

# **JOINT INDEPENDENT AUDIT COMMITTEE**

**MONDAY, 22 FEBRUARY 2021, 14:00**

**MICROSOFT TEAMS CONFERENCE**

## **AGENDA**

### **OPEN SESSION**

- 1. INTRODUCTION**
- 2. DECLARATION OF INTEREST**
- 3. MINUTES OF THE OPEN SESSION OF THE JOINT INDEPENDENT AUDIT COMMITTEE 16 NOVEMBER 2020**  
*(Attached)*
- 4. MATTERS ARISING**  
*(Action list attached)*
- 5. ICT UPDATE**  
Chief Information Officer  
*(Verbal update)*
- 6. TREASURY MANAGEMENT POLICY STATEMENT AND STRATEGY**  
Head of Finance  
*(Paper attached)*
- 7. ANNUAL GOVERNANCE REVIEW - ASSURANCE FRAMEWORK**  
Head of Finance  
*(Paper attached)*
- 8. ANNUAL AUDIT LETTERS (CC & PCC)**  
External Audit Manager  
*(Paper attached)*
- 9. EXTERNAL AUDIT UPDATE**  
External Audit Manager  
*(Verbal update)*
- 10. REDMOND REVIEW UPDATE**  
Head of Finance  
*(Paper attached)*
- 11. JOINT STRATEGIC RISK REGISTER**  
Head of Corporate Development  
*(Paper attached)*

**12. SUMMARY OF RECENT EXTERNAL INSPECTION, INVESTIGATION AND AUDIT REPORTS**

Head of Corporate Development  
(Paper attached)

**13. INTERNAL AUDIT CHARTER, STRATEGY AND 2021/22 AUDIT PLAN**

Internal Audit Manager  
(Paper attached)

**14. DATE AND TIME OF NEXT MEETING**

24 May 2021, 2pm, Venue TBC.

**15. EXCLUSION OF THE PRESS AND PUBLIC – EXEMPT BUSINESS**

The Committee is asked to pass a resolution to exclude the press and public from the meeting during consideration of the following items on the grounds indicated.

| <b>Agenda item number</b> | <b>Paragraph of Schedule 12A to the Local Government Act 1972</b> |
|---------------------------|---|
| 16                        | 7   |
| 17                        | 7   |
| 18                        | 7   |
| 19                        | 7   |
| 20                        | 7   |



**NORTHUMBRIA POLICE MINUTES**

|  |                                  |
|--|----------------------------------|
| <b>Title</b><br>Joint Independent Audit Committee (JIAC) | <b>Meeting number</b><br>04/2020 |
|--|----------------------------------|

|                                 |   |                                  |
|---------------------------------|---|----------------------------------|
| <b>Date</b><br>16 November 2020 | <b>Location</b><br>Teams Video Conference | <b>Duration</b><br>14:00 – 15:30 |
|---------------------------------|---|----------------------------------|

**Present:**

|                          |  |       |
|--------------------------|--|-------|
| <b>Committee Members</b> | N Mundy<br>K Amlani<br>P Angier<br>J Guy<br>P Wood | Chair |
|--------------------------|--|-------|

|                  |   |  |
|------------------|---|--|
| <b>Officers:</b> | R Durham<br>R Bacon<br>P Godden<br>M Tait | OPCC Chief of Staff and Monitoring Officer<br>Assistant Chief Constable<br>Head of Corporate Development Department<br>Joint Chief Finance Officer |
|------------------|---|--|

|                  |   |   |
|------------------|---|---|
| <b>Invitees:</b> | R Bowmaker<br>J Greener<br>K Laing<br>D Sadler<br>G Thompson<br>C Waddell<br>S Purvis | Internal Audit, Gateshead Council<br>Senior Manager, Mazars<br>Head of Finance Department<br>MASONS Advisory<br>Principal Accountant, Finance Department<br>Partner, Mazars<br>Governance and Planning Adviser ( <i>Secretary</i> ) |
|------------------|---|---|

|                   |        |                        |
|-------------------|--------|------------------------|
| <b>Apologies:</b> | D Ford | Deputy Chief Constable |
|-------------------|--------|------------------------|

**OPEN SESSION****I. INTRODUCTION**

N Mundy welcomed all to the meeting.

He confirmed this was P Angier's last meeting as he was renouncing his role as a JIAC committee member. He expressed immense gratitude on behalf of the committee for his contribution over the course of his membership and wished him well for the future.

R Durham thanked members for their responses to the consultation survey regarding the Police and Crime Plan. The priorities for the plan are being developed and will be presented to the committee early next year.

N Mundy thanked M Tait and K Laing for enabling his attendance at a recent webinar regarding Police Audit Committees and expressed interest in any future events of this nature.

**2. DECLARATION OF INTEREST**

No additional declarations of interest were declared.

**3. MINUTES OF THE OPEN SESSION OF THE JOINT INDEPENDENT AUDIT COMMITTEE 24 AUGUST 2020**

Minutes agreed as a true and accurate record.

**4. MATTERS ARISING**

N Mundy raised the update at a future meeting on the implementation of ICT systems; as no date was quoted in the Action Log reference 03/2020 Minute 8. In light of the Internal Audit Report to be considered later, ICT within the Strategic Risk Register and as the Deputy Chief Constable had helpfully invited D Sadler to join the closed session to address any IT issues which JIAC may wish to raise, he proposed with the agreement of the meeting that these matters be considered together.

No other actions were outstanding.

**5. REVIEW INTO THE ROLE OF POLICE AND CRIME COMMISSIONER – STAGE I**

R Durham reminded members of the background to the review which commenced in August 2020. Further communication from the national lead is awaited; an update will be provided to JIAC thereafter.

**Update noted.**

**6. AUDIT COMPLETION REPORTS (CC & PCC)**

C Waddell and J Greener provided an overview of the Audit Completion reports for the Chief Constable (CC) and Police and Crime Commissioner (PCC) for the year ending 31 March 2020.

The impact of COVID-19 on the submission deadlines, and the difficulties encountered by staff during accounts preparation and audit were acknowledged. J Greener expressed thanks for their assistance throughout the process.

C Waddell confirmed that the issue relating to the Tyne and Wear Pension Fund was included in the report.

In response to a query from P Wood regarding Value for Money (VFM) assessments, C Waddell provided an overview of the qualifications used for VFM.

J Guy referred to page 15 of the CC's report and suggested that the sentence regarding further scrutiny of the action plan being provided by the Police and Crime Panel should be clarified to acknowledge that the Panel scrutinise the PCC not the Police.

**Action: C Waddell to amend wording regarding scrutiny provided by the Police and Crime Panel.**

R Bacon advised of the excellent feedback received from HMICFRS regarding the Force's response to COVID-19. Although a formal inspection wasn't undertaken, the exceptional set of arrangements put in place by Northumbria have been recommended as national good practice.

**Update noted.**

**7. MID YEAR TREASURY MANAGEMENT REPORT**

K Laing presented the Treasury Management mid-year performance up to 30 September 2020, providing an overview of key highlights.

He advised of recent feedback from Link Asset Services, an external partner, who carried out a benchmarking exercise of which Northumbria came top for 'achievement of investment', which relates to the Force's proactive response to changes in interest rates earlier in the year.

N Mundy thanked G Thompson and her team for their effective management of the Treasury Management process and production of an excellent report.

***Agreed: To approve the report for presentation to the PCC.***

**8. EMERGENT AUDIT PLAN**

R Bowmaker presented the emergent Internal Audit Plan 2021/22-2023/24, in advance of presentation of the proposed plan to JIAC in February 2021.

J Guy referred to 'Resilience' risk on the Internal Audit Plan and queried whether the Force is satisfied with their resilience levels going into 2021, given ongoing external factors such as COVID, lockdowns, Christmas period etc.

R Bacon advised the Force has very significant resilience monitoring around COVID; however she would raise the query with the DCC and provide an update to R Bowmaker as appropriate.

K Amlani queried the frequency of financial systems audits, specifically whether there is a need for them to be undertaken on an annual basis given they are considered to be robust and satisfactory. R Bowmaker advised frequency of audit is determined by scoring from the risk matrix, however would consider this when risk scoring is completed.

C Waddell spoke of experience with financial systems audits in other public sector organisations and offered to present further information to the Force regarding moving towards an assurance based model rather than a solely risk based approach. N Mundy requested JIAC members be invited to such a discussion in future should one be scheduled.

**Update noted.**

**9. SUMMARY OF RECENT EXTERNAL INSPECTION REPORTS**

P Godden presented update regarding progress made by the Force in response to inspection recommendations and findings.

He advised overall the Force remains satisfied with progress in response to the recommendations and Areas for Improvement (AFIs). Whilst there are no significant risks that would impact on achievement of outstanding recommendations or AFIs, additional focus and effort remains with regard to vetting and incident demand and risk management.

Members acknowledged the significant progress made since the last committee meeting.

**Update noted.**

**10. JOINT STRATEGIC RISK REGISTER (JSRR)**

P Godden presented the JSRR, which incorporates the strategic risks faced by the Force and OPCC within twelve thematic areas.

**Update noted. (Progress on ICT transformation to be considered in the closed session.)**

**11. DATE, TIME AND VENUE OF NEXT MEETING**

22 February 2021. Time and venue TBC.



**JOINT INDEPENDENT AUDIT COMMITTEE – ACTION LOG**

| <b>SOURCE</b><br>Meeting / date /<br>minute ref. | <b>ACTION</b>  | <b>ASSIGNED TO</b> | <b>UPDATE</b><br>Cleared or update   |
|--|--|--------------------|--|
| <b>04/2020</b><br><b>Minute 6</b>                | <b><u>AUDIT COMPLETION REPORTS (CC &amp; PCC)</u></b><br>To amend wording regarding scrutiny provided by the Police and Crime Panel. | C Waddell          | Confirmed wording per Audit Completion Reports was updated and reports reissued. |





|   |                         |
|---|-------------------------|
| <b>JOINT INDEPENDENT AUDIT COMMITTEE</b>                                    | <b>22 FEBRUARY 2021</b> |
| <b>TREASURY POLICY STATEMENT &amp; TREASURY STRATEGY 2021/22 TO 2024/25</b> |                         |
| <b>REPORT OF: THE JOINT CHIEF FINANCE OFFICER</b>                           |                         |

**I PURPOSE**

1.1 To review and recommend the adoption by the Commissioner of the attached four year 2021/22 to 2024/25 Treasury Policy Statement and Strategy.

**2 RECOMMENDATION**

2.1 To recommend the adoption by the Commissioner of the attached four year 2021/22 to 2024/25 Treasury Policy Statement and Strategy.

**3 BACKGROUND**

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Code of Practice on Treasury Management (the Code) which represents best practice in Treasury Management. By adopting the attached Treasury Policy Statement and Strategy for 2021/22 to 2024/25 the Commissioner contributes towards achieving best practice.

3.2 Part I of the Local Government Act 2003 specifies the powers of local authorities to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. For the purpose of the Local Government Act 2003 Police and Crime Commissioners are classified as local authorities. The CIPFA Prudential Code for Capital sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code also refers to the need for a clear and integrated Treasury Strategy.

3.3 In addition, under Section 15 of the Local Government Act 2003, local authorities are required to have regard to the MHCLG's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy.

**4. TREASURY POLICY AND TREASURY STRATEGY**

4.1 The Treasury Policy 2021/22 to 2024/25 is set out in Appendix I, and details the overarching approach to the provision of Treasury Management which includes the Treasury Strategy, Investment Strategy and appropriate delegations.

4.2 The Treasury Strategy for 2021/22 to 2024/25 covers the specific activities proposed for the next four years in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the

security of investments at all times. The Strategy is attached at Appendix 2 to this report.

- 4.3 The Treasury Strategy complies with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities and Part I of the Local Government Act 2003.
- 4.4 In addition, there are further Appendices 3 to 7, which set out the current interest rate forecasts, Prudential Treasury Indicators, Specified Investments, Maximum Maturity Periods, and details of foreign countries that could be invested with, all of which underpin the core approach detailed in the Strategy.

## **5 FURTHER INFORMATION**

5.1 The following documents have been used in preparation of the report:

- Local Government Act 2003.
- MHCLG Guidance on Local Government Investments.
- CIPFA's Prudential Code for Capital 2017.
- CIPFA's Code of Practice on Treasury Management 2017.
- The approved Treasury Management Practice Statements as used for day to day management purposes.
- Link Group Treasury Management Strategy template 2021/22.

