Guidance should be given to staff regarding risk identification so they can effectively meet their responsibilities as set out in the Risk Management Strategy and make a positive contribution to the risk management process within their area of work. This guidance should include recognised risk headings for consideration to ensure all key risks are identified.</p>	<p>Agreed management action:</p> <p>We will include guidance as part of the training course on 23 March 2015.</p> <p>Our strategy is in the process of being refreshed and risk identification guidance will be considered as part of the refreshed strategy.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Risks not identified for management due to lack of detailed guidance. • Failure to achieve business objectives. 	<p>Responsible manager for implementing: Governance and Business Services Manager</p> <p>Date to be implemented: 04/2015</p>

Appendix A

Audit Assurance Opinions

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

	Definition:	Rating Reason
Substantial	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 & management of risks.</p>
Reasonable	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>
Partial	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>
Limited / None	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:		
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

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 Policy Development & Management

Draft Report Issued: 11 December 2014

Final Report Issued: 16 February 2015

Audit Resources

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Audit Report Distribution

For Action:	Jane Sauntson (Director of Corporate Improvement)
For Information:	Julie Johnstone (Strategic Development Manager) Stuart Edwards (Chief Executive, PCC)
Audit Committee	The Audit Committee, which is due to be held on 10 th March 2015, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Constabulary's arrangements for Policy Development and Management. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Internal Audit Plan.
- 1.2. Policy development and management is important to the organisation because it contributes to efficient and successful service delivery against the Policing Plan. Policies contribute to the achievement of strategic objectives by ensuring compliance with laws and regulations, promoting operational efficiency and managing organisational risk by clearly specifying what is expected of all officers and staff.
- 1.3. In July 2013 Internal Audit reviewed policies and procedures relating to a specific incident at Appleby Fair involving a school bus. The review highlighted that policy development arrangements for the Constabulary could be improved. In June 2014 Her Majesty's Inspectorate of Constabulary (HMIC) also expressed concerns about the number of outdated policies on the constabulary intranet and internet. Internal reviews by Strategic Development Unit support these findings. The Corporate Improvement risk register includes a red risk that out of date policies are potentially higher risk than having no policies in place.
- 1.4. The Constabulary has developed a risk based programme of work to review all policies, procedures and guidance material. New policy guidance was developed and implemented in September 2014 to support this process.

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 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 Jane Sauntson and the agreed scope areas for consideration were identified as follows:
 - Roles and Responsibilities

- Policy Approval
- Policy Implementation
- Policy Review & Update

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 policy development and management provide **Substantial** 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 no audit recommendations arising from this review.

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-

3. Information - reliability and integrity of financial and operational information	-	-	-
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	0	0	0

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

- Responsibility / accountability for policy development and management has been clearly allocated to the Strategic Development Unit.
- Policy & Procedure Guidance material has been developed and implemented. It provides clarity regarding the purpose of policies and procedures, roles and responsibilities and consultation. There is a defined process for approving policies and it is followed.
- Constabulary's acknowledgement of weaknesses in policy development and management which they are committed to addressing.
- Development of a risk based programme of work to review policies, procedures and guidance by March 2015 and on a three yearly basis thereafter.
- Sound governance arrangements are in place with regular monitoring and reporting to the relevant decision making boards. Programme slippage has been clearly highlighted and remedial action determined.
- A defined consultation process is in place ensuring current legislation, best practice and professional input is captured in policy development and updates.
- Communication / training of new /updates to policies to officers / staff
- Use of Authorised Professional Practice (APP) published by the College of Policing where possible to avoid duplication of effort and ensure best practice.
- Commitment to developing and improving the Constabulary's Policy Library on the intranet to make policies more accessible to officers and staff.
- Withdrawal of out of date policies from the Policy Library. This reduces the risk of litigation, criticism and reputational damage arising from staff and officers following out of date legislation and guidance.

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:*

- No medium priority issues were identified

4.4.3. *Advisory issues:*

- No advisory issues were identified

Comment from the Director of Corporate Improvement

I am very pleased that the Constabulary's policy arrangements have received an audit assurance of substantial and that the Constabulary's good practice and continuous improvement in this area has been recognised.

Audit Assurance Opinions

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

	Definition:	Rating Reason
Substantial	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 & management of risks.</p>
Reasonable	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>
Partial	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>
Limited / None	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:
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

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.



Audit of Policy Development & Management

Draft Report Issued: 29th January 2015

Final Report Issued: 16th February 2015

Audit Resources

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Audit Report Distribution

For Action:	Vivian Stafford (Head of Partnerships and Commissioning)
For Information:	Stuart Edwards (Chief Executive)
Audit Committee	The Audit Committee, which is due to be held on 10 th March 2015, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Office of the Police and Crime Commissioner (COPCC) arrangements for Policy Development and Management. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Audit Plan.
- 1.2. Policy development and management is important to the organisation because it contributes to efficient and successful service delivery against the Police and Crime Plan. Policies contribute to the achievement of strategic objectives by ensuring compliance with laws and regulations, promoting operational efficiency and managing organisational risk by clearly specifying what is expected of all staff.
- 1.3. The Police and Crime Commissioner has a statutory responsibility for holding the Chief Constable to account and this includes ensuring that adequate and effective policy development and management arrangements are in place 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 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 Head of Partnerships and Commissioning and the agreed scope areas for consideration were identified as follows:
 - Roles and Responsibilities
 - Policy Approval
 - Policy Implementation
 - Policy Review & Update
- 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 in respect of risk management 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 review.

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

Total Number of Recommendations	0	2	0
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4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Responsibility / accountability for policy development and management has been clearly allocated to the Head of Partnerships and Commissioning. This post was established in 2014.
- The OPCC follow the Constabulary's Policy & Procedure Guidance (2014). It provides clarity regarding the purpose of policies and procedures, roles and responsibilities and consultation requirements.
- There is a defined process for approving policies and it is followed.
- The OPCC acknowledge weaknesses in policy development and management and pledge to address them.
- A defined consultation process is in place ensuring current legislation, best practice and professional input is captured in policy development and updates.
- Established arrangements for the communication of and training on new policies and updates to staff.

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:*

- A clear, documented strategy is not in place to achieve planned policy developments within defined timescales.
- The document library is not kept up to date with all current policies that apply to OPCC staff, older versions of documents are not removed and there are inconsistencies in policy version control / dating.

4.4.3. *Advisory issues:*

No advisory issues were identified.

Comment from the Chief Executive

It is reassuring to see that a substantial number of strengths were identified in the course of the audit. The audit was undertaken just after the recruitment of appropriate staff intended to take forward this important area of activity. The actions arising from issues raised in the audit will be completed in the next six months.

5. Matters Arising / Agreed Action Plan

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

● Medium priority

Audit finding	Management response
<p>(a) Policy Development Plan</p> <p>Since 2012 the COPCC has placed some reliance on Constabulary policies. More recently there has been a move towards the development of separate policies, particularly in relation to HR as the COPCC team has increased in size.</p> <p>A clear, documented strategy is not in place to achieve planned policy developments within defined timescales.</p> <p>Recommendation 1:</p> <p>Policy developments should be properly identified and documented in a plan, which has been given appropriate approval and shared with the team. There should be regular review and reporting of progress against the plan with management actions to deal with issues in performance to ensure accountability.</p>	<p>Agreed management action:</p> <p>Policy identification:</p> <ul style="list-style-type: none"> • We will list our existing policies with assigned owners and a process for review. • Policies to be developed separately from the Constabulary's will be identified together with an owner. <p>A plan will be put in place for monitoring and action</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Policy developments are not delivered achieved because there is no implementation strategy to achieve them. • Strategic objectives are not achieved because policies are not aligned with current business objectives. 	<p>Responsible manager for implementing:</p> <p>Head of Partnerships and Commissioning</p> <p>Date to be implemented:</p> <p>08/2015</p>

● **Medium priority**

Audit finding	Management response
<p>(b) Document Library</p> <p>Policies are stored within a document library on the COPCC website, filed by subject type.</p> <p>There are a number of policies in the document library that haven't been dated or version numbered (e.g. Decision Making Policy & Custody Visitors Complaint Policy). It is unclear if these policies are up to date and when they are scheduled for review.</p> <p>There are instances where current and older versions of documents sit in the document library (e.g. Treasury Management Strategy 2013/14 & 2014/15). Only current versions of documents should be available for staff to follow.</p> <p>Reference is not made within the document library to constabulary policies that the OPCC continue to rely on and copies of these policies are not readily available. OPCC staff may be unclear regarding which policies apply to them.</p> <p>Recommendation 2:</p> <p>Policies should be dated or version controlled and only the latest versions should be available for staff to follow. There should be clarity within the document library regarding the application of constabulary policies and these policies should be readily available.</p>	<p>Agreed management action:</p> <p>We will review the current content of the document library and remove any out of date versions. We will ensure appropriate links are in place to the Constabulary's policies where these are being relied on.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Organisation's strategic aims and priorities aren't achieved because policies are not kept up to date and relevant. • Ineffective decision making and action due to reliance on poor quality / out of date policies. • Sanctions, litigation and reputational damage arising from non-compliance with relevant legislation and guidance due to the application of out of date policies. 	<p>Responsible manager for implementing:</p> <p>Governance and Business Services Manager</p> <p>Date to be implemented:</p> <p>08/2015</p>

Appendix A

Audit Assurance Opinions

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

	Definition:	Rating Reason
Substantial	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 & management of risks.</p>
Reasonable	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>
Partial	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>
Limited / None	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:
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

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 Communications Centre

Draft Report Issued: 29 January 2015

Final Report Issued: 11 February 2015

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	01228 226261
Lead Auditor(s)	Rebecca Birkett	rebecca.birkett@cumbria.gov.uk	01228 226250

Audit Report Distribution

For Action:	Steven Johnson, T Assistant Chief Constable Kevin Spedding, Chief Inspector
For Information:	Roger Marshall (Chief Constable's Chief Finance Officer) Ruth Hunter (Chief Finance Officer, PCC) Sean Robinson Andrew Towler
Audit Committee	The Audit Committee, which is due to be held on 10 March, will receive the report.

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

Cumbria Shared Internal Audit Service

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



1. Background

- 1.1. This report summarises the findings from the audit of the **Communications Centre**. This was a planned audit assignment which was undertaken in accordance with the 2014/15 Audit Plan.
- 1.2. The Constabulary's Communications Centre was internally reviewed in 2013, and is now a single environment based at Carleton Hall. The Communications Centre acts as the initial interface via telephone for the public, and ensures that emergency and non-emergency calls are dealt with within specified timescales. A priority of the Constabulary is the reduction of the impact of anti-social behaviour, and key to this is the effective identification and logging at the point of call.

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 Temporary Assistant Chief Constable and the agreed scope areas for consideration were identified as follows:

- Staffing;
- Data Quality & Security;
- Performance.

- 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 Cumbria Constabulary around the Communications Centre 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. Management - achievement of the organisation's strategic objectives (see section 5.1.)	-	1	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.2)	-	1	-
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-

Total Number of Recommendations	-	2	-
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4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- A training programme is in place for Communications Centre staff (the current priority being Anti-social behaviour in line with the Communications Centre action plan).
- Comprehensive induction training is in place for all new staff.
- Call handlers have access to a detailed training manual.
- Training issues are identified through data quality review of calls and live call listening.
- Roles and responsibilities for Communications Centre staff are clearly defined
- There is a rota system in place which is up to date, planned in advance and made know to staff to ensure adequate cover to meet anticipated call demand. The Duty Officer is now located in the Communications Centre enabling her to better support the Supervisors during office hours.
- There is a standard framework for call logging driven by defined screens within the system.
- There is an automatic system in place to monitor call answering times and to record this information in a format which enables on-going review by the Chief Inspector.

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:*

- None

4.4.2. *Medium priority issues:*

- Improvements to the Communications Centre action plan to better identify, prioritise, monitor and report ongoing areas of action within the Centre.
- The formal one-to-one process should be re-established where not in use.

4.4.3. *Advisory issues:*

- None.

Comment from the Temporary Assistant Chief Constable

The Constabulary accepts the findings of the audit in full and will put in place actions to address the issues raised.

5. Matters Arising / Agreed Action Plan

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

● Medium priority

Audit finding	Management response
<p>(a) Action Plan</p> <p>The Communications Centre has an “Action Plan”, which is used by the Chief Inspector to record and monitor ongoing activities within the Communications Centre.</p> <p>The action plan includes a variety of tasks and targets from different sources – e.g. call handling targets, internal and external audit recommendations, HMIC inspections, corporately identified objectives. The current format of the plan makes it unclear where the target came from and to whom any progress should be reported. For seven of the actions there is no clear timescale for action.</p> <p>Whilst the action plan has a column for ‘outcomes’ this is not complete for four actions and the outcome for one of the actions is simply 2014/15.</p> <p>The plan includes prioritisation by using a RAG (red – amber – green) indicator column. At the time of the audit there were 11 areas of work on the plan that were prioritised as amber. Dates for achievement of outcomes were documented for three of the areas. The dates have passed and it is unclear from the document what actions are in place to bring the plan back on track. Given that the outcome dates have not been achieved the status of the outcome / action should be red.</p> <p>The plan is available to all staff via Share Point, and is updated on an ongoing basis by the Chief Inspector, with information for updates coming primarily from 1-to-1s with staff.</p> <p>The plan is a dynamic document, but does not include a date to show when it was last updated.</p> <p>The current Chief Inspector plans to review the format of the action plan clarify the source of the actions, and to whom progress should be reported.</p>	<p>Agreed management action:</p> <p>The Action Plan will be reviewed monthly and subject to TP command oversight.</p>

Recommendation 1:

The review of the format of the plan should be used as a means to develop it into a single point for identifying actions required, and monitoring and reporting of progress.

Including, making more explicit:

- The source of the action, and to whom progress should be reported;
- Who is responsible for the action, who should be taking the action and any target dates for implementation
- Prioritisation of the actions;
- Steps to address any slippage
- Details of when and by whom it was last updated.

Risk exposure if not addressed:

- Out of date management information
- Identified actions not explicit to staff;
- Target dates not met.
- Priority areas not identified

Responsible manager for implementing:

Chief Inspector Comms

Date to be implemented:

05/2015

5.2. Information - reliability and integrity of financial and operational information.

● **Medium priority**

Audit finding

(a) Staff one-to-ones

Staff should receive regular one-to-ones with their managers to ensure there is a formal, structured means of communication and feedback. Although there were no issues identified with communications, it was identified that for some call handlers the process of one-to-ones has fallen into abeyance.

Management response

Agreed management action:

Staff 1:1's to be recommenced immediately.

Recommendation 2:

All staff should receive regular, diarised one-to-ones.

Risk exposure if not addressed:

- Non communication of feedback, training needs or targets

Responsible manager for implementing:

Chief Inspector Comms

Date to be implemented:

05/2015

Audit Assurance Opinions

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

	Definition:	Rating Reason
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Recommendation Follow Up Arrangements:

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- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

JOINT POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE	Paper No.
Meeting date: 10 March 2015	
From: Audit Manager (Cumbria Shared Internal Audit Service)	

INTERNAL AUDIT: DRAFT INTERNAL AUDIT PLAN 2015/16

1.0 EXECUTIVE SUMMARY

- 1.1 *The Audit Manager is required under the mandatory Public Sector Internal Audit Standards to prepare an annual risk based audit plan for review by Senior Management and Joint Audit & Standards Committee and approval by the Executive Board.*
- 1.2 *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 2014/15*
 - *Review of the Corporate Support Business Plan*
 - *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*
- 1.3 *Where appropriate, consideration has also been given to other sources of assurance to avoid duplication and ensure the best use of Internal Audit resources.*

2.0 RECOMMENDATION

- 2.1 *Members are asked to note the internal audit plan for 2015/16.*

Joint Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary Internal Audit Plan 2015/16

1. Introduction

- 1.1 The Chartered Institute of Internal Audit defines internal auditing as “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.”
- 1.2 The Accounts and Audit Regulations require the Commissioner’s Office and Constabulary to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper Practices are now defined within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1st April 2013.
- 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. Cumbria County Council is the host authority for the Shared Service with other participants being; Carlisle City Council and Copeland Borough Council. The Shared Internal Audit Service is governed by a Shared Services Operations Board comprising the Section 151 Officers of each participating authority. A Shared Services Agreement is in place which has been signed up to by each organisation.

3. Roles of Management and of Internal Audit

- 3.1 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
- 3.2 It is the role of Internal Audit to provide independent assurance to senior management and the Audit and Standards Committee that the Commissioner's Office and Constabulary has implemented adequate and effective procedures in relation to these responsibilities.
- 3.3 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 the organisations.

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 two 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 **Financial System reviews** – following the 2013 Grant Thornton review of Internal Audit, a revised approach is now being taken to the reviews of the – PCC's / CC's main financial systems. A three-year programme has been devised which will ensure that each main financial system is reviewed

in depth at least once every three years. The programme is attached at Appendix 2.

- 5.4 **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.
- 5.5 A summary of the number of days allocated to each category of audit work is shown below. Percentage figures from the 2014/15 audit plan are included for reference.

	2015/16		2014/15
Category	Days	% of total days	% of total days
Cross Cutting risk based audit reviews	51	22	43
Constabulary risk-based audit reviews	124	53	25
Financial Systems	26	11	15
Follow up	5	2	0
Work carried forward	0	0	0
Contingency	0	0	3
Police audit training and development event	2	1	1
Overhead (planning / management time)	24	10	13
TOTAL	232	100	100

- 5.6 Key changes from the previous audit plan are:
- An increase in the number of audit days due to the risks identified within the organisations. The 2014/15 plan provided 180 days.
 - An increase in the percentage of the plan devoted to risk based audit reviews which is a reflection of the requirement of the Public Sector Internal Audit Standards for Internal Audit to provide assurance on the Commissioner's Office and Constabulary's arrangements for governance, risk and internal control.
 - A reduction in work carried forward from the previous year's plan. Where work is underway at the year-end, this will be completed early in 2015/16 and provision is built into the plan for this.

- A more focussed plan at the start of the year removing the need for a high level of contingency.

6. Performance Standards

- 6.1 The performance of Internal Audit is measured against a suite of performance measures and reported on a quarterly basis to the Joint Audit and Standards Committee through the quarterly progress report.
- 6.2 Performance measures have been developed in consultation with the Shared Services Operations Board and are reported to Joint Audit and Standards Committee in each quarterly internal audit progress report.

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; no changes are being proposed.

Appendix 1 - Draft proposed internal audit plan 2015/16

Audit Review	Description	Days
ICT Strategy (<i>Audit of Constabulary</i>)	<p>Audit identified through review of constabulary's strategic risk register. An effective ICT Strategy is considered essential for the delivery of the significant programme of ICT system developments set out within the ICT Business Plan.</p> <p>Internal audit review to provide assurance over the strategic and resourcing arrangements to deliver IT systems upon which the Change Programme is dependent.</p>	15
Complaints Handling (<i>Audit of Constabulary and OPCC</i>)	<p>Identified through management consultation as a priority for internal audit assurance.</p> <p>Audit review to provide assurance over the arrangements for:</p> <ul style="list-style-type: none"> • Handling complaints received • Recording and reporting on complaints • Use of information from complaints to inform future service delivery 	15
Cumbria Safeguarding Hub (<i>Audit of Constabulary</i>)	<p>Identified through management consultation as a priority for internal audit assurance as this is a new multi-agency initiative covering critical areas including; child exploitation, safeguarding and missing from home.</p> <p>Audit review to provide assurance that the new arrangements are operating effectively to deliver the priorities and objectives set out within the Police and Crime Plan for Cumbria.</p>	10
Mobile Devices (project management) (<i>Audit of Constabulary</i>)	<p>Audit identified through review of the Corporate Support Business Plan as a significant project designed to transform aspects of operational policing.</p> <p>Audit review to provide assurance over the project management arrangements in place to deliver the project.</p>	15
Data Protection and Freedom of Information Act (<i>Audit of Constabulary and OPCC</i>)	<p>Identified through management consultation as a priority for internal audit assurance.</p> <p>Audit review to provide assurance over the arrangements for:</p> <ul style="list-style-type: none"> • Compliance with the legislation • Application of risk management principles to the process • Adequacy and effectiveness of resourcing to meet statutory requirements 	15
Performance Monitoring and Reporting, including	Identified through management consultation as a priority for internal audit assurance.	10

Audit Review	Description	Days
Data Quality (<i>Audit of Constabulary</i>)	Internal audit review to provide assurance that the arrangements in place to improve data quality are robust.	
Safeguarding Assets (<i>Audit of Constabulary</i>)	Identified through management consultation as a priority for internal audit assurance. Audit review to provide assurance over the arrangements for recording, controlling and recovering portable IT equipment.	15
Budget Management (Payroll) (<i>Audit of Constabulary</i>)	Identified through management consultation as a priority for internal audit assurance over and above the cyclical financial system reviews covering this area. Payroll is the biggest area of expenditure for the constabulary and accurate information in this area is key to effective strategic decision making. Audit review to provide assurance over the arrangements in place for budget setting, monitoring and reporting.	12
Duty Management System (<i>Audit of Constabulary</i>)	Identified through management consultation as a priority for internal audit assurance. Internal audit review to provide assurance over the use of the system in relation to control and recording of overtime and TOIL.	20
Code of Ethics / Organisational Values (<i>Audit of Constabulary</i>)	Identified through management consultation as a priority for internal audit assurance. A significant piece of work has been done to develop and embed ethical values within the organisation in response to the College of Policing's national Code of Ethics. Audit review to provide assurance over the arrangements for ensuring that ethical values are embedded throughout all day to day policing activities.	12
Firearms and Tasers (<i>Audit of Constabulary</i>)	Review was identified as a potential audit in 2014/15, but was not included in the final audit plan as other areas were considered a higher priority. Area still features highly on the internal audit risk assessment for 2015/16. Scope of the audit could include policies, procedures and training for officers in the use of firearms and Tasers, or arrangements for receiving, storing and disposing of those firearms handed in during the recent firearms amnesty.	15
	Subtotal for risk based audits	154
	Subtotal for non-risk based audits (see table below for detail)	78
	Total for all proposed audit work for 2015/16	232

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.

Audit Review	Description	Days
Governance (<i>Audit of Constabulary and OPCC</i>)	Cyclical programme of governance themed reviews.	15
Annual Governance Statement (two separate reviews)	Review to provide assurance that the governance arrangements as described in the Annual Governance Statement are in place and operating as described.	6
Financial System Reviews: <ul style="list-style-type: none"> Pensions Creditors (<i>Cross Cutting Review</i>)	A three year rolling programme of financial systems audits is undertaken.	26
Follow up: <ul style="list-style-type: none"> Property Handling (from 2013/14 audit plan) 	Internal audit follow up methodology includes the follow up of all audits resulting in less than Reasonable assurance	5
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) Preparation of progress reports and annual reports and opinions Audit planning Management liaison Effectiveness of Internal Audit – Compliance with PSIAS	4 6 9 4 1
	Subtotal for non-risk based audits	78

Appendix 2 – Financial System Reviews

The table below shows a proposed three year programme of financial system audit reviews designed to ensure that all key financial systems are audited on a regular basis, but in line with Grant Thornton's recommendation not to review all systems annually.

2015/16		2016/17		2017/18	
Review	Days	Review	Days	Review	Days
Pensions	10	Main Accounting System	11	Payroll	18
Creditors	16	Treasury Management	5	Budget Management	8
				Debtors	5
Totals	26		26		31



Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary

Internal Audit Charter

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 Board 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 Board 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. Any instances of non-conformance with the PSIAS must be reported to the Executive Board 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, 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 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 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;
 - Cumbria County Council (the host authority)
 - Carlisle City Council
 - Copeland Borough Council
 - Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner
- 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
- 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

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 2011 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.
- 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 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.
- 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 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 operation 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 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 Board.

5.4 On an annual basis, Internal Audit will prepare and present to the Executive Board 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 Board 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, 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 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 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 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 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 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 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 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 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

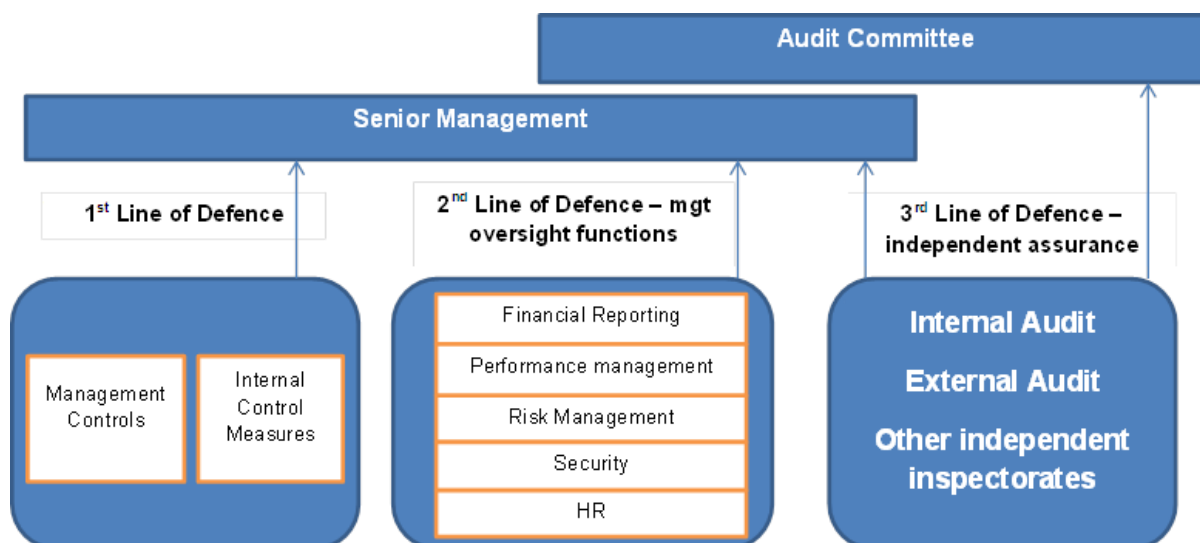
External assessments

8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from out 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/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 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

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			
Post audit customer satisfaction survey	% of customer satisfaction surveys scoring the service as	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	Gauge customer satisfaction and continuously improve the audit service.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
feedback	'good'	and responsibilities, may not always elicit positive feedback) Measured monthly. Reported quarterly	
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.