## **6 CONSIDERATIONS**

|  |            |
|--|------------|
| <b>Freedom of Information</b>  | NON-EXEMPT |
| <b>Consultation</b>  | Yes        |
| Consultation has taken place with external treasury advisers Link Asset Services.  |            |
| <b>Resource</b>  | Yes        |
| There are no financial implications directly arising from the contents of this report. Any income and expenditure within the scope of the report is already included in the agreed revenue budget.   |            |
| <b>Equality</b>  | No         |
| <b>Legal</b>   | No         |
| <b>Risk</b>  | Yes        |
| The Treasury Policy and Strategy recommended for approval have been prepared with the aim of maintaining the security and liquidity of investments to ensure that the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim. |            |
| <b>Communication</b>   | No         |
| <b>Evaluation</b>  | No         |

**Treasury Policy 2021/22 to 2024/25**

**I. Introduction**

I.1 The Commissioner has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) and maintains:

- A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of our treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the policies and objectives are carried out, and prescribing how the activities will be managed and controlled.

I.2 CIPFA defines Treasury Management as:

*'The management of the organisation's borrowing, 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.'*

I.3 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report. The capital strategy will be approved by the Police and Crime Commissioner as part of the Medium Term Financial Strategy (MTFS) 2021/22 to 2024/25 approval process.

I.4 The Police and Crime Commissioner for Northumbria has not engaged in any commercial investments and has no non-treasury investments.

I.5 The Police and Crime Commissioner for Northumbria has delegated responsibility to the Chief Finance Officer (CFO) for the treasury management function and the undertaking of investment and borrowing on behalf of the Commissioner, ensuring that all activities are in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services.

**2. Treasury Strategy**

2.1 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 the risk implications for the Commissioner.

2.2 The Treasury Strategy encompasses the requirements of CIPFA's Treasury Management Code of Practice, CIPFA's Prudential Code and the MHCLG's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy Statement.

2.3 The Treasury Strategy covers the following:

- a) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.
- b) Prospects for interest rates.

- c) The borrowing strategy.
- d) Debt rescheduling.
- e) Policy on borrowing in advance of need.
- f) Management of interest rate exposure.
- g) The investment strategy.
- h) Creditworthiness policy.
- i) The policy on the use of external service providers.

2.4 The strategy for 2021/22 to 2024/25 is attached at Appendix 2.

### **3. Prudential and Treasury Indicators**

3.1 Under Part I of the Local Government Act 2003 the Commissioner may borrow money:

- a) For any purpose relevant to its functions under any enactment; or
- b) For the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Code of Practice on Treasury Management in the Public Services the following indicators have been adopted:

- Compliance with the Code of Practice on Treasury Management in the Public Services.
- Calculations of:
  - Authorised limit.
  - Operational boundary.
  - Actual external debt.
  - Maturity structure of borrowing.
  - Upper limits for principal sums invested for periods of over 365 days.
  - Gross debt and Capital Financing Requirement.

3.3 The draft prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators will be finalised and approved by the Commissioner by 31 March 2021 as part of the Medium Term Financial Strategy (MTFS) 2021/22 to 2024/25 and Capital Strategy approval process.

3.4 Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2021/22 is included in appendix 4.

### **4. Annual Investment Strategy**

4.1 Part I of the Local Government Act 2003 relaxed the investment constraints for local authorities.

4.2 The MHCLG has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the

Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify". The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an annual investment strategy. This is included as Section 6 of the Treasury Strategy in Appendix 2.

4.4 The annual investment strategy document will include:

- The Commissioner's risk appetite in respect of security, liquidity and return.
- The definition of 'high' and 'non-high' credit quality to determine what are specified investments and non-specified investments.
- Which specified and non-specified instruments the Commissioner will use, dealing in more detail with non-specified investments given the greater potential risk.
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies.
- The types of investments that may be used during the course of the year.
- The limit to the total amount that may be held in each investment type.
- The Commissioner's policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Commissioner will deal with changes in ratings, rating watches and rating outlooks.
- Limits for individual counterparties, groups and countries.
- Guidelines for making decisions on investments and borrowing.

## **5. Policy on Interest Rates Exposure**

5.1 The Commissioner's approach to managing interest rate exposure is described at section 4.10 of the Treasury Strategy 2021/22 to 2024/25.

5.2 The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the CFO will require approval from the Commissioner prior to entering into any arrangement of this nature.

## **6. Policy on External Managers**

6.1 Treasury management advisers (Link Group, Treasury Solutions) assist the Commissioner in achieving the objectives set out in the Treasury Policy Statement. The CFO has not appointed external investment fund managers to directly invest the Commissioner's cash.

## **7. Policy on Delegation, Review Requirements and Reporting Arrangements**

7.1 It is the Commissioner's responsibility under the Code to approve a Treasury Policy Statement.

7.2 The Commissioner delegates the review and scrutiny of the Treasury Management Strategy and Policies, along with monitoring performance by receiving the mid-year review and annual report, to the Joint Independent Audit Committee, and the execution and administration of

Treasury Management decisions to the CFO. Any proposals to approve, adopt or amend policy require the consent of the Commissioner and are matters for the Commissioner to determine.

7.3 The Commissioner will receive:

- a) A four year Treasury Strategy report, including the annual Investment Strategy, before the commencement of each financial year.
- b) A mid-year report on borrowing and investment activity.
- c) An annual report on borrowing and investment activity by 30 September of each year.
- d) A Capital Strategy report providing the following:
  - A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
  - An overview of how the associated risk is managed.
  - The implications for future financial sustainability.

**Treasury Strategy 2021/22 to 2024/25**

**I. Introduction**

- I.1 The Treasury Strategy has been prepared in accordance with the Treasury Management Code of Practice (the Code). The Code emphasises a number of key areas including the following:
- a) The Code must be formally adopted.
  - b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Commissioner's treasury management activities.
  - c) The Commissioner's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
  - d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
  - e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
  - f) A sound diversification policy with high credit quality counterparties which considers setting country, sector and group limits.
  - g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
  - h) The main annual treasury management reports must be approved by the Commissioner.
  - i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
  - j) Each Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
  - k) Treasury management performance and policy setting should be subjected to prior scrutiny.
  - l) Commissioner's and scrutiny members dealing with treasury management activities should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
  - m) Responsibility for these activities must be clearly defined within the organisation.
  - n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.
- I.2 The management of day to day working capital (cash flow) including the requirement for temporary borrowing and/or investment will be monitored along with the limits noted below.



The Commissioner will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

| <b>Area of Responsibility</b>   | <b>Commissioner/<br/>Committee/ Officer</b>                             | <b>Frequency</b>                                   |
|---|---|--|
| Treasury Management Policy & Strategy / Annual Investment Strategy                                | Commissioner with review delegated to Joint Independent Audit Committee | Annually before the start of the year              |
| Annual Report   | Commissioner with review delegated to Joint Independent Audit Committee | Annually by 30 September after the end of the year |
| Scrutiny of treasury management performance via mid-year report                                   | Commissioner with review delegated to Joint Independent Audit Committee | Mid-Year   |
| Scrutiny of treasury management strategy, policies and procedures                                 | Joint Independent Audit Committee                                       | Annually before the start of the year              |
| Treasury Management Monitoring Reports, including any amendments to Treasury Management Practices | CFO   | Monthly report, quarterly TM monitoring meeting    |

1.3 The Treasury Management Code covers the following prudential indicators:

- Authorised limit for external debt.
- Operational boundary for external debt.
- Actual external debt.
- Upper and lower limits to the maturity structure of borrowing.
- Upper limits to the total principal sums invested longer than 365 days.
- Gross debt and Capital Finance Requirement.

1.4 The draft prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators will be finalised and approved by the Commissioner by 31 March 2021 as part of the Medium Term Financial Strategy (MTFS) 2021/22 to 2024/25 and Capital Strategy approval process

1.5 In addition to the above indicators, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.6 The strategy covers:

- a) Prospects for interest rates.
- b) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.
- c) The borrowing strategy.
- d) Sensitivity forecast.
- e) External and internal borrowing.
- f) Debt rescheduling.
- g) Policy on borrowing in advance of need.
- h) The investment strategy.
- i) The policy on the use of external service providers.

**2. Prospects for Interest Rates**

2.1 The table shown below outlines the Commissioner’s view of anticipated movements in interest rates, based on guidance received from the Commissioner’s treasury management advisers Link Group. A more detailed interest rate forecast is shown in Appendix 3.

*(The PWLB rates shown below include a 20 basis point ‘certainty rate’ discount effective 01/11/2012)*

|                   | March<br>2021 | June<br>2021 | Sept<br>2021 | Dec<br>2021 | March<br>2022 | June<br>2022 | March<br>2023 | March<br>2024 |
|-------------------|---------------|--------------|--------------|-------------|---------------|--------------|---------------|---------------|
| <b>Bank Rate</b>  | 0.10%         | 0.10%        | 0.10%        | 0.10%       | 0.10%         | 0.10%        | 0.10%         | 0.10%         |
| <b>5 yr PWLB*</b> | 0.90%         | 0.90%        | 0.90%        | 0.90%       | 1.00%         | 1.00%        | 1.10%         | 1.20%         |
| <b>10 yr PWLB</b> | 1.30%         | 1.30%        | 1.30%        | 1.30%       | 1.40%         | 1.40%        | 1.50%         | 1.60%         |
| <b>25 yr PWLB</b> | 1.90%         | 1.90%        | 1.90%        | 1.90%       | 2.00%         | 2.00%        | 2.10%         | 2.20%         |
| <b>50 yr PWLB</b> | 1.70%         | 1.70%        | 1.70%        | 1.70%       | 1.80%         | 1.80%        | 1.90%         | 2.00%         |

\* (PWLB) Public Works Loan Board is a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB’s function is to lend money to other prescribed public bodies.

2.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, it then left Bank Rate unchanged at its subsequent meetings to 4 February 2021, although some forecasters had suggested that a cut into negative territory could happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

- 2.3 As the interest forecast for PWLB certainty rates shows, there is expected to be little upward movement in PWLB rates over the next two years. Government bond yields of major countries around the world are expected to rise little during this time in an environment where central bank rates are expected to remain low for some years. However, from time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

### **Economic Background**

- 2.4 As mentioned earlier, the coronavirus outbreak has resulted in significant economic damage for the UK and economies around the world. Emergency action was taken by the Bank of England in 2020 taking Bank Rate to 0.10% in March and introducing quantitative easing (QE) of up to £895bn. The Bank of England's Monetary Policy Committee (MPC) kept Bank Rate and QE unchanged on 4<sup>th</sup> February 2021. However, it revised its economic forecasts to take account of a third national lockdown which started on 5<sup>th</sup> January expecting both further damage to the economy and delays to economic recovery. Moreover, the MPC had already decided in November to undertake a further tranche of QE of £150bn, to start in January when the previous programme of £300bn, announced in March to June 2020, finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it was felt that there was already sufficient provision for QE - which would be made to last to the end of 2021.
- 2.5 Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were:
- The economy would start to **recover strongly** from Q3 2021.
  - **£125bn of savings** made by consumers during the pandemic will give a big boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays.
  - The economy would still recover to reach its **pre-pandemic level** by Q1 2022 despite a long lockdown in Q1 2021.
  - **Spare capacity** in the economy would be eliminated in Q1 2022.
  - The Bank also expects there to be **excess demand** in the economy by Q4 2022.
  - **Unemployment** will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home.
  - **CPI inflation** was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, e.g. the reduction in VAT for certain services comes to an end and recent developments in energy prices. CPI inflation was projected to remain close to 2% in 2022 and 2023.
  - The Monetary Policy Report acknowledged that there were **downside risks** to their forecasts e.g. from virus mutations, will vaccines be fully effective, and how soon tweaked vaccines can be produced and administered to deal with mutations.
  - The Report also mentioned a potential **upside risk** as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. There is a risk that consumers could spend a lot more and more quickly.

- The Bank of England also removed **negative interest rates** as a possibility for at least six months as financial institutions are not ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate.

- 2.6 **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.
- 2.7 The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus - both domestically and its potential effects worldwide. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates anytime soon and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

### **Investment and Borrowing Rates**

- 2.8 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following years.
- 2.9 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England during 2020. On 25 November 2020 the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had planned purchase of assets for yield in its capital programme. The new margins over gilt yields are as follows: -
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
  - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- 2.10 The policy of avoiding new borrowing by maximising the use of internal borrowing through reserves, has served the Commissioner well in recent years. However, this will be subject to continuous review in order to avoid the risk of incurring higher borrowing costs in the future when new long-term borrowing to finance capital expenditure or refinance maturities is required. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are near to historic lows.
- 2.11 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

**3. Treasury Limits for 2021/22 to 2024/25 including Prudential Indicators**

- 3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Commissioner to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires the Commissioner to calculate the budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Commissioner for the foreseeable future.
- 3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003, and supporting regulations, for the Commissioner to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.
- 3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing Commissioners to invest in capital projects without any limit as long as they are affordable, prudent and sustainable.
- 3.4 The Commissioner must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Commissioner to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is affordable.
- 3.5 To facilitate the decision making process and support capital investment decisions the Prudential Code and the Treasury Management Code requires the Commissioner to agree and monitor a minimum number of prudential indicators. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.
- 3.6 The following indicator provides a debt related activity limit:
  - Maturity structure of borrowing. These gross limits are set to reduce the Commissioner's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 3.7 The treasury limits and draft prudential indicators have been reviewed and updated and are attached at Appendix 4.
- 3.8 Minimum revenue provision (MRP): Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2021/22 is included in Appendix 4.
- 3.9 The CFO has systems in place to monitor the treasury limits and will report to the Commissioner instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such

temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

#### **4. Borrowing Strategy**

- 4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.
- 4.2 The main options available for the borrowing strategy for 2021/22 are PWLB loans, market loans and a potential option to use the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.
- 4.3 The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 4.4 There are different types of market loans available, including variable and fixed interest rate loans. These loans are usually offered at an interest rate lower than the corresponding PWLB loan rate to try to encourage local authorities and other public sector bodies to use as an alternative to PWLB. They may only be attractive if they are forward starting i.e. to secure the rate at an earlier point than actually drawing down the funds to mitigate interest rate risk and avoid the cost of carry.
- 4.5 To mitigate variable interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing 2021/22.
- 4.6 The main strategy is therefore:
  - Consider the use of short term borrowing as a bridge until receipts are received.
  - Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate, where they become available.
  - When PWLB rates fall back to or below Link Group trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.
- 4.7 In addition, reserve and fund balances may be utilised to limit the new external borrowing requirement, or to make early debt repayments, as an alternative to investing these resources. Reducing investment balances rather than increasing external borrowing could reduce interest payable, as short term rates on investments are likely to be lower than rates paid on external borrowing, and limit exposure to investment risk.

#### **Sensitivity of the Forecast**

- 4.8 The Commissioner, in conjunction with Link Group, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

- *If it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

4.9 Against this background, caution will be adopted in the management of the 2021/22 treasury operations. The CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Commissioner.

### **Interest Rate Exposure**

4.10 Interest rate exposure is managed and monitored through the use of forward balance sheet analysis. This approach requires consideration of the level of the Commissioner's underlying borrowing requirement (CFR) compared to its actual external borrowing position, to ensure the Commissioner remains comfortable with the level of interest payable budget subject to movements in interest rates. Borrowing decisions will be made with reference to the capital plans and core cash position of the Commissioner in association with both the interest rate forecast (section 2.1), and maturity profile of the current portfolio. Investment decisions will be made with reference to the core cash balances, cash flow requirements and the outlook for short-term interest rates.

### **External and Internal Borrowing**

4.11 As at 31st January 2021 the Commissioner has net debt of £49.940m; this means that borrowing is currently higher than investments with total borrowing of £86.969m and investments of £37.029m.

4.12 Investment interest rates are expected to be below long term borrowing rates throughout 2021/22 therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). A close watch will be kept on interest rate movements to ensure that interest rates do not rise quicker than forecast. The Commissioner has set trigger rates for long term borrowing and when these rates are attained consideration will be given to long term borrowing. Any short term savings gained by deferring long term borrowing will be weighed against the potential for incurring additional long term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

4.14 The CFO has examined the potential for undertaking early repayment of some external debt to the PWLB in order to benefit from lower interest rates currently available. The significant difference between early redemption rates and interest rates payable on PWLB debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by the PWLB.

**Borrowing in advance of need**

- 4.15 The Commissioner will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money. Specifically, there will be a clear link to the capital investment programme, which supports the decision to take funding in advance of need.

**New financial institutions as a source of borrowing and / or types of borrowing**

- 4.16 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- Local authorities (primarily shorter dated maturities)
  - Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
  - Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).
- 4.17 Treasury advisors, Link Group, will continue to provide advice as to the relative merits of each of these alternative funding sources.

**5. Debt Rescheduling**

- 5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.
- 5.2 The reasons for any proposed rescheduling will include:
- The generation of cash savings at minimum risk.
  - In order to amend the maturity profile and/or the balance of volatility in the Commissioner’s borrowing portfolio.
- 5.3 The CFO in-line with delegated powers outlined in the approved Treasury Management Practice Statement will approve all debt rescheduling.
- 5.4 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.
- 5.5 All rescheduling will be reported to Commissioner in the mid-year and annual reports.
- 5.6 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even



though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

**6. Investment Strategy 2021/22 to 2024/25**

**Introduction**

- 6.1 The Commissioner has regard to the MHCLG's Guidance on Local Government Investments and CIPFA's Code of Practice. The Commissioner must produce a strategy on an annual basis which covers the subsequent four year period.
- 6.2 This annual strategy maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below and in Appendix 5. The policy also ensures that it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These are detailed in Appendix 6.
- 6.3 The Commissioner will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.
- 6.4 Specified investments are denominated in Sterling, are for periods of 365 days or less and do not involve the acquisition of share or loan capital in any body corporate. Such an investment will be with either:
- The UK Government or a local authority, parish or community council, or
  - A body or investment scheme which has been awarded a high credit rating by a credit rating agency.
- 6.5 Non-specified investments are deemed more risky and guidance on local government investments requires more detailed procedures. Such procedures are required in order to regulate prudent use and establish maximum amounts which may be invested in each category.
- 6.6 Both specified and non-specified investment types currently utilised by the Commissioner are detailed in Appendix 5, along with approved limits. In addition to these numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the options will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

**Investment Objectives**

- 6.7 All investments will be in Sterling.
- 6.8 The Commissioner's primary investment objective is the security of the capital investment. The Commissioner will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.

6.9 The borrowing of monies purely to invest is unlawful and the Commissioner will not engage in such activity.

**Other Limits**

6.11 The Police and Crime Commissioner will continue to use UK banks irrespective of the UK sovereign rating and will specify a minimum sovereign rating of AA- for non-UK banks, as recommended by our advisors. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to, or deducted from, should ratings change in accordance with this policy.

**Creditworthiness Policy**

6.12 The creditworthiness service provided by Link Group is used to assess the creditworthiness of counterparties. The service provided by Link Group uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.13 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Commissioner to determine the duration for investments and are therefore referred to as durational bands. The Commissioner is satisfied that this service gives the required level of security for its investments. It is also a service which the Commissioner would not be able to replicate using in-house resources.

6.14 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information, information on government support for banks and the credit ratings of the government support.

6.15 The Commissioner has also determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment. These "high" ratings allow investments to be classified as **specified investments**, where they are sterling denominated and of 365 days or less. The Commissioner's approved limits for the "high" credit rating for deposit takers are as follows:

| <b>High Rated</b>                                | <b>Fitch</b> | <b>Moody's</b> | <b>Standard &amp; Poor's</b> |
|--|--------------|----------------|------------------------------|
| Short term<br>(ability to repay short term debt) | F1+          | P-1            | A-1+                         |
| Long term<br>(ability to repay long term debt)   | AA-          | Aa3            | AA-                          |
| MMF Rating                                       | AAAmf        | AAA-mf         | AAAm                         |

- 6.16 To ensure consistency in monitoring credit ratings throughout 2021/22 the Commissioner will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties, as the credit rating agency issuing the lowest rating could change throughout the year as agencies review the ratings that they have applied to countries, financial institutions and financial products. The ratings of all three agencies will be considered, with Fitch being used as a basis for inclusion on the lending list. In addition to this the Link Group creditworthiness service will be used to determine the duration that deposits can be placed for. This service uses the ratings from all three agencies, but by using a scoring system, does not give undue consideration to just one agency's ratings.
- 6.17 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Group weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.
- 6.18 UK Government nationalised/part nationalised banks will have a maximum limit of 25% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £20m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.
- 6.19 Where more than one counterpart, from a group, is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.
- 6.20 A number of counterparties are also approved by the CFO for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the CFO prior to investments being placed.
- 6.21 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter). This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis.

**Nationalised/Part Nationalised Banks**

- 6.22 Where the bank has not been fully nationalised but receives substantial support from the UK Government (greater than 40% ownership) the individual rating of the bank will not be taken

into consideration and the relevant banks will be included on the Commissioner’s lending list as prescribed by the Link Group creditworthiness list as detailed in 6.14.

**Foreign Banks**

6.23 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA- will be considered for inclusion on the approved list. They must also meet the high rated lending criteria and have operations based in London. Limits will be prescribed by the Link Group creditworthiness list and limited to 365 days or less. Each non-UK country will be limited to the maximum investment limit of £20m or 20% of the Commissioner’s total investments. A list of those countries with a minimum sovereign rating of AA- is set out in Appendix 7.

**Local Authorities**

6.24 The Commissioner invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis, prior to funds being placed. Limits are detailed at Appendix 6.

**Non-specified Investments**

6.25 In addition to the above specified investments, the Commissioner has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

| <b>Non High Rated</b> | <b>Fitch</b> | <b>Moody’s</b> | <b>Standard &amp; Poor’s</b> |
|-----------------------|--------------|----------------|------------------------------|
| Short term            | FI           | PI             | A1                           |
| Long term             | A-           | A3             | A-                           |

Limits for non-high rated counterparties are detailed at Appendix 6.

The limit in this strategy has been increased from £7.5m to £10.0m on advice from treasury advisors Link Group. The rationale for looking to adjust the “non-high” limit is to ensure that the Commissioner has sufficient flexibility to invest and so not being forced into an investment as it is the only one available. Even with this raised limit, it does not mean that these limits have to be used and officers would look to use common sense such that if circumstances change markedly, as we saw temporarily in 2020, they can react by limiting investment amounts and duration as they see fit. Importantly, the Commissioner is not looking to bring in “new” lower rated counterparties than it has previously deemed creditworthy, merely provide some additional flexibility to invest with counterparties that they have been happy to do so in previous years. For similar reason the individual counterparty limit for money market funds has also been increased to £10m.

6.26 The Commissioner has also set appropriate limits for non-specified investments with “high” rated deposit takers and UK Local Authorities where investments can be out to a maximum of 3 years. The Commissioner’s approved limits for the “high” credit rating for deposit takers are set out at 6.15 above and investment limits are detailed at Appendix 6.

6.27 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. In addition, the Commissioner has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Group creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Group.
- If counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Commissioner's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Commissioner's criteria, its inclusion will be considered for approval by the CFO.

6.28 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information on government support for banks and the credit ratings of government support.

### **Investment Balances / Liquidity of investments**

6.29 The Commissioner deposits funds beyond 365 days to a maximum of three years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.30 Deposits for periods longer than 365 days are classed as **non-specified investments**.

### **Investments defined as capital expenditure**

6.31 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as '**non-specified investments**'.

6.32 A loan or grant by the Commissioner to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Commissioner. It is therefore important for the Commissioner to clearly identify if the loan was made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Commissioner for 'specified' and 'non-specified' investments.

### **Internal Investment Strategy**

6.33 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.

6.34 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums

can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

6.35 The Commissioner takes the view that bank rate will remain at 0.10% through to March 2024. Bank Rate forecasts for financial year ends (March) are therefore:

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%

6.36 The Commissioner will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

#### **Investment Risk Benchmark**

6.37 The Commissioner will use an investment benchmark to assess the investment performance of its investment portfolio against the 7 day LIBID. The CFO is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. We will work with our advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to the Commissioner accordingly.

#### **End of year investment report**

6.38 By the end of September each year the Commissioner will receive a report on investment activity as part of its annual treasury report, following scrutiny of that report by the Joint Independent Audit Committee.