JOINT POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE	Paper No.
Meeting date: 10 March 2015	
From: Audit Manager (Cumbria Shared Internal Audit Service)	

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, AND LINKS TO COUNCIL PLAN

- 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 2011 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 1st 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 2011 require that the PCC and Chief Constable maintain an adequate and effective system of internal audit of their accounting records and systems of internal control conducted in accordance with the proper internal audit practices. '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 1st 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 2015

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"> • Work is allocated from the annual risk based plan by the internal audit management team across the shared service • Staff are involved in developing audit scope in conjunction with audit clients prior to commencement • Work is supervised to ensure that it complies with the approved methodology for carrying out an audit • Audit Manager / Principal Auditor attend close out meetings to support the auditor and ensure that key messages are relayed appropriately • Internal Audit reports signed off by Audit Manager • Audit reports with less than Reasonable Assurance subject to final review by Group Audit Manager
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"> • The scope and objectives of the audit have been agreed with clients and adequately documented and communicated • Key risks have been identified • 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 • Audit has been completed in a thorough, accurate and timely manner • The standard of working papers and evidence collected during the audit are in accordance with audit processes and procedures • The draft audit report fully reflects all findings from the audit and these are properly explained and practical recommendations made • The assurance rating is fully supported by the working papers and can be justified by the auditor • The audit has been completed within the time

On-going reviews conducted through	Elements
	<p>allocation</p> <ul style="list-style-type: none"> • The audit report has been produced to a good standard in an accurate and timely manner • Training and development needs are identified through the review process. <p>Periodic reviews by the Group Audit Manager to ensure that the quality assurance process is being applied consistently.</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	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.
Feedback from customer survey on individual assignments	<ul style="list-style-type: none"> • Customer feedback form reviewed in April 2014 and linked to performance measures for internal audit. • Feedback form issued for all internal audit assignments • Feedback from client satisfaction forms passed on to individual auditors. Any areas identified for learning and development are taken forward • Any common issues are identified and action taken where necessary
Analysis of performance measures established to improve internal audit effectiveness and efficiency	<ul style="list-style-type: none"> • Monthly monitoring of performance measures by the audit management team • Feedback to individuals / teams as appropriate • Reporting to audit committees on a quarterly basis.
All final reports and recommendations are reviewed and approved by the Audit Manager	<p>Formal sign off and issue of all final reports and recommendations by Audit Manager.</p> <p>New 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"> Annual risk assessment of each organisation's audit universe as part of the planning process
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"> Review of Charter for conformance Annual completion of CIPFA checklist for assessing conformance with the PSIAS Improvement plan produced to address areas of non-conformance. Service development plan identifying actions for service improvement.
Benchmarking with other Internal Audit service providers	<ul style="list-style-type: none"> CIPFA benchmarking Networking at Police Audit Group Conference (national event)
Quarterly reports to audit committees on progress with delivery of the audit plan	<ul style="list-style-type: none"> Preparation of progress report for each audit committee and attendance at audit committee by Group Audit Manager and / or Audit Manager.
Annual sign up to Code of Ethics by all internal audit staff	<ul style="list-style-type: none"> Signed declaration from all internal audit staff
Annual completion of declaration of business interests from by all internal audit staff	<ul style="list-style-type: none"> Signed declaration from all internal audit staff

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 Audit and Standards Committee on an annual basis;

External Assessments – results of external assessments will be reported to the 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.



Office of the Police and Crime Commissioner Report

Title: Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015/16 to 2017/18

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 2015/16.

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 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 2015/16

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 2015/16 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 31/3/2015 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2015/16 £m	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m
External Borrowing	0	0	0	0
PWLB – fixed rate at start of year				
Interest Payments	0	0	0	0
Investments (average)	17.755	9.721	4.506	3.760
Interest Receipts	0.125	0.100	0.52	0.65

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 2015/16 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 £17.2m at the start of the 2015/16 financial year. This includes £5.1m 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 need to borrow a further £2m to deliver the agreed capital programme up to 2018/19. 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 2015/16 is £125k (latest forecast for 2014/15 is £152k), which is very low in comparison with previous years. The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.5% and is expected to remain at this level for at least 3 years.

4.3.6. The forecast interest receipts beyond 2015/16 reflects Arlingclose's view that interest rates will start to rise in August 2015 with a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. (see table at 4.4.3 below).

4.4. Interest Rate Prospects

4.4.1. In normal economic times the Bank of England's Monetary Policy Committee's (MPC) primary focus in determining interest rate policy is to maintain inflation, as measured by the Consumer Price Index (CPI), around the Government's target of 2.0%. During 2014/15 the MPC through its 'forward guidance' expressed a commitment to keeping policy rates low for an extended period using unemployment rates below 7% as a threshold (amongst a range of other indicators) at which it would consider whether or not to increase interest rates.

Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.7%.

- 4.4.2. There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook. This risk of potential deflation in short term may result in a reduction in interest rates or at least a delay in any rise.

- 4.4.3. 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 December 2014. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Arlingclose Base Rate Estimates	2015	2016	2017
Quarter 1	0.50%	1.00%	1.50%
Quarter 2	0.50%	1.00%	1.50%
Quarter 3	0.75%	1.25%	1.75%
Quarter 4	0.75%	1.25%	1.75%

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 2015/16 and beyond.

Capital Financing Requirement	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Balance B/fwd	17.164	18.814	18.400	17.978
Plus Capital Expenditure financed from borrowing	2.019	0.000	0.000	0.000
Less MRP for Debt Redemption	(0.369)	(0.414)	(0.422)	(0.430)
Balance C/Fwd	18.814	18.400	17.978	17.548

The above table shows only capital expenditure that is not financed from sources other than 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 2015/16. Given that the CFR is forecast to be £19m this effectively means that the Commissioner will be funding over £14m of capital spend from internal resources (CFR £19m less £5m in relation to PFI).

Currently, there is a significant differential between investment rates at 0.5% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 4% 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 2014/15, the Commissioner's investment balance has ranged between £15m and £36m. The larger sum is due to the receipt in July 2014 of £15m pension top up grant from the Home Office which is drawn down steadily over the remainder of the year. Although balances in 2015/16 are forecast to be generally lower as capital funds are drawn down in respect of major schemes (e.g. South Estates work at Barrow and investment in Mobile and Digital technology), 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.

In August 2014 Moody's changed its outlook for the UK banking system from stable to negative, citing the reduction of government support for systemic banks as the reason. Although the agency believes that the stand-alone financial strength of UK institutions is improving they believed that this is more than offset by the potential **bail-in** risk now faced by investors.

What is bail in risk?

Previously the UK Government would "bail out" a failing bank by writing a cheque from taxpayer funds to save the bank.

The Government now would not be able to write that cheque, the losses therefore would fall to unsecured depositors. This is referred to as 'bail in risk'.

There was strong likelihood that the UK, alongside Germany and Austria, would accelerate the adoption of the Bank Recovery and Resolution Directive and that the implementation of **bail-in** resolutions would be fast-tracked in these countries to early 2015, a full year ahead of other EU nations.

The investment strategy for 2015/16 has been opened up slightly to include some additional classes of investment to allow more flexibility and diversification. 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. The table below summarises what investment classes will be considered during 2015/16.

Class of Investment	Existing or New
Banks Unsecured	Existing
Banks Secured	New
Government	Previously limited to other local authorities
Registered Providers	New
Pooled Funds	Previously limited to money market funds offering a constant NAV

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 AA- (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, neither of these investments have maturities 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 2015/16. 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 2015/16 amounts to £125k (£152k 2014/15) 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 2015/16

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 2015/16

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 2015/16

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 2015/16 is unchanged from that of 2014/15 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.

Appendix A

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 some amendments are proposed to the criteria used in determining approved investment counterparties for 2015/16 compared to those in operation for 2014/15. These proposed amendments are in relation to a range of possible investment counterparties as outlined in paragraph 4.6.1 of the covering report. There are also changes to the proposed maximum limits and durations for investment. The amendments to the limits are being proposed to ensure greater diversification of investments with the aim of providing greater protection in the event of failure of a financial institution.

2. Changes to Counterparty Selection Criteria

- 2.1. As outlined above, changes to the selection criteria for investment counterparties are proposed for 2015/16. These changes comprise:
- * Changes to investment categories to allow diversification (with specific approval delegated to the Commissioner's Chief Finance Officer).
 - * Changes to the maximum investment amount and the duration of the investments. The investment limits will be linked to the credit rating of the 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. 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 2015/16 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

- 3.1. The criteria for approving investment counterparties have been devised, grouped and graded as detailed in **Schedule A** (page 19).

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).

5. Counterparty Limits

- 5.1. The limitations on the amounts to be invested in the various categories of counterparty are set out 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.

Schedule A – Counterparty Groupings and Associated Limits

Credit Rating		Investment Limits				
		Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers
Category Limit 2015/16	Amount Duration	£20m	£20m	Unlimited	£10m	£15m
Existing (2014/15) limits for information	Amount Duration	£18m		Unlimited	N/A	£15m
Individual Institution/Group Limits						
UK Government	Amount Duration	N/A	N/A	£ unlimited 50 Years	N/A	N/A
AAA	Amount Duration	£2m 5 years	£4m 20 years	£4m 50 years	£2m 20 years	£4m per fund
AA+	Amount Duration	£2m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	
AA	Amount Duration	£2m 4 years	£4m 5 years	£4m 15 years	£2m 10 years	
AA-	Amount Duration	£2m 3 years	£4m 4 years	£4m 10 years	£2m 10 years	
A+	Amount Duration	£2m 2 years	£4m 3 years	£2m 5 years	£2m 5 years	
A	Amount Duration	£2m 13 months	£4m 2 years	£2m 5 Years	£2m 5 years	
A-	Amount Duration	£2m 6 months	£4m 13 months	£2m 5 years	£2m 5 years	
BBB+	Amount Duration	£1m 100 days	£2m 6 months	£1m 2 years	£1m 2 years	
BBB/BBB-	Amount Duration	£1m Next day only	£2m 100 days	N/A	N/A	
None	Amount Duration	£1m 6 months	N/A	£2m 25 years	£2m 5 years	
Existing (2014/15) limits for information	Amount Duration	£3m		£2m with (Local Authorities only)	N/A	£3m per fund (MMF only)

Note, individual, group and category limits for 2015/16 are based on the potential maximum available for investment during the year which has been estimated at up to £40m.

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

Schedule B – Explanation of Counterparty Groupings

Class of Investment	Existing or New
Category 1 - Banks Unsecured: 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 bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Commissioner's current account bank Nat West plc.	Existing
Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised 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.	New
Category 3 - Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in , 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.	Previously limited to other local authorities
Category 4 - Registered Providers: 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.	New
Category 5 - Pooled Funds: 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. 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.	Previously limited to money market funds offering a constant NAV

Schedule C – Description of Credit Ratings – Long Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Long Term Rating	<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"> • 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. • AA Very high credit quality 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. • 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</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"> • Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. • Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. • A Obligations rated A are considered upper-medium grade and are subject to low credit risk. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</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"> • AAA: An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. • 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. • 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</p>

Schedule C – Description of Credit Ratings – Short Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Short Term Rating	<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"> 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of F1.</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"> P1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations. <p>The Commissioner will confine investments to those institutions with a minimum rating of P1.</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"> A1 A short-term obligation rated 'A-1' is rated in the highest category by Standard & 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</p>

Schedule C – Description of Credit Ratings – Support Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Support Rating (Fitch)	<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"> 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. <p>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.</p> <p>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.</p>	Not applicable	Not applicable

Appendix B

Prudential Indicators 2015/16 to 2017/18

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 2013/14, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2015/16 budget. The table below provides a comparison of net borrowing and the Capital Financing Requirement.

Comparison of Net Borrowing and the Capital Financing Requirement					
	2014/15				
	2013/14	Revised	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Net Debt (section 9 below provides analysis)	(13.849)	(16.632)	(12.633)	(4.709)	380
Capital Financing Requirement as at 31 March	17.357	17.164	18.814	18.400	17.978

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 2013/14, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2015/16 budget plus known requirements in both 2016/17 and 2017/18 are set out in the table below.

Capital Expenditure					
	2014/15				
	2013/14	Revised	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Expenditure	3.311	10.090	9.941	9.396	6.071

Capital expenditure will be financed or funded as follows:

Capital Financing					
	2014/15				
	2013/14	Revised	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Receipts	0.600	1.069	1.268	0	0
Government Grants	0.788	0.607	0.509	5.547	4.406
Revenue Contributions	1.873	8.246	6.145	3.849	1.665
Total Financing	3.261	9.922	7.922	9.396	6.071
Borrowing *	0.050	0.168	2.019	0	0
Total Funding	0.050	0.168	2.019	0	0
Total Financing and Funding	3.311	10.090	9.941	9.396	6.071

* 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 2015/16

Ratio of Financing Costs to Net Revenue Stream					
	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Financing Costs	0.216	0.241	0.243	0.315	0.369
Net Revenue Stream	98.771	96.714	94.871	93.096	91.912
Ratio	0.22%	0.25%	0.26%	0.34%	0.40%

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					
	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Financing Requirement as at 31 March.	17.357	17.164	18.814	18.400	17.978

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		2015/16	2016/17	2017/18
		£m	£m	£m
External Borrowing		20.19	19.89	19.59
Other Long Term Liabilities		5.12	5.01	4.89
Total Authorised Limit		25.31	24.90	24.48

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			
	2015/16	2016/17	2017/17
	£m	£m	£m
External Borrowing	18.69	18.39	18.09
Other Long Term Liabilities	5.12	5.01	4.89
Total Operation Boundary	23.81	23.40	22.98

7. Actual External Debt

The Commissioner's actual external debt as at 31 March 2015 will be £5.220m, comprising other long term liabilities of £5.220m 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 2015/16 to 2017/18 Capital Programme.

The impact identifies the revenue expenditure that will arise as a result of approval of the 2015/16 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 2015/16 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.

Impact of capital investment decisions on the Council Tax			
	2015/16	2016/17	2017/18
Capital Expenditure funded from revenue	£1.233m	£1.200m	£1.240m
Financing and direct revenue costs	£0.025m	£0.050m	£0.050m
Total Incremental Revenue Effect of Capital Investment	£1.258m	£1.250m	£1.290m
Incremental Impact on Band D Council Tax	£7.76	£7.71	£7.96

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			
	2015/16	2016/17	2017/18
	£m	£m	£m
Outstanding Borrowing (at notional value)	0.000	0.000	0.000
Other Long Term Liabilities (PFI & Finance Lease at notional value)	5.122	5.012	4.887
Gross Debt	5.122	5.012	4.887
Less Investments	17.755	9.721	4.506
Net Debt	(12.633)	(4.709)	381

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			
	2014/15	2015/16	2016/17
	£m	£m	£m
Net Principal sums Outstanding at Fixed Rates	25.31	24.90	24.48

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			
	2015/16	2016/17	2017/18
	£m	£m	£m
Net Principal sums Outstanding at Variable Rates	1.5	1.5	1.5

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

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	0
12 months and within 24 months	100	0
24 months and within 5 years	100	0
5 years and within 10years	100	0
10 years and above	100	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

10 March 2015

Agenda Item No 13 (ii)



Office of the Police and Crime Commissioner Report

Treasury Management Practices 2015/16

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 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.

Schedule 2

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 will be renegotiated 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
- Tulletts & Tokyo, 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.
- Approve daily money market transactions.
- 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
- 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 (Income and Controls)(Part Time 21 hrs)

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

The **Financial Services Assistant (Income 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 with an explanation of on what each decision was based.
- 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 (Income 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 Government's 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 renegotiated 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.



Joint Audit and Standards Committee

10 March 2015

Agenda Item No 14

Cumbria Office of the Police and Crime Commissioner

Title: Treasury Management Activities 2014/15 for the period October to December 2014

Originating Officers: Michelle Bellis, Deputy Chief Finance Officer & Lorraine Holme, Principal Financial Services Officer.

1. Purpose of the Report

- 1.1. The purpose of this paper is to report on the Treasury Management activities, which have taken place during the period October to December 2014 in accordance with CIPFA's Code of Practice on Treasury Management.
- 1.2. Treasury Management activities are undertaken in accordance with the Treasury Management Strategy Statement and Treasury Management Practices approved by the Commissioner in February each year.

2. Recommendation

- 2.1. The Commissioner is asked to note the contents of this report. The report will also be presented to the Joint Audit and Standards Committee in March 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.

3. Economic Background

- 3.1. Growth and Inflation: Falling prices and the outlook for commodities, most notably oil, were the main driver of markets in the final calendar quarter of 2014 as crude oil prices more than halved over the 12 month period and fell to a four year low. The UK economy slowed a little in Quarter 3 following stronger performance in Quarter 2. Output grew by 0.7%, following 0.6% in Quarter 1 2014 and at 0.8% in Quarter 2. The services sector drove the expansion once again, with marginal contributions from industrial production and construction. In spending terms, growth was led by household consumption.
- 3.2. Global Economy: Concerns about the strength of global GDP growth became more widespread, with data showing that the Eurozone was stagnating and facing deflation and that Chinese growth was easing. Other emerging market economies also experienced softer economic activity. The main consequence of the weaker global outlook was a significant decline in oil prices, which had already been under pressure due to increased supply. This fed into domestic fuel prices and placed downward pressure on inflation rates. The annual UK CPI inflation rate fell to 0.5% year-on-year in December, outside of the MPC's target range of 2% +/-1% (meaning acceptable range is 1% to 3%).

The dramatic fall in fuel prices compared to the forecast increase originally incorporated in the budgets for 2014/15 has seen the Constabulary vehicle fuel budget of £1,290k report an underspend of £255k (20%) and the Commissioner's heating oil budget of £128k report an underspend of £37k (29%) in the budget monitoring reports for the third quarter of 2014/15.

- 3.3. Unemployment: The labour market continued to improve, although employment gains slowed a little compared to earlier in the year; the headline unemployment rate fell to 6.0%. Earnings growth strengthened, rising 1.4% for the three months August to October 2014 when compared to the same period a year earlier. The pickup in nominal earnings growth combined with the fall in inflation suggests a sustained pickup in real wage growth, the first since 2007.
- 3.4. Monetary Policy: The Monetary Policy Committee in December made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. At this time, two members continued to vote for an increase in Bank Rate by 0.25%, arguing economic circumstances were sufficient to justify an immediate rise. However, since then, at their January meeting there was a unanimous vote to maintain the Bank Rate at 0.5% as the two members who had voted for an 0.25% increase at the previous five meetings joined the rest of the Committee saying their

decision was ‘finely balanced’ as there was sufficient risk that low inflation could become entrenched. Indeed the minutes noted that CPI inflation could dip below zero at some point in the first half of 2015.

- 3.5. Counter Party update – In October the Commissioner’s treasury advisors Arlingclose provided revised guidance in relation to the advised duration for unsecured deposits with banks and building societies. This advice is in relation to deteriorating growth prospects, especially in the Eurozone and is to counter the risks associated with another potential Eurozone crisis.

4. Treasury Management Operations and Performance Measures

- 4.1. The Commissioner’s day to day treasury management activities are undertaken on behalf of the Commissioner’s Chief Finance Officer/Deputy Chief Executive by the financial services team under the management of the Chief Constable’s Chief Finance Officer. Responsibilities and requirements for treasury management are set out in the financial regulations and rules. Treasury management practices are approved annually setting out the arrangements as part of the Treasury Management strategy.

4.2. Management of cash balances

The aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner’s funds. Actual un-invested balances for the months of October to December 2014 for the Commissioner’s main bank account are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	89	2,030	61,408
Days Overdrawn	3	(504,895)	(504,895)

The largest un-invested balance occurred on the 4th December and was as a result of a transfer of £61,070 being received during the day. The funds were from the sale of a house that had been confiscated under the Proceeds of Crime Act 2002 and were unexpected. We are advised by the bank that transactions being posted during the day are subject to checking and can be removed, therefore, we do not invest these sums until the following day to limit the risk of being overdrawn.

The largest overdrawn balance occurred on the 24th October and was the result of a delay in the receipt of a precept. The District Council had confirmed with their bank the release of the funds to us but the payment was not forthcoming. The precept value was £505,627 leaving the bank overdrawn over the weekend by £504,895. The Commissioner has been charged £62.24 by his bank in respect of the overdrawn balance but this has subsequently been recouped from the district council.

Within the Treasury Management Strategy a target is set to achieve a daily balance of +/- £2k on the Commissioner's main bank account. Whilst the daily treasury management process always calculates the anticipated balance within these limits, daily transactions through the bank of which we are not aware (e.g. banking of cash/cheque receipts) can alter the closing balance for the day. During the months October to December 2014, the balance was within the £2k limit for 72 out of 92 days (78%). This statistic is skewed by our policy to ensure that all cash and cheques are banked on a Friday, as a minimum, more often if large sums are received. If cash is banked it clears our account on the same day and we will be over our £2k limit for 3 days over the weekend not just the day it is banked. This occurred on 3 weekends during this quarter.

An estimate of the interest forgone on un-invested balances over £2k during this three month period is £22.

4.3. Investment Activity

The table below illustrates the number and value of investments made with Major UK Banks (category 1), other Local Authorities (category 3) and the Debt Management Office (category 4) of the approved investment counterparties during the months of October to December 2014:

Month	Number of Investments	Total Value of Investments £m
October 2014	4	7.0
November 2014	1	2.0
December 2014	1	2.0

In addition to the above there are regular smaller investments made via liquidity funds (category 2).

A schedule detailing the individual investments that make up the £25.658m total invested at 31 December 2014 is attached at **Appendix 2**. A further illustrative analysis is provided of the balance outstanding at **Appendix 3**, where the first chart analyses the outstanding balance by the credit rating of the investment counterparty and the second shows the maturity structure of investments by the credit rating of the counterparty. The Commissioner's current policy is that investment counterparties have minimum credit rating of A-. (The greater the number of A's the higher the credit rating).

The Commissioner sets a limit for "non-specified" investments of over 364 days at the time of investment. The maximum of all investments with outstanding maturities greater than 364 days is set at a limit of £5m for 2014/15. The Commissioner currently has no investments that have an outstanding maturity of greater than 364 days. However, there are currently two investments which at the time of investing, were for a period of just over 364 days. These are set out in the table below:

Borrower	Value £m	Investment Period (Days)	Date Invested	End Date	Period Remaining to maturity (days)	Actual Rate (%)
Barclays Bank PLC	2.0	365	03/07/2014	03/07/2015	184	0.98%
Lloyds Bank PLC	1.5	365	11/08/2014	11/08/2015	223	0.95%
Total	3.5					

4.4. Interest Earned

Interest earned for the period of the report and the average return on investment that it represents is set out in the table below:

Month	Interest Amount (£)	Average Total Investment (£)	Average Return on Investment (%)
October 2014	14,962	33,305,937	0.53%
November 2014	13,995	31,302,821	0.54%
December 2014	13,912	29,968,626	0.55%
TOTAL	42,869	31,525,795	0.54%

Total interest earned during October to December 2014 amounted to £43k bringing the total earned to Quarter 3 to £121k. A simple pro-rata of this figure would suggest a full year effect of

interest in the region of £161k, however, the interest receipts in the coming months will fall as the level of principal available to invest falls due to expenditure on the capital programme and the pensions payroll for which we received the grant up front in July.

We have seen a small increase in the interest percentages received from the money market funds and these have been reflected in the estimates for January to March 2015. Advice from Arlingclose regarding the maximum duration of unsecured investments with banks and building societies is still to remain relatively short dated this will impact on the level of interest receipts for the remainder of the year.

Current forecast of interest receipts which will be generated in 2014/15 is £152k, an increase of £32k against the base budget. A comparison of this figure against budget is outlined in the table below:

	Amount (£000's)
Original Estimate 2014/2015	120
Forecast Position June 2014	120
Forecast Position September 2014	142
Forecast Position December 2014	152
Increase/(Decrease) compared to Estimate	32

4.5. Investment Performance

As a performance measure for the quality of investment decisions, the rate achieved on maturing longer term investments of over three months in duration is compared with the average Bank of England base rate over the life of the investment. The table below provides details of the individual performance of investments (of over 3 month's duration at time of investment) for the months October to December 2014:

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Nationwide Building Society	1.5	12	0.78%	0.50%

The above table illustrates that, for all maturing investments that were for a duration of over 3 months, returns have exceeded the bank base rate.

5. Compliance with Prudential Indicators

- 5.1. The Commissioner can confirm that he has to date complied with his treasury related Prudential Indicators for 2014/15, which were set in February 2014 as part of the annual Statement of Treasury Management Strategy. Further details can be found at **Appendix 4**.