#### **Policy on use of external service providers**

6.39 The Commissioner uses Link Group, Treasury Solutions as its external treasury management advisers.

6.40 The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

6.41 The Commissioner recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of appointment of any such service provider, and

the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

### **Scheme of Delegation**

6.42 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed below:

#### **Commissioner**

- Set and approve treasury management policy and strategy prior to the start of each financial year.
- Approve prudential and treasury indicators and any subsequent amendments if required.
- Agree and approve annual treasury management budgets.
- Approve any proposed variations in treasury strategy or policy.
- Agree annual report.
- Monitor Prudential and Treasury Indicators.
- Receive and review monitoring reports including the annual report and act on recommendations.

#### **Joint Independent Audit Committee**

- Scrutinise the treasury management strategy, policies and practices and make recommendations to the Commissioner
- Receive, scrutinise and approve mid-year monitoring report and annual report.

#### **Role of the Section 151 Officer (Chief Finance Officer)**

As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

**Interest Rate Forecasts 2019 to 2022**

**Appendix 3**

PWLB rates set out in the table below have taken into account the 20 basis point certainty rate reduction effective as of the 01 November 2012.

| Link Group Interest Rate View 9.02.21 |        | (The Capital Economics forecasts were done 11.11.20) |        |        |        |        |        |        |        |        |        |        |        |
|---------------------------------------|--------|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                       | Mar-21 | Jun-21   | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
| <b>Bank Rate</b>                      |        |  |        |        |        |        |        |        |        |        |        |        |        |
| Link                                  | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   |
| Capital Economics                     | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   |
| <b>5 yr PWLB</b>                      |        |  |        |        |        |        |        |        |        |        |        |        |        |
| Link                                  | 0.90   | 0.90   | 0.90   | 0.90   | 1.00   | 1.00   | 1.10   | 1.10   | 1.10   | 1.20   | 1.20   | 1.20   | 1.20   |
| Capital Economics                     | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   | -      | -      | -      | -      | -      |
| <b>10 yr PWLB</b>                     |        |  |        |        |        |        |        |        |        |        |        |        |        |
| Link                                  | 1.30   | 1.30   | 1.30   | 1.30   | 1.40   | 1.40   | 1.50   | 1.50   | 1.50   | 1.60   | 1.60   | 1.60   | 1.60   |
| Capital Economics                     | 1.30   | 1.30   | 1.30   | 1.30   | 1.30   | 1.30   | 1.30   | 1.30   | -      | -      | -      | -      | -      |
| <b>25 yr PWLB</b>                     |        |  |        |        |        |        |        |        |        |        |        |        |        |
| Link                                  | 1.90   | 1.90   | 1.90   | 1.90   | 2.00   | 2.00   | 2.10   | 2.10   | 2.10   | 2.20   | 2.20   | 2.20   | 2.20   |
| Capital Economics                     | 1.80   | 1.80   | 1.80   | 1.80   | 1.80   | 1.80   | 1.80   | 1.80   | -      | -      | -      | -      | -      |
| <b>50 yr PWLB</b>                     |        |  |        |        |        |        |        |        |        |        |        |        |        |
| Link                                  | 1.70   | 1.70   | 1.70   | 1.70   | 1.80   | 1.80   | 1.90   | 1.90   | 1.90   | 2.00   | 2.00   | 2.00   | 2.00   |
| Capital Economics                     | 1.70   | 1.70   | 1.70   | 1.70   | 1.70   | 1.70   | 1.70   | 1.70   | -      | -      | -      | -      | -      |

As at 09/02/2021





## DRAFT Prudential Indicators – Treasury Management

### Prudential Indicators

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

#### **Authorised Limit for External Debt**

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

**Authorised Limit** - this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**Operational Boundary** - this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the PCC. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

#### **Authorised Limit for External Debt**

|                             | 2021/22<br>£000 | 2022/23<br>£000 | 2023/24<br>£000 | 2024/25<br>£000 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Borrowing                   | 170,000         | 165,000         | 165,000         | 165,000         |
| Other Long Term Liabilities | 0               | 0               | 0               | 0               |
| <b>Total</b>                | <b>170,000</b>  | <b>165,000</b>  | <b>165,000</b>  | <b>165,000</b>  |

**Operational Boundary for External Debt**

|                             | 2021/22<br>£000 | 2022/23<br>£000 | 2023/24<br>£000 | 2024/25<br>£000 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Borrowing                   | 150,000         | 145,000         | 145,000         | 145,000         |
| Other Long Term Liabilities | 0               | 0               | 0               | 0               |
| <b>Total</b>                | <b>150,000</b>  | <b>145,000</b>  | <b>145,000</b>  | <b>145,000</b>  |

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2024/25. The maturity structure of debt is within the indicators set.

**Upper and Lower Limits for the Maturity Structure of Borrowing**

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

**Maturity structure of borrowing** – these gross limits are set to reduce the Commissioner’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The limits do however cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

|                                | Upper Limit | Lower Limit |
|--------------------------------|-------------|-------------|
| Under 12 months                | 60%         | 0%          |
| 12 months and within 24 months | 40%         | 0%          |
| 24 months and within 5 years   | 40%         | 0%          |
| 5 years and within 10 years    | 40%         | 0%          |
| 10 years and above             | 80%         | 0%          |

**Upper Limit on Principal Amounts Invested Beyond 365 Days**

The purpose of the upper limit on principal amounts invested beyond 365 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

| Upper limit on principal amounts invested beyond 365 days | 2021/22<br>£000 | 2022/23<br>£000 | 2023/24<br>£000 | 2024/25<br>£000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Investments   | 15,000          | 15,000          | 15,000          | 15,000          |

**Gross Debt and Capital Financing Requirement (CFR)**

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total

of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

| <b>Gross Debt and CFR</b>                    | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|--|----------------|----------------|----------------|----------------|
|  | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| Forecast Borrowing as at 31 March            | 86,969         | 105,372        | 108,790        | 108,472        |
| Capital Financing Requirement as at 31 March | 122,165        | 121,239        | 118,799        | 117,418        |
| Amount of borrowing (over) / under CFR       | 35,196         | 15,867         | 10,009         | 8,946          |

Forecast borrowing is within the CFR estimates for 2021/22 to 2024/25.

### **Affordability**

The impact of the capital programme on the revenue budget is shown in the table below:

| <b>Affordability</b>                         | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|--|----------------|----------------|----------------|----------------|
|  | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| Revenue Budget                               | 320,243        | 333,600        | 357,400        | 361,500        |
| Capital Expenditure                          | 17,634         | 30,027         | 12,333         | 13,678         |
| Capital Financing Requirement as at 31 March | 122,165        | 121,239        | 118,799        | 117,418        |
| Interest Cost                                | 2,940          | 3,040          | 3,140          | 3,240          |
| Minimum Revenue Provision                    | 9,282          | 11,505         | 11,852         | 11,707         |
| Revenue Financing Costs                      | 12,222         | 14,545         | 14,992         | 14,947         |
| Ratio of financing cost to revenue stream %  | 3.82%          | 4.36%          | 4.19%          | 4.13%          |

**Minimum Revenue Provision (MRP) Statement 2021/22**

The MRP charge for 2021/22 for capital expenditure incurred before 01 April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at a minimum of 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the year after the asset becomes operational.

**Appendix 5**

**Specified Investments (All Sterling Denominated)**

| <b>Investment type</b>  | <b>Share/<br/>Loan<br/>Capital</b> | <b>Repayable/<br/>Redeemable<br/>within 12<br/>months</b> | <b>Security /<br/>Minimum<br/>Credit Rating</b>                       | <b>Capital<br/>Expenditure</b> | <b>Circumstance<br/>of use</b> | <b>Maximum period</b>  |
|---|------------------------------------|---|---|--------------------------------|--------------------------------|--|
| <b>Term deposits</b> with the UK Government (DMO) or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days. | No                                 | Yes   | High security although LA's not credit rated.<br><i>See section 6</i> | No                             | In-house                       | 365 days   |
| <b>Term deposits / Certificates of Deposit</b> with credit rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.         | No                                 | Yes   | Secure<br>Varied minimum credit rating<br><i>See section 6</i>        | No                             | In-house                       | 365 days   |
| <b>Money Market Funds (CNAV &amp; LVNAV (not VNAV))</b><br>These funds are instant access and therefore do not have a maturity date.  | No                                 | Yes   | Secure<br><br>AAA Money Market Fund rating with assets > £1bn         | No                             | In-house                       | The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place). |

**Non-Specified Investments (All Sterling Denominated)**

| <b>Investment type</b>  | <b>(A) Why use it<br/>(B) Associated risks</b>   | <b>Share/<br/>Loan<br/>Capital</b> | <b>Repayable/<br/>Redeemable<br/>within 12<br/>months</b> | <b>Security /<br/>Minimum<br/>credit<br/>rating</b>   | <b>Capital<br/>Expenditure</b> | <b>Circumstance<br/>of use</b> | <b>Max % of<br/>overall<br/>investments</b> | <b>Maximum<br/>maturity of<br/>investment</b>                      |
|---|--|------------------------------------|---|---|--------------------------------|--------------------------------|---|--|
| <b>Term deposits /<br/>Certificates of<br/>Deposit</b> with<br>rated deposit<br>takers (banks and<br>building societies)<br>which do not<br>meet the<br>Commissioner’s<br>“high” credit<br>rating | (A) To improve ability to place<br>smaller amounts<br>(B) Greater risk than “high”<br>credit rating counterparties<br>but advance warning by rating<br>agency of potential problems.<br>The Commissioner has fully<br>considered this investment<br>category and set appropriate<br>investment and maturity limits<br>in order to minimise risk.   | No                                 | Yes   | Secure<br>Varied<br>minimum<br>Credit<br>rating<br><i>Minimum:<br/>Fitch<br/>Long term A-<br/>Short term<br/>FI</i> | No                             | In-house                       | 75%   | 6 months<br>(but set on an<br>individual<br>counterparty<br>basis) |
| <b>Term deposits<br/>with UK<br/>Government, UK<br/>Local Authorities<br/>or credit rated<br/>banks and building<br/>societies, with<br/>maturities over 1<br/>year</b>                           | A) To improve the ability to<br>“lock in” at times of high<br>interest rates to secure a<br>higher return over a longer<br>period should rates be<br>forecast to fall.<br>B) Lower liquidity and greater<br>risk of adverse interest rate<br>fluctuations. The<br>Commissioner has fully<br>considered this investment<br>category and set appropriate<br>investment and maturity limits<br>in order to minimise risk. | No                                 | No  | Secure<br>Varied<br>minimum<br>credit rating  | No                             | In-house                       | 20%   | 3 years  |

**Maximum Maturity Periods and Amounts**

| <b>Organisation</b>  | <b>Criteria</b>   | <b>Max Amount</b>      | <b>Max Period</b> | <b>Not to Exceed Limit or %</b>                            |
|--|---|------------------------|-------------------|--|
| High Rated<br><br>(Specified Investments – High rated and up to 365 days see Appendix 5) | Minimum Fitch rating of F1+ short term and AA- long term.<br><br>Consideration to be given to Moody’s minimum rating of P-1 short term backed by Aa3 long term and S&P minimum rating of A-1+ short term and AA- long term. | £20m                   | 3 years           | 25% (Government Backed)<br><br>20% (Non-Government Backed) |
| Foreign Banks  | Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+  | £20m country limit     | 365 days          | 20%  |
| Non-High Rated   | Minimum Fitch rating of F1 short term and A- long term.<br><br>Consideration to be given to Moody’s minimum rating of P-1 short term backed by A3 long term and S&P minimum rating of A-1 short term and A- long term.      | £10m                   | 6 months          | 20%  |
| UK Local Authorities   | (i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis   | £10m                   | 3 years           | n/a  |
| Money Market Funds   | CNAV or LVNAV ( <b>not VNAV</b> )<br>AAA Money Market Fund rating with assets >£1bn   | £10m per counter party | Overnight         | £25m in total  |





**Appendix 7**

**Approved countries for investments**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Based on lowest available rating

**AAA**

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

**AA+**

- Canada
- Finland
- U.S.A.

**AA**

- Abu Dhabi (UAE)
- France

**AA-**

- Belgium
- Hong Kong
- Qatar
- U.K.

THIS LIST IS AS AT 10.02.21



|   |                         |
|---|-------------------------|
| <b>JOINT INDEPENDENT AUDIT COMMITTEE</b>                        | <b>22 FEBRUARY 2021</b> |
| <b>ANNUAL GOVERNANCE REVIEW - ASSURANCE FRAMEWORK – 2020/21</b> |                         |
| <b>REPORT OF THE JOINT CHIEF FINANCE OFFICER</b>                |                         |

**1. Purpose of the Report**

- 1.1 Each financial year a review of the effectiveness of the system of internal control is undertaken and Annual Governance Statements (AGS's) are prepared for both the Police and Crime Commissioner (PCC) and the Chief Constable (CC).
- 1.2 The following sets out the processes to be undertaken to review the systems of internal control and prepare the draft AGS's for presentation to the Joint Independent Audit Committee (JIAC) for review.

**2. Recommendation**

- 2.1 The Committee are asked to agree the approach and assurance framework for the production of an Annual Governance Statement for each of the PCC and CC for 2020/21.

**3. Background**

- 3.1 The Accounts and Audit Regulations 2015 require that the PCC and CC each conduct a review of the effectiveness of the systems of internal control, and prepare individual Annual Governance Statements.
- 3.2 The review of evidence informing the production of the AGS's will be undertaken by the Joint Governance Group (JGG), who will prepare the statements covering 2020/21 for review and approval by the JIAC.
- 3.3 The draft AGS's will then be reviewed by the JIAC before approval by the PCC and CC. The statements will then accompany the Annual Statements of Account for each organisation.

**4. Assurance Framework**

- 4.1 The assurance framework is made up from a number of sources that provide assurance on governance arrangements, and controls, that are in place to achieve each organisations strategic objectives.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance based around a framework that sets out the steps by which assurance should be gathered to enable the production of an Annual Governance Statement for both the PCC and CC.

4.3 In preparation, it will be necessary to review evidence from the following sources of assurance that the systems of internal control are operating as planned:

- Governance arrangements
- Senior managers
- The system of internal audit
- Views of the external auditor, HMICFRS and other external inspectorates
- The legal and regulatory framework
- Financial controls and management
- Other thematic sources of assurance, including:
  - Risk management arrangements
  - Performance management
  - Business Planning
  - Partnership arrangements and governance
  - Resourcing – People
  - Information and Communication Technology (ICT)
  - Information Management and Data Quality
  - Fraud, Corruption and Money Laundering
  - Wellbeing

## **5. Sources of Assurance**

5.1 The following sections outline how suitable assurance will be obtained from the above identified sources of assurance:

### **5.2 Governance arrangements**

5.2.1 The PCC and CC have responsibilities for governance within the Office of the Police & Crime Commissioner (OPCC) and the Force in their own right. This means that there will be two freestanding processes within the Police Service for ensuring good governance. In most respects the principles and implementation will be the same for the PCC and the CC. There may be however, areas specific to each corporation sole which will need to be reflected.

5.2.2 The PCC and CC have established a Joint Internal Governance Group (JGG) which meets on four times per year and whose work is fully aligned with that of the JIAC. The Group is resourced by individuals who have the appropriate knowledge, expertise and levels of seniority to consider all necessary and mandatory governance requirements on behalf of both corporate bodies.

5.2.3 The permanent members of this Group are:

- Joint Chief Finance Officer
- PCC Chief of Staff
- Deputy Chief Constable

- Head of Corporate Development
- Head of Finance
- Internal Audit Manager

5.2.4 This Group will:

- Consider the extent to which the organisations comply with the principles and elements of good governance set out in the framework
- Identify systems, processes and documentation that provide evidence of compliance.
- Identify the individuals or mechanisms responsible for monitoring and reviewing the systems, processes and documentation
- Identify any governance issues that have not been addressed and consider how they should be addressed.
- Identify the individuals who would be responsible for undertaking any actions that are required.

5.3 **Senior managers**

5.3.1 All Heads of Department and Area Commanders for the Force and the Chief of Staff of the OPCC will complete a self-assessment assurance statement detailing the level of assurance they feel they can place on their key control and governance processes. The JJAC will receive a report giving the overall opinion of senior managers on the adequacy of arrangements they have in place.

5.4 **The system of internal audit**

5.4.1 The Internal Audit Service, provided under a support agreement with Gateshead Council, is responsible for ensuring that the key systems, both financial and non-financial, of both bodies are subject to regular audit as part of the risk based internal audit plan.

5.4.2 In addition, a review of the effectiveness of internal audit is required under the Accounts and Audit Regulations 2015. This is defined by CIPFA as “a framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in understanding its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation”. This review will also include evaluating the effectiveness of the Joint Independent Audit Committee.

5.4.3 Assurance in this area will be provided through the overall independent opinion of the Internal Audit Manager based on the work undertaken by the Internal Audit Service during the year and reported to the Joint Independent Audit Committee in the Internal Audit Annual Report 2019/20.

**5.5 Views of the external auditor and other external inspectorates**

- 5.5.1 The external auditor will issue an Annual Audit Letter to both the PCC and CC, providing a review of the value for money arrangements in each body and reporting any significant issues arising from the audits of their financial statements.
- 5.5.2 There are also a number of other external inspectorates, including HMICFRS, which report from time to time on management and governance arrangements within the Police Service.

**5.6 Legal and regulatory framework**

- 5.6.1 Assurance will be sought from the PCC's Chief of Staff and the CC's Head of Legal, who have a legal duty within their own bodies to ensure the lawfulness and fairness of decision-making and ensure compliance with established policies, procedures, laws and regulations.

**5.7 Financial controls**

- 5.7.1 Assurance will be sought from the Joint Chief Finance Officer (JCFO) to the PCC and CC, who is designated as the responsible officer for the administration of each body's financial affairs under section 151 of the Local Government Act 1972.

**5.8 Partnership arrangements and governance**

- 5.8.1 Assurance is also required in respect of any significant partnership arrangements, as they are key to the delivery of each body's objectives. Each arrangement will be assessed against guidance produced by the Audit Commission (Bridging the Accountability Gap, 2005)

**5.9 Thematic Assurance**

- 5.9.1 To supplement and enhance the specific functional assurance provided above, there are also a number of 'Thematic' areas from which assurance will be sort; on the internal control environment or governance arrangements for either body. These will be included in the evidence provided to support the Annual Governance conclusion:

**a. Risk management**

The PCC and CC have established a joint approach to the consideration and management of risk, which ensures that both bodies have management arrangements in place. Updates on risk are provided to JIAC at each meeting and assurance in this area will be provided in the Corporate Risk Management Annual Report for 2019/20.

**b. Performance management**

The performance management framework forms part of the assurance of senior managers on the key controls operating in their areas. In addition, there is a framework for reporting corporate performance management information, including

oversight by the PCC. The Head of Corporate Development will provide assurance in respect of this framework.

**c. Business Planning**

The establishment, and adequacy, of business planning to inform strategic plans and the production of the annual 'Force Management Statement' (FMS). The FMS is a self-assessment that CC's prepare each year, covering: The demand the Force expects to face in the next four years; how the Force will change and improve its workforce and other assets to cope with that demand; how the Force will improve its efficiency to make sure the gap between future demand and future capability is as small as it can reasonably be; financial position of the Force to deliver its plans.

**d. Resourcing – People**

Assurance will be sort to provide an overview of how people resources (Officers and Staff) are managed and deployed to meet the strategic aims of the Force. Through workforce plans; monitoring and the Strategic Resourcing Board.

**e. Information and Communication Technology (ICT)**

Assurance will be sort as to the adequacy and robustness of ICT systems, processes and controls. This will be via assurances from the Head of ICT.

**f. Information Management and Data Quality**

Assurance will be sort as to the adequacy and robustness of information systems, information management arrangements and Data Quality. This will be via assurances from Information Management Unit manager. Along with, the activities of the Information Management Board.

**g. Fraud, Corruption and Money Laundering**

A review of any cases of Fraud, corruption or money laundering; as identified via the stated internal policies and procedures, to identify if any assurance risks exist.

**h. Wellbeing**

The activities of the 'Wellbeing and Leadership Board' will be reviewed to ensure compliance with internal policies and procedures and to ensure alignment with priorities.

**6. CONSIDERATIONS**

|  |                   |
|--|-------------------|
| <b>Freedom of Information</b>  | <i>Non-exempt</i> |
| <b>Consultation</b>  | Yes               |
| <b>Resource</b>  | No                |
| There are no additional financial considerations arising from this report. |                   |
| <b>Equality</b>  | No                |



**AGENDA ITEM 7**

|   |     |
|---|-----|
| There are no equality implications arising from the content of this report.             |     |
| <b>Legal</b>  | No  |
| There are no legal considerations arising from the content of this report.              |     |
| <b>Risk</b>   | No  |
| There are no additional risk management implications directly arising from this report. |     |
| <b>Communication</b>  | Yes |
| To be reported to the PCC and CC in-line with the Accounts and Audit Regulations 2015   |     |
| <b>Evaluation</b>   | No  |

# Annual Audit Letter

## Chief Constable for Northumbria

Year ending 31 March 2020





## Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Chief Constable. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Chief Constable for Northumbria (the Chief Constable) for the year ended 31 March 2020. Although this letter is addressed to the Chief Constable, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility   | Summary  |
|--|--|
| Audit of the financial statements                                      | <p>Our auditor's report issued on 25 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Chief Constable's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul> |
| Other information published alongside the audited financial statements | <p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>  |
| Value for money conclusion   | <p>Our auditor's report concluded that we are satisfied that in all significant respects, the Chief Constable has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>   |
| Statutory reporting  | <p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Chief Constable.</p>   |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Chief Constable and whether they give a true and fair view of the Chief Constable's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Chief Constable's financial position as at 31 March 2020 and of its financial performance for the year then ended. Our report was modified to include an emphasis of matter paragraph associated with material valuation uncertainty relating to property assets held by the Pension Fund. As disclosed in Note 17 of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets, and as such the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there was less certainty and a higher degree of caution needed to be attached to valuations of unquoted property assets than would normally be the case.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to both the Chief Constable and the Joint Independent Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

|                                 |  |                  |
|---------------------------------|--|------------------|
| Financial statement materiality | Our financial statement materiality is based on 2% of Gross Revenue Expenditure  | £9.170 million   |
| Trivial threshold               | Our trivial threshold is based on 3% of financial statement materiality.   | £0.275 million   |
| Specific materiality            | We have applied a lower level of materiality to the following areas of the accounts:<br>- Senior Officer Remuneration<br>- Exit Packages | £1,000<br>£1,000 |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Joint Independent Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk   | Our response   | Our findings and conclusions  |
|---|--|---|
| <p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>   | <p>Our audit work provided the assurance we sought and did not identify any material issues to bring to the CC's attention. There was no indication of management override of controls.</p>   |
| <p><b>Defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>   | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>Discussing with key contacts, any significant changes to the pension estimates;</li> <li>Evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries;</li> <li>Considered the reasonableness of each actuary's output, referring to an expert's report on all actuaries nationally; and</li> <li>We also sought assurances from the auditor of Tyne &amp; Wear Pension Fund for the Local Government Pension Scheme (LGPS).</li> </ul> | <p>Our audit work provided the assurance we sought, although we did identify a non-trivial, non-material matter which was reported in relation to our review of the work of the Pension Fund auditor. The matter is in relation to the asset values submitted to the actuary by the Pension Fund being higher than the confirmations from fund managers. The CC account form approximately 3.83% of the Pension Fund scheme assets, which is equivalent to a potential misstatement of £1.021m.</p> |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to areas of management judgement

| Identified area of management judgement   | Our response  | Our findings and conclusions  |
|---|---|---|
| <p><b>Year end leave accrual</b></p> <p>Accounting standard required that an estimate be made of the value of accumulated absences awarded but not taken as at 31 March 2020. We expect that, as in previous years, this will be a material estimate. As this is a significant area of management judgement, we are required to regard this as an enhanced risk</p> | <p>We evaluated the arrangements you had in place to produce the year end leave accrual estimate.</p> | <p>Our audit work provided the assurance we sought and did not identify any material issues to bring to the CC's attention.</p> |

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We did not identify any significant deficiencies as a result of our work this year.