6. Implications

- 6.1. Financial – As detailed in main body of report above.
- 6.2. Legal – None
- 6.3. Risk – The report advises members about treasury activities. Given the large unsecured sums invested with financial institutions treasury management can be a risky area. Nevertheless, procedures are in place to minimise the risks involved, including limits on the sums to be invested with any single institution and reference to credit ratings are set down in the PCC's treasury strategy and in particular the treasury management practices (TMP1 Treasury Risk Management).
- 6.4. HR / Equality – None
- 6.5. I.T – None
- 6.6. Procurement – None

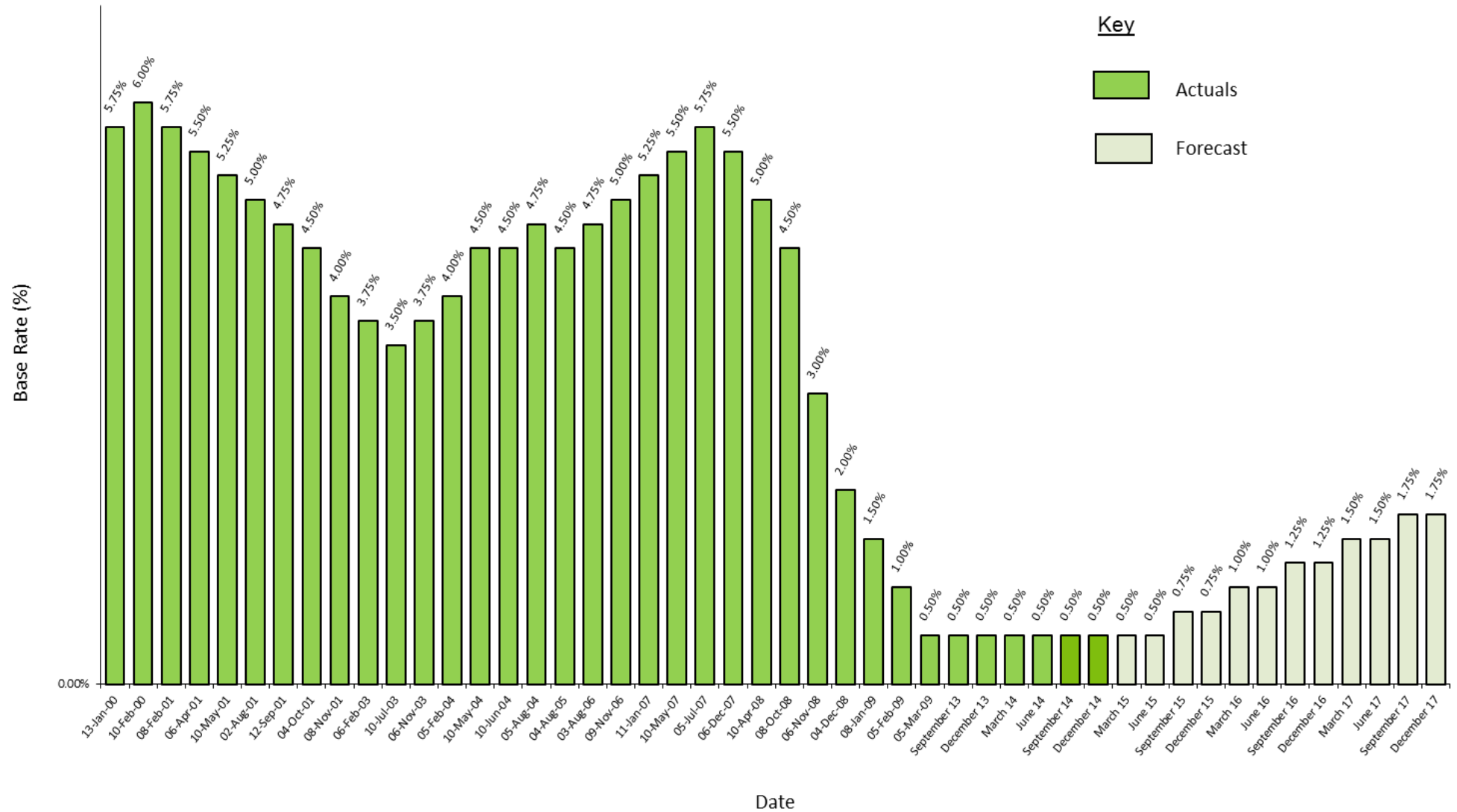
7. Supplementary information

Attachments

- | | |
|------------|---|
| Appendix 1 | Recent history and projections of Bank Base Rates |
| Appendix 2 | Schedule of Investments as at 31 December 2014 |
| Appendix 3 | Analysis of Investments as at 31 December 2014 |
| Appendix 4 | Prudential Indicator Compliance |

Appendix 1

Bank of England Base Rates (%s)



Appendix 2

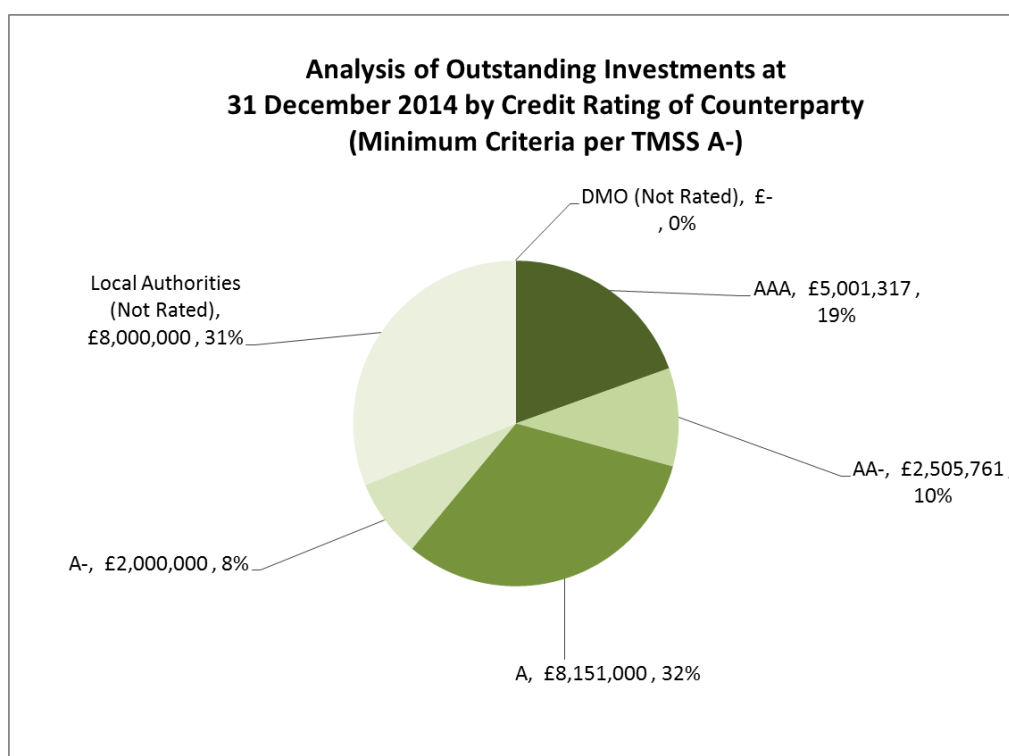
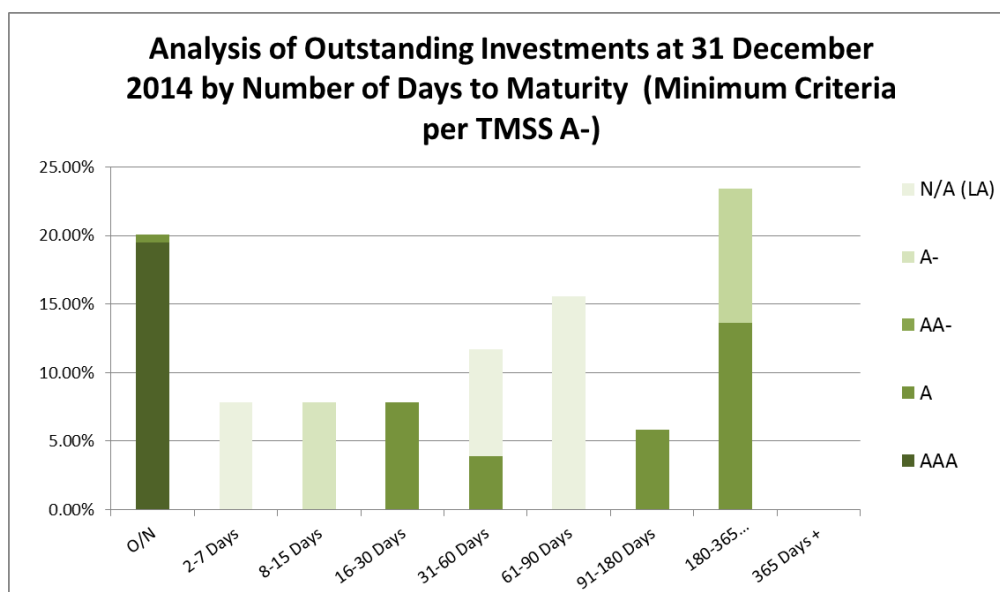
Schedule of Investments as at 31 December 2014

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Major Banks & Building Societies							
Barclays Bank PLC	A	28/02/2014	27/02/2015	58	0.84%	1,000,000	
Barclays Bank PLC	A	03/07/2014	03/07/2015	184	0.98%	2,000,000	3,000,000
Leeds Building Society	A-	08/10/2014	08/01/2015	8	0.41%	2,000,000	2,000,000
Lloyds Bank PIC	A	03/04/2014	02/04/2015	92	0.95%	1,500,000	
Lloyds Bank PIC	A	11/08/2014	11/08/2015	223	0.95%	1,500,000	3,000,000
Nationwide Building Society	A	31/01/2014	30/01/2015	30	0.80%	2,000,000	2,000,000
Svenska Handelsbanken	AA-	Various	On Demand	N/A	0.35%	2,505,761	2,505,761
NatWest (Liquidity Select Account)	A	30/06/2014	01/07/2014	O/N	0.25%	151,000	151,000
						12,656,761	12,656,761
Category 2 - Money Market Funds (AAA Rated)							
AIM	AAA	Various	On demand	O/N	Various	400,000	400,000
BlackRock	AAA	Various	On demand	O/N	Various	1,800,000	1,800,000
Fidelity	AAA	Various	On demand	O/N	Various	1,317	1,317
Goldman Sachs	AAA	Various	On demand	O/N	Various	300,000	300,000
Scottish Widows	AAA	Various	On demand	O/N	Various	0	0
IGNIS	AAA	Various	On demand	O/N	Various	2,500,000	2,500,000
						5,001,317	5,001,317
Category 3 - Other Local Authorities							
The Highland Council	NR	03/07/2014	02/02/2015	33	0.35%	2,000,000	2,000,000
Dumfries and Galloway Council	NR	07/10/2014	07/01/2015	7	0.28%	2,000,000	2,000,000
Stirling Council	NR	08/10/2014	08/04/2015	98	0.40%	2,000,000	2,000,000
Birmingham City Council	NR	19/12/2014	20/03/2015	79	0.50%	2,000,000	2,000,000
						8,000,000	8,000,000
Category 4 - Debt Management Office							
							0
						0	0
Total						25,658,078	25,658,078

Note – the credit ratings shown in the above table relate to the standing as at 31 December 2014, as discussed in the main body of the report, the ratings are constantly subject to change.

The TMSS sets limits for maximum investment with counterparties. These limits are currently set at £3m per institution/banking group in category 1 (total £18m category limit) and £3m per Money Market Fund in category 2 (total £15m category limit). The limit for other Local Authorities is set at £2m (no category limit) and there is no limit for investments with the DMO.

Appendix 3

Analysis of Outstanding Investments as at 31 December 2014

Note – the credit ratings shown in the above charts relate to the standing as at 31 December 2014, as discussed in the main body of the report, the ratings are constantly subject to change.

Appendix 4

Prudential Indicator Compliance**(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Commissioner to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached during the year. The Affordable Borrowing Limit is made up of two components; the *Authorised Limit* and the *Operational Boundary*.
- The Authorised Limit represents an upper limit for external borrowing that could be afforded in the short term but may not be sustainable. The figure includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Commissioner's Authorised Limit was set at £23.71m for 2014/15.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2014/15 was set at £22.21m.
- The actual amount of external borrowing as at 31 December 2014 was £Nil which is well within the above limits. No new external borrowings have been undertaken in the current financial year.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Commissioner to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2014/15 £m	Actual Borrowing at 31 Dec '14 £m	Compliance with limits
Upper Limit for Fixed Rate Exposure	23.71	0.00	Yes
Upper Limit for Variable Rate Exposure	1.50	0.00	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/12/14 £m	% Fixed Rate Borrowing as at 31/12/14 %	Compliance with Set Limits?
Under 12 months	100	0	0.00	0	Yes
12 months and within 24 months	100	0	0.00	0	Yes
24 months and within 5 years	100	0	0.00	0	Yes
5 years and within 10 years	100	0	0.00	0	Yes
10 years and above	100	0	0.00	0	Yes

(d) Total principal sums invested for periods longer than 364 days

- This indicator allows the Commissioner to manage the risk inherent in investments longer than 364 days.
- The limit for 2014/15 was set at £5m.
- As at 31 December 2014, the PCC had two investments totalling £3.5m which were for a duration greater than 364 days at the time of investment. Neither of which now have outstanding maturities greater than 364 days. Please see additional details within paragraph 4.3 above.



Joint Audit & Standards Committee

Title: Committee Terms of Reference

Date: 25 February 2015

Agenda Item No: 15

Originating Officer: Joanne Head

CC:

Executive Summary:

The purpose of the Joint Audit and Standards Committee is to provide independent advice and recommendation to the Commissioner and Chief Constable on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of the Commissioner and Chief Constable's governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit. The Committee will deal with all Standards matters for the Commissioner.