### 3. VALUE FOR MONEY CONCLUSION

|                            |                    |
|----------------------------|--------------------|
| Value for money conclusion | <b>Unqualified</b> |
|----------------------------|--------------------|

#### Our audit approach

We are required to consider whether the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report, stated that that, in all significant respects, the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2020.

| Sub-criteria             | Commentary  | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <p>Financial, performance and risk management have been reported through the financial year. The Group Joint Independent Audit Committee (JIAC) has met during the year. The purpose of this committee is to independently review and advise on the effectiveness of the Chief Constable’s and Commissioner’s governance, risk management and controls frameworks, financial reporting and annual governance processes, internal and external audit, and treasury management.</p> <p>The Police and Crime Plan, covering the period 2017 to 2021 is in place. The purpose, vision, values, priorities and strategic objectives of the PCC were developed in consultation with the Chief Constable. In turn, the Chief Constable produces the Policing Plan from the Police and Crime Plan, for which he is responsible.</p> <p>There is an Internal Audit function for the Chief Constable and Commissioner. Internal Audit reports are presented regularly to JIAC. This includes reporting of findings and tracking of recommendations to ensure they are implemented in a timely manner.</p> | Yes                    |





### 3. VALUE FOR MONEY CONCLUSION

| Sub-criteria                    | Commentary  | Arrangements in place?  |
|---------------------------------|---|---|
| Informed decision making        | <p>An Annual Governance Statement for the Chief Constable for Northumbria has been prepared and reviewed by Officers and challenged by JIAC.</p> <p>Financial performance has been reported throughout the financial year. No evidence of financial or performance data not being reliable and therefore impacting on the decision making of the Chief Constable.</p> <p>The Medium Term Financial Strategy(MTFS) for the period 2020/21 to 2023/24 was approved by the Chief Constable and Commissioner in March 2020, which includes the 2020/21 budget. The MTFS is clearly linked to the Police and Crime Plan.</p> <p>The Police and Crime Plan, covering the period 2017 to 2021 is in place. The purpose, vision, values, priorities and strategic objectives of the PCC were developed in consultation with the Chief Constable. In turn, the Chief Constable produces the Policing Plan from the Police and Crime Plan, for which he is responsible.</p> <p>Alongside the annual budget and MTFS is the comprehensive workforce strategy that includes the recruitment, training and development of officers and police staff whilst continuing to manage necessary change through the prudent use of reserves.</p> <p>Up to date risk registers and risk management arrangements are in place and regularly reported to relevant committees</p> <p>The Force is subject to an extensive inspection regime by Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), and the results of these are published on their website to ensure appropriate scrutiny of decision making. The most recent PEEL report for 2018-19 was published in September 2019 with an overall assessment that Northumbria Police’s performance ‘requires improvement’.</p> | <p>Yes - however significant risk identified and additional work carried out in relation to the HMICFRS PEEL 2018/19 report (see significant risks section below)</p> |
| Sustainable resource deployment | <p>Overall the group delivered a balanced position for the year ended 31 March 2020.</p> <p>The Medium Term Financial Strategy(MTFS) for the period 2020/21 to 2023/24 was approved by the Chief Constable and Commissioner in March 2020, which includes the 2020/21 budget. The MTFS is clearly linked to the Police and Crime Plan, and also reflects the expected pressures the Chief Constable will face.</p>  |   |



### 3. VALUE FOR MONEY CONCLUSION

| Sub-criteria                                  | Commentary   | Arrangements in place? |
|---|--|------------------------|
| Sustainable resource deployment               | <p>Risks remain around future funding formula settlement, as well as changing levels of demand. The impact of COVID-19 adds uncertainty to the financial outlook of the Group. The Chief Finance Officer and his staff are monitoring the impact of COVID-19 and the likely impact on future sources of funding. However it is recognised that this is difficult to predict given the continued measures and restrictions aimed at bringing the pandemic under control.</p> <p>The Force is reporting that it is on track to deliver the officers levels required under Operation Uplift, with an initial target of an additional 62 officers to be recruited by 2019/20 being met. This is part of an overall target of 185 additional officers by March 2021.</p> <p>The Capital Programme, included in the 2020/21 to 2023/24 approved MTFS, sets out the Police's investment priorities. Capital schemes are appraised and prioritised to ensure they reflect key investment requirements.</p>   | Yes                    |
| Working with partners and other third parties | <p>Both the PCC and Chief Constable are aware of the importance of collaboration. This is evidenced in the Collaboration and Partnership Strategy, updated May 2016.</p> <p>The Chief Constable and Commissioner continue to work with partners. This includes working with other police bodies and public organisations. Areas of collaboration with these organisations include:</p> <ul style="list-style-type: none"> <li>• Co-locating with partners wherever possible, including fire and rescue services, councils and local community groups;</li> <li>• The North East Regional Special Operations Unit (NERSOU) collaboration between Northumbria, Durham and Cleveland Forces;</li> <li>• Continuation of the 7 Force Section 22A collaboration agreement. The agreement provides an overarching framework for areas of collaboration in the region. Currently the agreement covers the following capabilities across the 7 forces: Disaster Recovery Identification and CBRN (Chemical, Biological, Radiological and Nuclear incidents); and</li> <li>• Participation in National Procurement Frameworks which are delivering significant savings on an on-going basis, particularly in areas such as vehicle purchase, ICT contracts and uniform.</li> </ul> <p>Collaboration agreements to which the PCC and Chief Constable are parties to are published on the PCC's website. The Medium Term Financial Strategy also includes assumptions regarding future collaboration.</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Chief Constable being inadequate. In our Audit Strategy Memorandum, we reported that we had identified a significant audit risk. The work we carried out in relation to significant risks is outlined below.

#### Risk

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##### HMICFRS Inspection

The Force is subject to an extensive inspection regime by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and the results of these are published on their website to ensure appropriate scrutiny of decision making. The most recent report for 2018/19 was published in September 2019 with an overall assessment that Northumbria Police's performance 'requires improvement'.

We therefore considered there to be a risk that Northumbria Police did not put in place proper arrangements to secure improvements to the service in a timely manner.

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##### Work undertaken

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We have reviewed the completeness of the Force's response to addressing the issues identified in the HMICFRS report through reviewing the Force Action Plan, and discussing this with the Deputy Chief Constable and the Head of Corporate Development Department. The Force Action Plan includes all recommendations made by HMICFRS in any report published relevant to Northumbria Police, and also includes a reference number per the HMICFRS Monitoring Portal to ensure all recommendations or areas for improvement are included on the spreadsheet. Furthermore, the Force and HMICFRS are able to use the HMICFRS portal to enable both parties to ensure that all expected recommendations are recorded and being actioned in one shared central location.

We have considered the arrangements in place for reporting and monitoring the progress against the recommendations and areas for improvement included in the Force Action Plan by reviewing:

- the Force's arrangements for monitoring progress on the Force Action Plan;
- the internal scrutiny process each recommendation and area for improvement is subject to; and
- the approach to reporting progress against the Action Plan.

We have also met with HMICFRS to discuss their view on the Force's response to their report and to understand their views on the progress that has been made to-date, recognising that a full re-assessment by HMICFRS has not yet been undertaken and the scope of their follow-up activity has necessarily been restricted by the Covid-19 pandemic.

We have not duplicated the work of HMICFRS who have the expertise in operational policing and lead on the matters covered in their report.

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### 3. VALUE FOR MONEY CONCLUSION

#### Conclusion

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Based on the findings from the work undertaken, we can conclude that the Force has implemented arrangements in place to address the recommendations and areas for improvements that were identified by HMICFRS in their most recent report.

There is a detailed Force Action Plan in place which covers all recommendations made by HMICFRS. The process for developing this Plan was robust, with each area assigned an 'owner' who takes responsibility for leading the Force's response to the issues raised in the report. For each recommendation or area for improvement raised, the detailed action plan shows: the Force's understanding of the recommendation, what action is required to address the issues, the internal board responsible for monitoring the progress of the work being undertaken, the risks associated with the delivery of the action, the progress on the action so far, and the time frame for delivery. It also assigns each action with a RAG rating to allow clear understanding of the progress against each area. The Force is also in regular contact with HMICFRS, through monthly meetings held between the Deputy Chief Constable and the HMICFRS Force Liaison Lead, to understand the areas for concern that have been raised and agree the actions that need to be taken. In light of the above we are satisfied over the completeness of the action plan.

With regards to the PEEL report, our work has not indicated any significant issues or delays in relation to action being taken against the recommendations and areas for improvement. Although we have noted that the majority of actions are still in progress, discussions with the Force show that many of the actions implemented are longer term actions linked to the business planning cycle and therefore the Force will go through the full business planning cycle before the work is considered complete. Once an area is considered complete by the Force, then HMICFRS will carry out further inspections or investigations and once satisfied with the status of the work will close the recommendation on the HMICFRS Monitoring Portal.

Our review of the governance arrangements for monitoring and reporting on progress show that processes have been established to provide oversight and scrutiny of the Plan and the actions that are being implemented to address areas for improvement. Each area of the PEEL report is assigned to a specific governance area for initial consideration, and then all areas are reported to the Executive Board and are subject to the scrutiny by the Commissioner. Further scrutiny is provided by the Joint Independent Audit Committee and through the Police and Crime Panel who scrutinise and support the work of the Police and Crime Commissioner. Our work has shown that the Force has implemented appropriate processes to oversee, monitor and challenge progress on tackling the issues identified in HMICFRS reports.

From our discussion with HMICFRS we are aware that, as a consequence of Covid-19 pandemic, HMICFRS has revised its original proposals for inspection in 2020/21 to reduce unnecessary demand on Forces. The Force Liaison Lead confirmed that it is likely that Northumbria Police will not be re-inspected for at least another 12 months. Nevertheless, we discussed the 2018/19 PEEL report, as well as the Force's response to the findings to-date. The Force Liaison Lead's supports our conclusion that the Force has established appropriate arrangements to tackle the issues in the PEEL report and that progress has been made since the initial publication of the report in September 2019.

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## 4. OTHER REPORTING RESPONSIBILITIES

|  |                      |
|--|----------------------|
| Exercise of statutory reporting powers                                 | No matters to report |
| Other information published alongside the audited financial statements | Consistent           |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Chief Constable's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We did not exercise any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Chief Constable. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Joint Independent Audit Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

| Area of work  | 2019/20 proposed fee | 2019/20 final fee |
|---|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for Northumbria                         | £14,438 (Note 1)     | £18,785 (Note 2)  |
| Delivery of audit work under the NAO Code of Audit Practice – Police and Crime Commissioner for Northumbria and Group | £28,529              | £30,859 (Note 2)  |

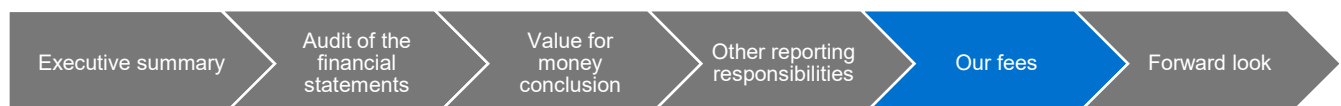
Note 1: In our Audit Strategy Memorandum, we noted that we were discussing the additional work, and related fees, associated with the significant VFM risk for the Chief Constable in respect of the HMICFRS inspection. This work was not considered when the scale fee was set by PSAA.

Note 2: At the time of preparing this report we are proposing additional fees associated with delivering additional work required this year. The additional fee proposed for the Chief Constable is £4,347 and is the result of additional work carried out with respect to the significant VFM risk and pensions, including the additional audit procedures required due to this being a triennial valuation year as well as in respect of the material valuation uncertainty raised in relation to certain Pension Fund assets. The additional fee proposed for the PCC is £2,330, and is in relation to the additional work carried out on PPE as a result of regulatory pressures and requirements.

Both fees have been agreed with the Chief Finance Officer, however are subject to Public Sector Auditor Appointments Ltd's (PSAA) approval.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Chief Constable in the year.



## 6. FORWARD LOOK

### Financial outlook

As outlined in our Value for Money Conclusion section, the Chief Constable continues to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.

The COVID-19 pandemic and the consequences of lockdowns will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Chief Constable's medium term financial plan. Clarity over the impact will only be obtained once the virus has been brought under control and the impact on the economy becomes clearer. The Group is planning on future pressures in the income it receives. In particular Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty in regards the UK and European Union trade deal. Whilst this may not directly impact on the Chief Constable, any impact on the overall economy may create indirect pressures.

In light of the above challenges, the CC and his team recognise the importance of reviewing and refreshing the medium term plan on a regular basis so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on performance.

A balanced budget has been set in 2020/21. Whilst the financial climate remains challenging, the Chief Constable is well placed to deal with this.

### Operational challenges

The PCC's key challenges, strategic priorities, direction and vision are set out in the Commissioner's Police and Crime Plan 2017-2021 and Strategy 2025. Our understanding is that the new Police and Crime plan has been agreed in early February 2021. The Plan sets out the priorities set for the Chief Constable against which he will be held to account for their delivery. Delivery of the Strategy 2025 priorities requires organisational capacity, and strong governance, risk and project management arrangements.

During 2018/19, the Force received a rating of "requires improvements" from HMICFRS in its PEEL inspection. Owing to the COVID-19 pandemic the HMICFRS has suspended its inspection regime. However there remains the challenge of continuing to address the recommendations made by the inspectorate, particularly against a backdrop of continued reductions in funding and future uncertainty, alongside increasing demand.

### How we will work with the Chief Constable

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Chief Constable by:

- continued liaison with the Chief Constable's Internal Auditors to minimise duplication of work;
- attending Joint Independent Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the officers to identify any learning from the 2019/20 audit. Given the impact of COVID-19 on the 2019/20 reporting timetable there is some uncertainty regarding the 2020/21 timetable. We will continue to work with the finance team to ensure any future timetable is adhered to.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. We will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

The Chief Constable has taken a positive and constructive approach to our audit and we wish to thank members and officers for their support and co-operation during our audit.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

The additional work required on value for money arrangements as a result of the new Audit Code will lead to an increase in fees for the 2020/21 audit.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.





## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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\*where permitted under applicable country laws

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# Annual Audit Letter

## Police and Crime Commissioner for Northumbria

Year ending 31 March 2020





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- 02** Audit of the financial statements
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Police and Crime Commissioner for Northumbria. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Police and Crime Commissioner for Northumbria (the PCC) for the year ended 31 March 2020. Although this letter is addressed to the PCC, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility   | Summary  |
|--|--|
| Audit of the financial statements                                      | <p>Our auditor's report issued on 25 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the PCC's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul> |
| Other information published alongside the audited financial statements | <p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>  |
| Value for money conclusion   | <p>Our auditor's report concluded that we are satisfied that in all significant respects, the PCC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>   |
| Reporting to the group auditor   | <p>In line with group audit instructions, issued by the NAO on 4 November, we reported to the group auditor in line with the requirements applicable to the PCC's WGA return.</p>  |
| Statutory reporting  | <p>Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the PCC.</p>  |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the PCC and whether they give a true and fair view of the PCC's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the PCC's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the PCC's financial position as at 31 March 2020 and of its financial performance for the year then ended. Our report was modified to include an emphasis of matter paragraph associated with material valuation uncertainty relating to property assets held by the Pension Fund. As disclosed in Note 11 of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets, and as such the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there was less certainty and a higher degree of caution needed to be attached to valuations of unquoted property assets than would normally be the case.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to both the PCC and the Joint Independent Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

|                                 |  |  |
|---------------------------------|--|--|
| Financial statement materiality | Our financial statement materiality is based on 2% of Gross Revenue Expenditure  | PCC £6.280 million<br>Group £9.308 million |
| Trivial threshold               | Our trivial threshold is based on 3% of financial statement materiality.   | PCC £0.188 million<br>Group £0.279 million |
| Specific materiality            | We have applied a lower level of materiality to the following areas of the accounts:<br>- Senior Officer Remuneration<br>- Exit packages | £1,000<br>£1,000                           |





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the PCC's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Joint Independent Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk  | Our response   | Our findings and conclusions   |
|--|--|--|
| <p><b>Management override of controls (relevant to single entity and group accounts)</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>- Accounting estimates impacting on amounts included in the financial statements;</li> <li>- Consideration of identified significant transactions outside the normal course of business; and</li> <li>- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>   | <p>Our audit work provided the assurance we sought and did not identify any material issues to bring to the PCC's attention. There was no indication of management override of controls.</p>   |
| <p><b>Defined benefit liability valuation (relevant to group accounts only)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>  | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>- Discussing with key contacts, any significant changes to the pension estimates;</li> <li>- Evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries;</li> <li>- Considered the reasonableness of each actuary's output, referring to an expert's report on all actuaries nationally; and</li> <li>- We also sought assurances from the auditor of Tyne &amp; Wear Pension Fund for the Local Government Pension Scheme (LGPS).</li> </ul> | <p>Our audit work provided the assurance we sought, although we did identify a non-trivial, non-material matter following our review of the work of the Pension Fund auditor. The matter is in relation to the asset values submitted to the actuary by the Pension Fund being higher than the confirmations from fund managers. The Group account form approximately 3.85% of the Pension Fund scheme assets, which is equivalent to a potential misstatement of £1.028m.</p> |





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

| Identified significant risk   | Our response  | Our findings and conclusions   |
|---|---|--|
| <p><b>Property, plant and equipment valuations (relevant to single entity and group accounts)</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the PCC's holdings of buildings.</p> <p>Although the PCC employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of buildings due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of buildings to be an area of increased risk of material misstatement.</p> | <p>We considered the PCC's arrangements for ensuring that building values were reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the PCC's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>Where necessary, we performed further audit procedures on individual assets to ensure that the basis and level of valuation is appropriate.</p> | <p>Our audit work provided the assurance we sought and did not identify any material issues to bring to the PCC's attention.</p> |

### Our response to areas of management judgement

| Identified area of management judgement   | Our response  | Our findings and conclusions   |
|---|---|--|
| <p><b>Year end leave accrual (relevant to group accounts only)</b></p> <p>Accounting standard required that an estimate be made of the value of accumulated absences awarded but not taken as at 31 March 2020. We expect that, as in previous years, this will be a material estimate.</p> <p>As this is a significant area of management judgement, we are required to regard this as an enhanced risk.</p> | <p>We evaluated the arrangements you had in place to produce the year end leave accrual estimate.</p> | <p>Our audit work provided the assurance we sought and did not identify any material issues to bring to the PCC's attention.</p> |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We have not identified any significant deficiencies as a result of our work this year.



### 3. VALUE FOR MONEY CONCLUSION

|                            |                    |
|----------------------------|--------------------|
| Value for money conclusion | <b>Unqualified</b> |
|----------------------------|--------------------|

#### Our audit approach

We are required to consider whether the PCC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the PCC had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, stated that that, in all significant respects, the PCC put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2020.

| Sub-criteria             | Commentary  | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <p>Financial, performance and risk management have been reported through the financial year. The Group Joint Independent Audit Committee (JIAC) has met during the year. The purpose of this committee is to independently review and advice on the effectiveness of the Commissioner and Chief Constable's governance, risk management and controls frameworks, financial reporting and annual governance processes, internal and external audit, and treasury management.</p> <p>The Police and Crime Plan, covering the period 2017 to 2021 is in place. The purpose, vision, values, priorities and strategic objectives of the PCC were developed in consultation with the Chief Constable. In turn, the Chief Constable produces the Policing Plan from the Police and Crime Plan, for which he is responsible.</p> <p>There is an Internal Audit function for the Commissioner and Chief Constable. Internal Audit reports are presented regularly to JIAC. This includes reporting of findings and tracking of recommendations to ensure they are implemented in a timely manner.</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION

| Sub-criteria                    | Commentary  | Arrangements in place? |
|---------------------------------|---|------------------------|
| Informed decision making        | <p>An Annual Governance Statement for the Commissioner has been prepared and reviewed by Officers and challenged by JIAC.</p> <p>Financial performance has been reported throughout the financial year. No evidence of financial or performance data not being reliable and therefore impacting on the decision making of the Police and Crime Commissioner.</p> <p>The Medium Term Financial Strategy (MTFS) for the period 2020/21 to 2023/24 was approved by the Commissioner in March 2020, which includes the 2020/21 budget. The MTFS is clearly linked to the Police and Crime Plan.</p> <p>The Police and Crime Plan, covering the period 2017 to 2021 is in place. The purpose, vision, values, priorities and strategic objectives of the PCC were developed in consultation with the Chief Constable. In turn, the Chief Constable produces the Policing Plan from the Police and Crime Plan, for which he is responsible.</p> <p>Alongside the annual budget and MTFS is the comprehensive workforce strategy that includes the recruitment, training and development of officers and police staff whilst continuing to manage necessary change through the prudent use of reserves.</p> <p>Up to date risk registers and risk management arrangements are in place and regularly reported to relevant committees</p> | Yes                    |
| Sustainable resource deployment | <p>Overall the group delivered a balanced position for the year ended 31 March 2020. The Commissioner's General Fund Reserve increased in the year to £12.126 million.</p> <p>The Medium Term Financial Strategy(MTFS) for the period 2020/21 to 2023/24 was approved by the Commissioner in March 2020, which includes the 2020/21 budget. The MTFS is clearly linked to the Police and Crime Plan, and also reflects the expected pressures the Commissioner will face. Risks remain around future funding formula settlement, as well as changing levels of demand. The impact of COVID-19 adds uncertainty to the financial outlook of the Group. The Chief Finance Officer and his staff are monitoring the impact of COVID-19 and the likely impact on future sources of funding. However it is recognised that this is difficult to predict given the continued measures and restrictions aimed at bringing the pandemic under control.</p> <p>The Force is reporting that it is on track to deliver the officers levels required under Operation Uplift, with an initial target of an additional 62 officers to be recruited by 2019/20 being met. This is part of an overall target of 185 additional officers by March 2021.</p>  | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION

| Sub-criteria                                  | Commentary  | Arrangements in place? |
|---|---|------------------------|
| Sustainable resource deployment               | The Capital Programme, included in the 2020/21 to 2023/24 approved MTFs, sets out the Police's investment priorities. Capital schemes are appraised and prioritised to ensure they reflect key investment requirements.   | Yes                    |
| Working with partners and other third parties | <p>Both the PCC and Chief Constable are aware of the importance of collaboration. This is evidenced in the Collaboration and Partnership Strategy, updated May 2016.</p> <p>The Commissioner and Chief Constable continue to work with partners. This includes working with other police bodies and public organisations. Areas of collaboration with these organisations include:</p> <ul style="list-style-type: none"> <li>• Co-locating with partners wherever possible, including fire and rescue services, councils and local community groups;</li> <li>• The North East Regional Special Operations Unit (NERSOU) collaboration between Northumbria, Durham and Cleveland Forces;</li> <li>• Continuation of the 7 Force Section 22A collaboration agreement. The agreement provides an overarching framework for areas of collaboration in the region. Currently the agreement covers the following capabilities across the 7 forces: Disaster Recovery Identification and CBRN (Chemical, Biological, Radiological and Nuclear incidents; and</li> <li>• Participation in National Procurement Frameworks which are delivering significant savings on an on-going basis, particularly in areas such as vehicle purchase, ICT contracts and uniform.</li> </ul> <p>Collaboration agreements to which the PCC and Chief Constable are parties to are published on the PCC's website</p> <p>The Medium Term Financial Strategy also includes assumptions regarding future collaboration.</p> | Yes                    |

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the PCC being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant audit risks.



## 4. OTHER REPORTING RESPONSIBILITIES

|  |                         |
|--|-------------------------|
| Exercise of statutory reporting powers                                 | No matters to report    |
| Completion of group audit reporting requirements                       | Below testing threshold |
| Other information published alongside the audited financial statements | Consistent              |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the PCC's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 25 November 2020.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the PCC. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the PCC's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Joint Independent Audit Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

| Area of work   | 2019/20 proposed fee | 2019/20 final fee |
|--|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice – Police and Crime Commissioner for Northumbria and Group* | £28,529              | £30,859 (Note 2)  |
| Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for Northumbria*                         | £14,438 (Note 1)     | £18,785 (Note 2)  |

Note 1: In our Audit Strategy Memorandum, we noted that we were discussing the additional work, and related fees, associated with the significant VFM risk for the Chief Constable in respect of the HMICFRS inspection. This work was not considered when the scale fee was set by PSAA.

Note 2: At the time of preparing this report we are proposing additional fees associated with delivering additional work required this year. The additional fee proposed for the PCC is £2,330 and is in relation to the additional work carried out on PPE as a result of regulatory pressures and requirements. The additional fee proposed for the Chief Constable is £4,347 and is the result of additional work carried out with respect to the significant VFM risk and pensions, including the additional audit procedures required due to this being a triennial valuation year as well as in respect of the material valuation uncertainty raised in relation to certain Pension Fund assets.