Recommendation:

That the amended terms of reference be accepted and adopted by the Joint Audit & Standards Committee.

1. Introduction & Background

- 1.1 The proposed terms of reference summarise the core functions of the Committee in relation to the Office of the Police and Crime Commissioner (OPCC) and the Constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

2. Issues for Consideration

- 2.1 The Police and Crime Commissioner and Chief Constable have recently created and appointed members to an Ethics and Integrity Panel. The purpose of the panel is to provide a forum which challenges, encourages and supports the Commissioner and the Chief

Constable in monitoring and dealing with integrity and ethical issues within Cumbria Constabulary and the Office of the Police and Crime Commissioner. They will not be able to investigate individual cases or complaints.

- 2.2 The panel will consider ethics and integrity issues within both organisations providing strategic input and support in relation to such issues. It will scrutinise areas of performance, work to provide assurances and to act as a 'critical friend'. They will ensure consistency in decision making and where necessary provide opinion and support for the areas of work that they will monitor. However their role is not to circumvent statutory legislation or guidance but to identify issues and monitor change where required. The panel will have no decision making powers, although they will be able to make recommendations to the Commissioner and the Chief Constable.
- 2.3 When the Joint Audit and Standards Committee was established standards was included within the Committee's remit. This was partly because there was not at that time clarity with regard to the role of the Police and Crime Panel. Now, with over two years' experience of operating within the new arrangements it is clear that standards with regard to the Commissioner sit squarely with the Panel. Therefore it is suggested that the Committee's terms of reference be amended at this annual review by removing the following two items -
- 30. Monitoring the operation and effectiveness of the PCC's Code of Conduct
 - 31. Monitoring the operation and effectiveness of the PCC's/Officer Protocol
- 2.4 These matters would be monitored by the Ethics Panel, but responsibility for them sits with the Police and Crime Panel.
- 2.5 The following two items would remain as part of the terms of reference of the Joint Audit & Standards Committee to enable the OPCC to utilise the Committee as part of its appeals process -
- 32. To hear and determine appeals in relation to the OPCC's personnel policies and decisions of the Chief Executive where appropriate.
 - 33. To hear and determine appeals by Independent Custody Visitors and Independent Members of Police Misconduct Panels from decisions of the Chief Executive.

3. Supplementary Information

Appendix 1 – Terms of Reference.

Appendix 1

Audit and Standards Committee Terms of Reference

Statement of Purpose

1. Our Joint Audit and Standards Committee is a key component of the Police and Crime Commissioner and Chief Constable's arrangements for corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of our Joint Audit and Standards Committee is to provide independent advice and recommendation to the Commissioner and Chief Constable on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of the Commissioner and Chief Constable's governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit. The Committee will deal with all Standards matters for the Commissioner.
3. These terms of reference will summarise the core functions of the Committee in relation to the Office of the Police and Crime Commissioner (OPCC) and the Constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The Committee will, in relation to the Police and Crime Commissioner and the Chief Constable:

4. Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
5. 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.

6. Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
7. Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and Constabulary.
8. 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.
9. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. 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.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Internal Audit

The Committee will, in relation to the Police and Crime Commissioner and the Chief Constable:

11. Annually review the internal audit charter and resources.
12. Review the internal audit plan and any proposed revisions to the internal audit plan.
13. Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence
14. 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.
15. 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.
16. Consider a report on the effectiveness of internal audit to support the Annual Governance Statement.

External Audit

The Committee will, in relation to the Police and Crime Commissioner and the Chief Constable:

17. Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
18. Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
19. Consider specific reports as agreed with the external auditors.
20. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies and relevant bodies.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Financial Reporting

The Committee will in relation to the Police and Crime Commissioner and the Chief Constable:

21. 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 or from the audit of the financial statements that need to be brought to the attention of the Commissioner and/or the Chief Constable.
22. Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Accountability Arrangements

The Committee will, in relation to the Police and Crime Commissioner and the Chief Constable:

23. 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.
24. 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.
25. 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.

Treasury Management

In accordance with the Treasury Management Code of Practice, the Commissioner nominates the Joint Audit and Standards Committee to be responsible for ensuring effective scrutiny of the Treasury Management strategy and policies. The Committee will, in relation to the Police and Crime Commissioner:

26. Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
27. 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.
28. Review the treasury risk profile and adequacy of treasury risk management processes.
29. Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

Standards Activity

The Committee will, in relation to the Police and Crime Commissioner:

~~30. Monitoring the operation and effectiveness of the PCCs' Code of Conduct~~

~~31. Monitoring the operation and effectiveness of the PCC's /Officer Protocol.~~

32. To hear and determine appeals in relation to the OPCC's personnel policies and decisions of the Chief Executive where appropriate.
33. To hear and determine appeals by Independent Custody Visitors and Independent Members of Police Misconduct Panels from decisions of the Chief Executive.



Joint Audit & Standards Committee

Title: OPCC Risk Management Strategy

Date: 27 February 2015

Agenda Item No: 16

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 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.
- 2.2 Mr Jack Jones, member of the Joint Audit and Standards Committee has been consulted regarding the amendments to the Risk Management Strategy. He has fed back comments which support the proposed amendments. The revised strategy is presented to the committee for review.

- 2.3 Two areas have been added to the risk management framework section of the strategy, these are – Risk Categories and Risk Appetite. The information in the risk can be used by staff when trying to, or having identified new risks, to understand what effect they will have on the COPCC. Work is still being carried out to confirm what the OPCC's risk appetite will be, this will be carried out as part of the OPCC Risk Management training.
- 2.4 On 1 April 2015 the Police and Crime Commissioner, Mr Rhodes, will review all Governance Documents in relation to the OPCC, including the Risk Management Strategy. Following consideration and following approval the strategy will be implemented from 1 April 2015.

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
2015/2016**

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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 Finance Officer 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 Categories

To help ensure that risk is considered across a broad range of issues the following headings can be used to categorise strategic and operational risks. The categories can also be used when trying to, or having identified new risks, to understand what effect they will have on the COPCC.

- **Political** – arising from change of government policy.
- **Economic/Financial** – arising from the financial structure, from transactions with third parties and the financial systems in place.
- **Social** – arising from changing communities and new communities.
- **Technological** – arising from infrastructure failure or lack of business continuity arrangements.
- **Environmental** – arising from storms/flooding or pollution incidents.
- **Legal and regulatory** (including Health & Safety risks) – deriving from the necessity to ensure compliance with legislation, regulations and customer expectations which if infringed can damage the Constabulary's reputation.
- **Organisational/Management/Human factors** – arising from inadequate adoption of management practices or lack of operational support.

RISK MANAGEMENT FRAMEWORK

Risk Benchmarking

Risk benchmarking offers the opportunity to determine current capability against the agreed framework, providing a structured route to improvement when it is necessary. Risk benchmarking is

carried out on an annual basis by reviewing documentation and reports and undertaking interviews with risk owners and managers to gain a full understanding of the nature of the risk and its potential impact upon the business.

RISK MANAGEMENT FRAMEWORK

Risk Maturity Assessment

Risk maturity assessment is the process used to evaluate the risk and to determine whether precautions are adequate or more should be done. The risk is compared against predetermined acceptable levels of risk and takes into account the five levels of risk maturity:-

- Risk Naïve - no formal approach developed for risk management.
- Risk Aware - scattered silo based approach to risk management.
- Risk Defined - strategy and policies in place and communicated.
- Risk Managed - enterprise-wide approach to risk management developed and communicated.
- Risk Enabled - risk management and internal control fully embedded in the operations.

Assessing the maturity of a risk allows us to identify strengths and weakness regarding the risk and implement measures which will provide an appropriate solution for the organisation. Evaluating maturity levels provides us with different situation dates and gives a multi-period overview of the results.

RISK MANAGEMENT FRAMEWORK

Risk Appetite

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.

Level of Risk	Risk Appetite	Description
Very Low	Averse	Avoidance of risk and uncertainty is a key objective.
Low	Minimalist	Preference for ultra-safe options that have a low degree of inherent risk and only have a potential for limited reward.
Medium	Cautious	Preference for safe options that have a low degree of residual risk and may only have limited potential for reward.
High	Open	Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward.
Very High	Hungry	Eager to be innovative and to choose options based on potential higher rewards (despite greater inherent risk).

The above five levels of risk can be applied to a broad range of strategic risks such as finance and reputation.

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.

NOTE: The default risk appetite for COPCC will be considered during the risk training on 23/4/2015 following which the strategy will be updated prior to the Commissioner approving on 1/4/2015.

RISK MANAGEMENT FRAMEWORK

Risk Tolerance

Risk tolerance is the difference between what is acceptable and what is unacceptable to COPCC. Risk tolerance is closely related to risk appetite, whereas appetite refers to risk at the corporate level, risk tolerance allows for variations in the amount of risk the organisation is prepared to tolerate for a particular project or business activity. How COPCC will deal with risk tolerance for all its risks and this is addressed within the methodology section of this strategy.

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 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 Audit and Standards Committee reviews the policy and ensures that it meets recommended practices. Also in place is a Confidential Reporting Policy (Whistleblowing) 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 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 5x5 matrix that produces a risk score of between 1 and 25.

Risk Likelihood

1 Very Low: A risk has a very low score if the likelihood of it happening is less than 5% over 100 years. Basically, it could happen but it is most likely that this would never happen.

2 Low: A risk has a low score if the likelihood of it happening is between 5% and 25% at some point in the next 25 years. This means we don't expect it to happen but it is possible.

3 Medium: A risk has a medium score if the likelihood of it happening is between 20% and 65% over the next 10 years. This means it may happen occasionally.

4 High: A risk has a high score if there is a 65% to 90% likelihood of it happening at some point over the next 3 years. Basically, it probably will happen but it won't be too often.

5 Very High: A risk has a very high score if there is a 90% or more chance of it happening every year. This means that it is almost certain to happen regularly.

Risk Impact

1 Very Low: The impact for a very low score has to be insignificant. This would mean no service disruption or financial losses, no media interest or no obvious harm or injury from the risk arising.

2 Low: There is some implication for services, financial loss or some harm but these are only slight. There could be some reputational impact but this would be short term. The overall impact would not last beyond a 2 to 6 month period.

3 Medium: There is service interruption, significant financial loss, injury, and adverse publicity with some reputational damage and/or legal implications. The overall impact would last between 6 months and a year.

4 High: The implications on service provision are significant, there is major financial loss, fatality, major adverse publicity and/or major loss of confidence in the organisation. The overall impact would last between one and two years.

5 Very High: We could not be able to fulfil our obligations, severe financial loss would be incurred, multiple fatalities have occurred with highly damaging implications for our reputation and a severe loss of public confidence. The overall impact would be expected to last for more than two years.

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 12 and over are reviewed every 6 months. All other risks are reviewed 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 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 Finance Officer.

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 sound 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. They must ensure teams carry out risk assessments to inform control measures and mitigating action. They 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 him 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

Independent Audit and Standards Committee

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

The Committee will examine evidence provided by internal 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 will seek to place reliance on internal audit work and the Commissioner's Annual Governance Statement forming in opinion on the overall arrangements for governance.

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

Risk Register Template

OPCC STRATEGIC RISK REGISTER

Risk Mitigation

Avoid : Stop the risk completely or stop it having an impact.

Reduce : Reduce the likelihood and/or impact of the risk

Transfer : Outsource, use contractors or insure against things going wrong

Accept : The risk is tolerable/accepted

DATE:

VERSION CONTROL

NO:

Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

[illegible]



Joint Audit & Standards Committee

Title: OPCC Risk Management Monitoring

Date: 2 March 2015

Agenda Item No: 17

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 report be noted

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 In line with the Risk Management Strategy the OPCC has a strategic risk register which identifies strategic risks to the organisation and/or Police and Crime Commissioner. The register details what processes or actions have been put in place to mitigate, or where appropriate, to accept the risk. Most of the OPCC risks are identified through the development of strategic and business plans.
- 2.2 Each identified risk is given a mitigated score which then determines the frequency of its review, either quarterly, half yearly or annually. The Joint Audit and Standards Committee

review the OPCC's strategic risk register on a quarterly basis and as a matter of good practice the OPCC will review all of its strategic risks prior to presenting them to the committee. This enables the risk owners and actions owners to assess whether any changes have occurred which would affect the identified risk. In addition it affords an opportunity to scope and identify new risks which have arisen during the last quarter. As a dynamic document risks can be added and modified throughout the annual cycle when necessary.

- 2.3 Any changes which have been made to the strategic register are highlighted to enable the committee to easily identify them.
- 2.4 Discussions between the OPCC and Constabulary have taken 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. The two main areas of concern detailed within both registers relate to finance and ability to achieve the policing priorities.
- 2.5 The OPCC has arranged for risk management training for all members of staff which will take place on 23 March 2015. The training will ensure that their understanding of risk is at a similar level, that they understand individual responsibilities as risk owners and have the knowledge and skills to identify, manage and mitigate risks. The training will afford an opportunity to discuss and agree a risk appetite for the OPCC.
- 2.5 Internal Auditors have carried out an internal audit of the OPCC and Constabulary's risk management. Staff from the OPCC were interviewed and contacted in relation to the audit, with relevant information and evidence being provided. Following the recommendations within the final report, the OPCC proposes to review both the strategic and operational risk registers in light of their comments. The outcome of this work will be reported as part of the quarterly risk report and registers to the Joint Audit & Standards Committee in June 2015.

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.

4. Supplementary information

- OPCC Risk Management Strategy
- Joint Audit & Standards Committee terms of reference
- CIPFA – Practical Guidance for Local Authorities and Police 2013 Edition



CUMBRIA POLICE AND CRIME COMMISSIONER

STRATEGIC RISK REGISTER

DATE: March 2015

VERSION CONTROL NO: 01/2015

Risk Mitigation Strategies:

Avoid : Stop the risk completely or stop it having an

Reduce : Reduce the likelihood and/or impact of the risk

Transfer : Outsource, use contractors or insure against things going wrong

Accept : The risk is tolerable/accepted

Risk Score:	Impact	Likelihood	
5	Very High	Very High	> 90% probability
4	High	High	65% > 90% probability
3	Medium	Medium	20% > 65% probability
2	Low	Low	5% > 20% probability
1	Very Low	Very Low	< 5% probability

Risk No.	Risk Description	Unmitigated Score			Mitigated Score			Risk Owner				Frequency of Assessment & Proposed Cycle	Date of Next Review
		Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Risk Owner	Action Owner				
R1	Governance / Internal Control	5	4	20	4	2	8	Chief Executive	Chief Finance Officer			Annual	March 2016
R2	Strategic Finance	4	5	20	3	3	9	Chief Executive	Chief Finance Officer			Annual	March 2016
R3	Reputation	4	3	12	3	2	6	Chief Executive	Head of Comms & Business Services			Annual	March 2016
R4	Priorities and Objectives	4	3	12	4	2	8	Chief Executive	Head of Partnerships & Commissioning			Annual	March 2016
R5	Consultation / Engagement	4	3	12	4	2	8	Chief Executive	Head of Comms & Business Services			Annual	March 2016

Scores

15 - 25	Quarterly Reviews
10 - 14	Half Yearly Reviews
9 or less	Annual Reviews

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

Risk Mitigation Strategies:

Avoid : Stop the risk completely or stop it having an impact.

Reduce : Reduce the likelihood and/or impact of the risk

Transfer : Outsource, use contractors or insure against things going wrong

Accept : The risk is tolerable/accepted

STRATEGIC RISK REGISTER

Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

Risk Description	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions					
	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Actions Already Taken to Mitigate the Risk	Outstanding Risk Mitigation Actions	Response Action or Management Approach to be Taken if Risk Occurs	Action Owner(s)	Review Date	
R1 - Governance/Internal Control													
Failure of governance/internal controls resulting in risks materialising & potential for fraud, error, irregularity.	5	4	20	4	2	8	Chief Executive (reduce)	Internal control arrangements subject to annual review; Internal and external audit arrangements; Section 151 Officer post; annually reviewed financial regulations, procurement regulations, scheme of delegation and code of governance. Risk management strategy and risk register in place. Further assurance through Independent Audit and Standards Committee.		Review of the the control environment; specific internal audit investigation; implementation of revised control procedures.	Chief Finance Officer / Governance & Business Services Manager	Mar-16	
Decision making fails to take account of all relevant information and inherent risks or fails to follow procedure resulting in unexpected consequences/poor decision making or judicial challenge.	5	4	20	4	2	8	Chief Executive (avoid)	Reports are required to follow a specific format that takes cognisance of risk, financial, legal, HR implications etc. Reports are considered by the commissioners staff prior to decision making. Procurement Regulations are in place. The governance manager has responsibility for ensuring compliance with the requirements. The Chief Executive is the Commissioner's monitoring officer with oversight of the arrangements. An annual report is presented to the Joint Audit and Standards Committee providing assurance on how risk is embedded within the OPCC processes and in particular it's decision making process.	A risk management training/workshop has been arranged for all OPCC staff to attend on 23 March 2015. The aim of the training is to ensure all OPCC staff's knowledge and understanding is up to date.	Consider the need for any further or specialised training of staff as appropriate. Time allowing, reports will be returned to the author for the inclusion of implications within reports. Alternatively a decision will be deferred if it is felt that the information is not sufficient.	Governance & Business Services Manager	Mar-16	
Risk - Failure to hold the Constabulary to account for having robust governance/internal control arrangements including arrangements for managing risk.	4	4	16	4	2	8	Chief Executive (reduce)	Joint Audit and Standards Committee, Commissioners CFO leads on arrangements for internal audit for both organisations. The Commissioner requires the Chief Constable to adopt financial regulations & procurement regulations as part of the funding arrangements. Chief Constable must appoint a statutory CFO who is professionally qualified and has statutory/professional responsibilities. The Commissioners Governance & Business Services Manager has specific responsibilities with regard to assurance on Constabulary risk management practices.	An internal audit of the Constabulary and OPCC risk management has been undertaken, the findings of which are due to be reported to the JASC meeting being held on 10 March 2015. Any areas or issues identified will be considered an appropriate action taken.	A review would be undertaken to establish whether there are any weaknesses in the control framework that may need improving. Consideration would be given to further internal audit review either to investigate a specific area or as part of the annual audit.	Governance & Business Services Manager	Mar-16	

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

Risk Mitigation Strategies:

Avoid : Stop the risk completely or stop it having an impact.

Reduce : Reduce the likelihood and/or impact of the risk

Transfer : Outsource, use contractors or insure against things going wrong

Accept : The risk is tolerable/accepted

STRATEGIC RISK
REGISTER

Risk Score:	Impact		Likelihood
5	Very High	Very High	> 90% probability
4	High	High	65% > 90% probability
3	Medium	Medium	20% > 65% probability
2	Low	Low	5% > 20% probability
1	Very Low	Very Low	< 5% probability

Risk Description	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions					Review Date
	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Actions Already Taken to Mitigate the Risk	Further Risk Mitigation Actions	Response Action or Management Approach to be Taken if Risk Occurs	Action Owner(s)		
R2 - Strategic Finance													
Failure to deliver a robust balanced medium term budget that provides sufficient resources for the Constabulary to deliver an effective policing service. High levels of funding uncertainty are impacting on this risk from 2016/17 including police formula funding review (£16m risk), new CSR (£17m risk).	4	5	20	3	3	9	Chief Executive (Reduce)	Reserves are being held at a higher level than would otherwise be the case. The change programme reviews are seeking to implement a scalable model of policing and develop options for cost reductions beyond the currently balanced 4 year MTFS.	Consideration is being given by the PCC/CC on how to engage the police and crime panel/ wider stakeholders in the debate on council tax increases to protect income.	Balances and reserves will provide some short term mitigation. A force merger or referendum to deliver a stepped change in cost or income would be necessary should the risk fully materialise.	Chief Finance Officer	Mar - 16	

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Accept : The risk is tolerable/accepted

STRATEGIC RISK REGISTER

Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

	Unmitigated Score			Mitigated Score				Actions				
Risk Description	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions Already Taken to Mitigate the Risk	Outstanding Risk Mitigation Actions	Response Action or Management Approach to be Taken if Risk Occurs	Action Owner(s)	Review Date
R4 - Reputation												
Failure to deal with conduct issues promptly, fairly and transparently could lead to a loss in confidence in systems and processes or public confidence.	4	3	12	3	2	6	Chief Executive (Avoid)	The PCC has adopted a code of conduct and ethical framework; independent audit and standards committee; membership of cumbria and lancashire standards group.		Review conduct issue and take corrective action. Communications and media support where the issue is public/reputational. Legal advice where appropriate.	Head of Communication and Business Services	Mar-16
Failure to robustly deal with an incident that significantly damages the reputation or public perception of the OPCC and the Commissioner.	4	2	8	3	2	6	Chief Executive (Avoid)	The office of public engagement has an approved strategy. Reputational issues are discussed at weekly joint OPCC / Constabulary Comms Management meetings. Where necessary the OPCC will develop individual strategies to cover specific reputational issues.		Establish as soon as possible a Strategic Working Group with the Commissioner or Chief Executive as the lead. Challenge any misinformation or inaccuracies and be pro-active in getting information across in as many different forms as possible.	Head of Communication and Business Services	Mar-16
Failure to scrutinise the Constabulary significantly that results in the Constabulary suffering damage to its reputation	4	2	8	3	2	6	Chief Executive (Avoid)	The office of public engagement has an approved strategy. Reputational issues are discussed at weekly joint OPCC / Constabulary Comms Management meetings		Strategic Working Group to be established with clear corporate objectives led by the Commissioner or Chief Executive. To be supported by a pro-action media strategy.	Head of Communication and Business Services	Mar-16

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

Risk Mitigation Strategies:

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

STRATEGIC RISK REGISTER

Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

Risk Description	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions					Review Date
	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Actions Already Taken to Mitigate the Risk	Outstanding Risk Mitigation Actions	Response Action or Management Approach to be Taken if Risk Occurs	Action Owner(s)		
R4 - Priorities and Objectives													
Failure to achieve the organisational objectives and priorities set out within the Police and Crime Plan and Service Plan	4	3	12	4	2	8	Chief Executive (reduce)	Plans are monitored through out the year and areas of concern scrutinised/ challenged. Performance data and actions are carefully considered as to their deliverability when setting the plans. Dedicated Partnerships and Strategy Manager works closely with the Constabulary to consult and agree outcomes and the information requirements in-year to ensure delivery is on track. Performance monitoring arrangements are in place for the Constabulary. Funding agreements developed with partners which provide performance reporting arrangements. Processes for monitoring delivery of the Police and Crime Plan have been reviewed and amended to reprioritise and improve them. Staffing structure under review to align with priorities for the delivery of the Police and Crime Plan.	Policies and Processes for monitoring delivery of the Police and Crime Plan are reviewed annually and will be amended to reprioritise and improve them.	A fundamental review of the process and issues resulting in this risk materialising would need to be undertaken. This would aim to establish the underlying causes and ensure appropriate action is taken. The area of underperformance would be reviewed and appropriate action taken.	Head of Partnerships & Commissioning	Mar-16	

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

CUMBRIA POLICE AND CRIME COMMISSIONER

VERSION CONTROL NO:

STRATEGIC RISK
REGISTER

Risk Mitigation Strategies:

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

Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

Risk Description	Unmitigated Score			Mitigated Score			Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)	Actions					Review Date
	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score		Actions Already Taken to Mitigate the Risk	Outstanding Risk Mitigation Actions	Response Action or Management Approach to be Taken if Risk Occurs	Action Owner(s)		
R5 - Consultation / Engagement													
There is a risk that the Office of Public Engagement doesn't deliver in line with its agreed strategy and this negatively impacts on the effectiveness of the OPCC and the reputation / public perception of the OPCC and the Commissioner this includes (community engagement, communications, complaints/standards) There is a risk that the OPCC may not have sufficient capability and capacity to deal with a major incident.	4	3	12	4	2	8	Head of Communication and Business Services (Avoid)	A Community Engagement Strategy is reviewed on an annual basis. The strategy encompasses consultation to gain public perception on such areas as local policing priorities. It includes a media strategy. The assistance of the Constabulary's Independent Advisors' Group and external agencies may be used to ascertain how best to engage and communicate with some hard to reach groups. Consultation with a wide range of members' of the public takes place throughout the year with half yearly reports to the Executive Board and linked to the setting of the policing priorities.		There is a comprehensive Office of Public Engagement strategy that covers all of the relevant areas of Communications / Community Engagement, Complaints / Standards with key deliverables over a rolling program of the next year and the following 3 years. This is supported by weekly updates to media and six monthly complaint / Standard and community engagement reports as well.	Head of Communication and Business Services	Mar-16	
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.	4	3	12	3	2	6	Head of Communication and Business Services (Avoid)	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.		Legal and communications advice to manage the risk.	Head of Communication and Business Services	Mar-16	
Risk of failure to comply with legislation and regulations in respect of requirements for statutory reports, publications and information.	4	2	8	4	1	4	Head of Communications and Business Services (Reduce)	Communications & Media Executive ensures that the statutory publication requirements of the annual report and Police and Crime Plan are met and kept under review. Post of Governance & Business Services Manager ensures requirements in respect of transparency/published information is kept under review and met through the PCC website. Individual officers responsible for ensuring any published documents within their area of responsibility meet statutory requirements. An annual review of the website in line with the publication scheme is carried out. Subscriptions to professional bodies ensure relevant guidance is recieved on the requirements. Take part in all the reviews to ensure that we are meeting our statutory obligations.		Take immediate action to provide the required information.Review of systems and processes to determine the reasons for failing to meet requirements.	Governance & Business Services Manager	Mar-16	



Joint Audit and Standards Committee

Agenda Item 18

TITLE OF REPORT:	Constabulary Quarterly Risk Management Update
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DATE OF MEETING:	10th March 2015
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ORIGINATING OFFICER:	Strategic Development, Corporate Improvement
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PART 1 or PART 2 PAPER:	PART 1 (OPEN)
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Executive Summary:

The purpose of this paper is to provide the Joint Audit and Standards Committee with the quarterly update to the Constabulary's risk management arrangements, including a review of the current strategic risk register.

Corporate Improvement has carried out a quality assurance check of all the departmental and operational risk registers to ensure that risk is effectively managed across the organisation. The Strategic Risk Register has been updated to reflect the latest situation.

The internal auditors have completed the Risk Management Audit and developed a draft report that is currently being considered before a final. It is hoped the results of the audit can be reported at the next meeting.

Recommendations:

That the Audit and Standards Committee:

1. Note the Constabulary's current strategic risks and that the quarterly review is scheduled for 1 December 2014.
2. Note the actions carried out by the Constabulary to help mitigate its financial strategic risk that is recognised as a high priority.
3. Note the results of the risk management audit will hopefully be reported at the next meeting.

MAIN SECTION

1. Introduction and Background

1.1 Strategic Risks

Risk is the threat that an event or action will affect the Constabulary's ability to achieve its organisational aim and objectives.

Each risk is managed at the level where the control to manage the risk resides. Therefore strategic risks are managed by the Chief Officer Group, significant operational risks are managed by Operations Board (Joint Crime and Territorial Policing Board) and significant strategic business risks are managed in the relevant business department and via the Business Board. Projects and programmes also have their own risks that are managed by the project / programme teams.

Strategic risks are those affecting the medium to long term objectives of the Constabulary and are the key, high level and most critical risks that the Constabulary faces and should be few in number. Best practice indicates that the number should be between 5 and 10.

In September 2014, internal audit began a review of the Constabulary's risk management processes. This work has not yet been completed. It is hoped the results of the audit can be reported at the next meeting.

The challenging environment the Constabulary operates in requires it to not only consider the context for managing risk but to continually identify new risks that emerge, and make allowances for those risks that no longer exist. A risk can be escalated to the Chief Officer Group for consideration as a strategic risk at any time. To support this, a tracking database is kept up to date for the Strategic Risk Register to provide an audit trail of the risks that are removed or remitted to the operational and departmental risk registers. Full details of the Constabulary's risk management processes can be found in the Risk Management Policy, which was reviewed and approved by Chief Officers on the 5th September 2014.

The strategic risks identified by the Constabulary are concerned with the implications of longer-term reduction in budget, failure to deliver required change, performance and productivity of police officers and the integrity of police officers and staff. Since the last meeting a new strategic risk has been identified and is related to the significant increase in the number of reported rape and sexual offences.

The table on page 4 outlines the Constabulary's five strategic risks and provides the RAG rating (Red, Amber, and Green) for each risk (**RAG risk rating = impact x likelihood**). It also indicates which Constabulary objectives the risks link to (as described below).

The Strategic Risk Register is due to be submitted to Chief Officer Group on 1 December for consideration.

The Chief Constable in his 'Annual Statement of Corporate Governance' determined the strategic direction for the Constabulary that 'Community Policing is Our Priority'. In light of public consultation, the annual review of the Constabulary's Strategic Assessment (based on operational intelligence), performance results, recommendations from independent inspections and audits and a review of the organisations strategic risks, six objectives were identified as key in reducing 'threat, risk and harm' and tackling our communities' concerns:

1. Reduce the harm caused by domestic abuse, sexual assault and child exploitation, encouraging people to report to the police.
2. Respond to vulnerable adults and children who go missing from home.
3. Deal with alcohol related crime and antisocial behaviour in our communities.
4. Tackle drug supply across the county.
5. Keep crime at the current low levels, especially burglary, theft and violent crime.
6. Deal with antisocial behaviour in our communities.

Appendix 1 of this report provides a copy of the Constabulary's risk scoring matrix.

Strategic Risk Register

Risk Ref No	Responsible Officer(s)	Risk Description	Impact	Likelihood	Initial Score	Latest Score	Link to Strategic Objectives
22	The Chief Constable & Chief Financial Officers for the Police & Crime Commissioner	<p>The current funding gap continues to increase due to:</p> <ul style="list-style-type: none"> • local and national financial sources reducing and/or, • greater than projected increases in expenses (for example pay and inflation), and • the removal of the police allocation damping mechanisms , and • the Government's statement about austerity continuing until early 2020s. <p>If this risk occurs, the Constabulary would have to find and deliver further savings in addition to those already planned, resulting in a significantly reduced number of officers and staff and significant detrimental impact on police services delivered to the public.</p>	High	High	25	16	All
2	Director of Corporate Improvement & Director of Corporate Support	The Constabulary may not have the capacity to deliver the Change Programme and Corporate Support Business Plan, in particular the reliance on IT to deliver systems which improve officer productivity and reduce manual intervention in processes. If this risk occurs the Constabulary would have to find further savings from within the Constabulary.	High	Medium	10	12	All

Risk Ref No	Responsible Officer(s)	Risk Description	Impact	Likelihood	Initial Score	Latest Score	Link to Strategic Objectives
24	The Deputy Chief Constable and Temporary Detective Chief Superintendent Crime Command	There is potential reputational damage to the Constabulary because of the significant increase it has seen the number of reported rape and sexual offences caused by the large number of high profile cases reported in the media which has positively encouraged more victims to come forward and report this serious offence.	Medium	High	15	10	1,3,4 & 5
11	Assistant Chief Constable and Director of Corporate Improvement	The Constabulary's performance may be adversely affected due to the significant level of change across the Constabulary as a whole. This may result in adverse publicity and reputational damage, and potential direct intervention from Her Majesty's Inspector of Constabulary (HMIC).	Medium	Medium	20	9	All
23	The Deputy Chief Constable and Head of Professional Standards	There may be reduced public confidence in the Constabulary and reduced engagement with frontline police officers and staff due to a perceived (because of current national media focus and government communication) or actual lack of integrity amongst police officers and staff. This would result in significant reputational damage and a potential drop in performance because of less public support.	Medium	Low	9	6	All

Risk Tolerance Levels		
<u>Risk Score 1-4</u> Acceptable. No action is required but continue monitoring.	<u>Risk Score 5-12</u> Tolerable risks but action is required to avoid a Red status. Investigate to verify and understand underlying causes and consider ways to mitigate or avoid within a specified time period.	<u>Risk Score 15-25</u> Unacceptable. Urgent attention is required. Investigate and take steps to mitigate or avoid within a specified short term.

The main strategic risk for the Constabulary is financial. This is recognised as a high priority risk (red) and has been on the register for some time, which is a situation that is likely to continue.

The Constabulary has carried out a series of actions to help reduce the impacts associated with these risks. The actions were presented to the Audit and Standards Committee in December 2014 but have been updated to reflect recent work that has been undertaken. Keys areas are:

- The potential decrease is modelled in the Medium Term Financial Forecast which is based on prudent assumptions. The MTFF sets resource parameters to deliver police services and workforce, asset and change planning determine how these will be linked to balance resource allocation and provide effective police service.
- The MTFF is regularly updated and refreshed, using information from a range of sources so that it is as up to date as possible.
- Links between the Chief Financial Officer and Change Programme are defined, robust and regular.
- There is robust management of officers and staff via the Workforce Plan, which has strategic importance, is developed to 2020 and determines the Constabulary's recruitment strategy.
- The Workforce Plan is updated monthly, based on the latest information available.
- The Change Programme informs the Workforce Plan and links between HR, Finance and the Change Programme are defined, robust and regular.
- The Constabulary has developed a substantial Change Programme up to 2018-2019, This is contained and detailed within a Change Strategy which supports and aligns with the Chief Constable's strategic vision.
- Development and delivery of asset strategies, with twin aims of meeting business need and reducing costs. In particular the IT strategy, which seeks to digitise processes and deliver and enable officers to be out of stations to undertake duties so that they can be more productive and efficient- thereby reducing the number of officers required.
- Zero based budgeting applied annually and robust and regular financial reporting delivered. Star Chambers (supportive challenge with individual budget holders) in December 2014 identified further savings which have taken account of in the budget setting process for 2015/16.
- Strengthened and effective governance which is strategic and cross cutting, ensuring that risks and interdependencies are managed and benefits are delivered.
- Longer term change plans to 2020/21 are being developed.
- More accurate turnover forecasting is being developed.
- The Constabulary has recently carried out a piece of work to gain a comprehensive understanding of its operational demand to identify how policing services could be delivered with fewer officers and how demand could be reduced. Following this, an action plan has been produced to address the findings of this work and is being delivered.
- A chief superintendent post has been established and recruited to. The role will deliver the demand reduction plan and to coordinate business change delivery (ICT and Change Programme) in the operational organisation, supported by a weekly Tactical Implementation Group to identify issues, resolve and/or escalate to GIG.
- A comprehensive Planning Day was held on 30 January 2015 to schedule all the complex and interdependent change across the Constabulary (specifically training, ICT and change programme. This is being delivered through a weekly Gold

Implementation Group (GIG) led by the DCC to deliver resolve issues, manage resources and ensure delivery to plan

2. Issues for Consideration

2.1 Drivers for Change

Effective risk management is a key component of effective corporate governance. Managing risk will contribute towards delivery of the strategic priorities. There are potential significant consequences from not managing risk effectively.

Robust risk management will help improve decision-making and drive corporate activity that represents value for money.

Effective risk management will help protect the reputation of the Constabulary and the Office of the Police and Crime Commissioner, safeguard against financial loss and minimise service disruption.

2.2 Consultation processes conducted or which needs to be conducted

Individual risk owners have been consulted as part of the standard risk management arrangements.

2.3 Impact assessments and implications on services delivered

Not applicable- described in the risk register where appropriate.

2.4 Timescales for decision required

On the 15th of September 2014, the Extended Chief Officer Group reviewed and approved the Constabulary's current risks. It is considered quarterly and will be submitted to the next COG on 1 December 2014.

2.5 Internal or external communications required

Corporate Improvement ensures that any changes or decisions made are communicated to the relevant stakeholder(s).

3. Financial Implications and Comments

Any financial implications are described in the relevant risks outlined within this report.

4. Legal Implications and Comments

Any financial implications are described in the relevant risks outlined within this report.

5. Risk Implications

The Constabulary's risks are described in section one of this report.

6. HR / Equality Implications and Comments

Any HR / Equality implications are described in the relevant risks outlined within this report.

7. ICT Implications and Comments

Any ICT implications are described in the relevant risks outlined within this report.

8. Procurement Implications and Comments

Any procurement implications are described in the relevant risks outlined within this report.

9. Supplementary Information

9.1 List any relevant documents and attach to report

Appendix 1	Risk Scoring Matrix
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9.2 List persons consulted during the preparation of report

Risk Scoring Matrix

Impact Score	Description					
		IMPACT ON SERVICE PROVISION	FINANCIAL IMPACT	IMPACT ON PEOPLE	DURATION OF IMPACT	IMPACT ON REPUTATION
5	Very High	Unable to function, inability to fulfil obligations	Severe financial loss > £3M	Multiple fatalities	In excess of 2 years	Highly damaging, severe loss of public confidence or being declared a failing Force
4	High	Significant impact on service provision	Major financial loss £1M to £3M	Fatality	Between 1 year - 2 years	National publicity, major loss of confidence or serious IPCC complaint upheld
3	Medium	Service provision is disrupted	Significant financial loss £500k to £1M	Serious injury, RIDDOR reportable	Between six months to 1 year	Some adverse local publicity, legal implications, some loss of confidence
2	Low	Slight impact on service provision	Moderate financial loss £100k to £500k	Slight medical treatment required	2 to 6 months	Some public embarrassment, or more than 1 complaint
1	Very Low	Insignificant impact, no service disruption	Insignificant financial loss < £100k	First Aid treatment only No obvious harm/injury	Minimal - up to 2 months to recover	No interest to the press, internal only

Likelihood Score	Tolerance Levels – Likelihood Assessment	
5	Very High	A risk has a very high score if there is a 90% or more chance of it happening every year. This means that it is almost certain to happen regularly.
4	High	A risk has a high score if there is a 65% to 90% likelihood of it happening at some point over the next 3 years. Basically, it probably will happen but it won't be too often.
3	Medium	A risk has a medium score if the likelihood of it happening is between 20% and 65% over the next 10 years. This means it may happen occasionally.
2	Low	A risk has a low score if the likelihood of it happening is between 5% and 25% at some point in the next 25 years. This means it is not expected to happen but it is possible.
1	Very Low	A risk has a very low score if the likelihood of it happening is less than 5% over 100 years. Basically, it could happen but it is most likely that this would never happen.

		Impact	Impact	Impact	Impact	Impact
		Very Low (1)	Low (2)	Medium (3)	High(4)	Very High (5)
Likelihood	Very High (5)	5	10	15	20	25
Likelihood	High (4)	4	8	12	16	20
Likelihood	Medium (3)	3	6	9	12	15
Likelihood	Low (2)	2	4	6	8	10
Likelihood	Very Low(1)	1	2	3	4	5
		Impact	Impact	Impact	Impact	Impact