Both fees have been agreed with the Chief Finance Officer, however are subject to Public Sector Auditor Appointments Ltd's (PSAA) approval.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the PCC in the year.



## 6. FORWARD LOOK

### Financial outlook

As outlined in our Value for Money Conclusion section, the PCC continues to make good progress in addressing the financial challenges from public sector austerity, and has a proven track record of strong budget management and delivery planned budget reductions.

The COVID-19 pandemic and the consequences of lockdowns will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Chief Constable's medium term financial plan. Clarity over the impact will only be obtained once the virus has been brought under control and the impact on the economy becomes clearer. The Group is planning on future pressures in the income it receives. In particular Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty in regards the UK and European Union trade deal. Whilst this may not directly impact on the Chief Constable, any impact on the overall economy may create indirect pressures.

In light of the above challenges, the PCC and her team recognise the importance of reviewing and refreshing the medium term plan on a regular basis so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on performance.

A balanced budget has been set in 2020/21. Whilst the financial climate remains challenging, the PCC is well placed to deal with this.

### Operational challenges

The PCC's key challenges, strategic priorities, direction and vision are set out in the Commissioner's Police and Crime Plan 2017-2021. Our understanding is that the new Police and Crime plan has been agreed in early February 2021. The Plan sets out the priorities set for the Chief Constable against which he will be held to account for their delivery. The Chief Constable has established a Strategy 2025 to deliver policing services in-line with the PCC's Plan, delivery of the Strategy 2025 priorities requires organisational capacity, and strong governance, risk and project management arrangements.

During 2018/19, the Force received a rating of "requires improvements" from HMICFRS in its PEEL inspection. Owing to the COVID-19 pandemic the HMICFRS has suspended its inspection regime. However there remains the challenge of continuing to address the recommendations made by the inspectorate, particularly against a backdrop of continued reductions in funding and future uncertainty, alongside increasing demand.

### How we will work with the PCC

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we continue to support the PCC by:

- Continued liaison with the PCC's Internal Auditor's to minimise duplication of work;
- Attending Joint Independent Audit Committee meetings and presenting an Audit Progress Report, including updates on regional and national developments; and
- Hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the officers to identify any learning from the 2019/20 audit. Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty regarding the 2020/21 timetable. We will continue to work with the finance team to ensure any future timetable is adhered to.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. We will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

The PCC has taken a positive and constructive approach to our audit and we wish to thank members and officers for their support and co-operation during our audit.





## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

The additional work required on value for money arrangements as a result of the new Audit Code will lead to an increase in fees for the 2020/21 audit.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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|  |                         |
|--|-------------------------|
| <b>JOINT INDEPENDENT AUDIT COMMITTEE</b>       | <b>22 FEBRUARY 2021</b> |
| <b>REDMOND REVIEW UPDATE</b>                   |                         |
| <b>REPORT OF: KEVIN LAING, HEAD OF FINANCE</b> |                         |

## **I. PURPOSE**

- 1.1 In June 2019 Sir Tony Redmond was asked by the Ministry for Housing, Communities and Local Government (MHCLG) to carry out an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The Redmond Review was published in September 2020 and this report presents an overview of the main findings, recommendations and responses to the review published to date.

## **2. BACKGROUND**

- 2.1 Both the Police and Crime Commissioner and Chief Constable are ‘relevant authorities’ under the Local Audit and Accountability Act 2014 (the Act), and are therefore included within the scope of the Redmond Review as well as principal local authorities and other local public bodies.
- 2.2 The Redmond Review examined:
- The effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public.
  - Whether the current means of reporting Local Authorities in England (including Police and Fire) annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances are sound.
- 2.3 The key objectives of the Review were to examine the existing purpose, scope and quality of external audits and the supporting regulatory framework to:
- Determine whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment.
  - Determine whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by local authorities.
  - Determine whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account.

- Make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.
- 2.4 The Redmond Review took place against a backdrop that saw delays in the completion of more than 200 out of 487 local public body accounts for 2018/19, beyond the deadline of 31 July. Since then, the Public Sector Audit Appointments (PSAA) has stated that 265 audits did not meet the extended 30 November deadline (implemented in recognition of one-off Covid-19 pressures) for 2019/20.
- 2.5 It should be noted that each of the Police and Crime Commissioner and the Chief Constable for Northumbria Statements of Account, for both those years, were completed by the relevant deadlines, as have all such accounts since the introduction of Police and Crime Commissioners in 2012.

**3. REDMOND REVIEW FINDINGS AND RECOMMENDATIONS**

- 3.1 The three primary concerns raised by the Redmond Review were the fragility of the local audit market, policy objectives of legislation not being fulfilled, and a lack of leadership for the local audit system.
- 3.2 The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit and the transparency of local authority accounts, within the full review published on 08 September 2020 on GOV.UK: [Redmond Review Report](#)
- 3.3 The Ministry for Housing, Communities and Local Government (MHCLG) subsequently grouped the recommendations into 5 main themes as summarised in the table below. The 23 recommendations are set out in detail under these headings at Appendix A.

| <b>Main Themes</b>  | <b>Recommendations</b> |
|---|------------------------|
| Actions to support immediate market stability   | 5, 6, 8, 10, 11        |
| Consideration of system leadership options  | 1, 2, 3, 7, 13, 17     |
| Enhancing the functioning of local audit, and the governance for responding to its findings | 4, 9, 12, 18           |
| Improving transparency of local authorities' accounts to the public                         | 19, 20, 21, 22         |
| Action to further consider the functioning of local audit for smaller bodies                | 14, 15, 16, 23         |

- 3.4 **Actions to support immediate market stability** - includes a recommendation that the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September (from 31 July) each year; provision of requisite skills and training to auditors; and, the current fee structure for local audit be revised

to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

**3.5 Considerations of system leadership options** – includes the recommendation that a new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit.

**3.6 Enhancing the functioning of local audit and the governance for responding to its findings** – includes the following key recommendations:

- I. Key concerns relating to service and financial viability should be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's annual report.
- II. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year.
- III. Other governance actions – formalising the facility for the CEO, Monitoring Officer and CFO to meet with the Key Audit Partner at least annually, and the appointment of at least one independent member, suitably qualified, to the Audit Committee.

(Note that for II. and III. above the recommendations (and the MHCLG response) apply only to principal local authorities, i.e. not Police and Crime Commissioners or Fire and Rescue authorities.)

**3.7 Improving transparency of local authorities' accounts to the public** – includes a recommendation for a new standardised statement of service information and costs to be prepared by each authority and be compared with the budget, presented alongside the statutory accounts and subject to audit.

**3.8 Actions relating to the audit of smaller bodies** – considerations specific to those bodies only.

#### **4. RESPONSE TO REDMOND REVIEW**

**4.1** On 17 December 2021 MHCLG published its response to the Review which:

- Reconfirms the importance of external audit in providing assurance to local authorities and local taxpayers; particularly at a time when local authorities are exposed to greater risks – whether through stretched funding or increased commercial activity.
- Supports the recommendation for extending the deadline for publishing local authority accounts, but for two years only, then subject to review.
- Accepts the recommendation for a new standardised statement of services and costs to make it easier to understand how money has been spent.
- Confirms no plan to establish a new regulator (OLAR) at this stage.

- Supports recommendations relating to the provision of the annual report and accounts to full council and the appointment of an independent member to the audit committee (notes that the recommendation and Department's response applies only to principal local authorities).
- 4.2 To address the three primary concerns raised by the review, MHCLG has stated that it is taking the following actions:
- Providing £15m of additional funding to 'relevant local authorities' in 2021/22 to meet the anticipated rise in audit fees driven by new requirements on auditors. (Further information has not been made available as to how the additional funds are to be allocated.)
  - Reviewing and reforming regulations to provide the auditor appointing body with greater flexibility to ensure the costs to audit firms of additional work are met.
  - Committing to work with key stakeholders to achieve practical outcomes to the recommendations.
  - Extending the deadline for publishing audited local authority accounts from 31 July to 30 September for the next 2 years, covering the audit of the 2020/21 and 2021/22 accounting periods.
  - Working with the Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England and Wales (ICAEW) to review entry requirements for Key Audit Partners within the scope of the existing regulatory framework, balancing quality and market sustainability.
  - Working with the Department for Business, Energy and Industrial Strategy (BEIS) on the development of an appropriate framework for the corporate auditing profession, ensuring that local audit practitioners have a voice in its development.
  - Exploring other options for delivering system leadership, delaying the incorporation of a new regulator (OLAR) whilst the other actions are taken to see if they bring about change without the need for structural reform in regulation.
- 4.3 The MHCLG response to the 23 recommendations in the Redmond Review is included in the table at Appendix A.

## **5. POTENTIAL IMPACT FOR NORTHUMBRIA**

### **Changes to audited accounts deadline**

- 5.1 MHCLG has confirmed the extension of deadlines for publishing audited local authority accounts for the next 2 years. Changes to the deadlines will be confirmed by an amendment to the Accounts and Audit Regulations 2015.
- 5.2 On 09 February 2021 MHCLG wrote to all Local Authority Chief Executives to set out the draft regulations (amendment) and launch consultation on the changes which

require draft accounts to be published on or before the first working day of August, and audited accounts by 30 September.

- 5.3 In light of the proposed changes, consideration will need to be given to aligning the future JIAC dates with those deadlines, to receive the draft and final Annual Governance Statements (AGS) along with the audit opinions.

#### **New standardised statement of service information and costs**

- 5.4 CIPFA will lead on the development and consultation with regards the new standardised statement of service information and costs with implementation expected for 2021/22. The detailed statement requirements will be confirmed by CIPFA following consultation and set out in the Code of Practice on Local Authority Accounting.

#### **Other recommendations**

- 5.5 As set out within the MHCLG response to the Redmond Review, further work is required with a number of key stakeholders (see Appendix A) to achieve practical outcomes to the recommendations. Further changes to local audit processes and financial reporting requirements will be considered by Northumbria as further clarity is provided and changes to the relevant legislation are announced, and updates will be brought to JIAC as appropriate.

### **6. RECOMMENDATIONS**

- 6.1 The Committee is asked to note the report.

### **7. CONSIDERATIONS**

- 7.1

|   |                   |
|---|-------------------|
| <b>Freedom of Information</b>   | <i>Non-exempt</i> |
| <b>Consultation</b>   | No                |
| No consultation required, report based on published information.                        |                   |
| <b>Resource</b>   | No                |
| There are no additional financial considerations arising from this report.              |                   |
| <b>Equality</b>   | No                |
| There are no equality implications arising from the content of this report.             |                   |
| <b>Legal</b>  | No                |
| There are no legal considerations arising from the content of this report.              |                   |
| <b>Risk</b>   | No                |
| There are no additional risk management implications directly arising from this report. |                   |
| <b>Communication</b>  | No                |
| For information only.   |                   |
| <b>Evaluation</b>   | No                |





**Redmond Review Recommendations and a Summary of the MHCLG Response**

| <b>Main Themes / Recommendations</b>                 |  | <b>MHCLG Response</b>   |
|--|--|---|
| <b>Actions to support immediate market stability</b> |  |   |
| 5  | All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.   | <b>Agree</b> – we will work with key stakeholders to deliver this recommendation  |
| 6  | The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.   | <b>Agree</b> - we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work |
| 8  | Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.  | <b>Part Agree</b> - we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required               |
| 10   | The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September (from 31 July) each year.  | <b>Part Agree</b> - we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review  |
| 11   | The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.  | <b>Agree</b>  |
| <b>Consideration of system leadership options</b>    |  |   |
| 1  | A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities: <ul style="list-style-type: none"> <li>• procurement of local audit contracts;</li> <li>• producing annual reports summarising the state of local audit;</li> <li>• management of local audit contracts;</li> <li>• monitoring and review of local audit performance;</li> <li>• determining the code of local audit practice; and</li> <li>• regulating the local audit sector.</li> </ul> | <b>We are considering these recommendations further</b> and will make a full response by spring 2021  |
| 2  | The current roles and responsibilities relating to local audit discharged by the following bodies to be transferred to the OLAR:   |   |

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>• Public Sector Audit Appointments (PSAA);</li> <li>• Institute of Chartered Accountants in England and Wales (ICAEW);</li> <li>• FRC/ARGA; and</li> <li>• The Comptroller and Auditor General (C&amp;AG)</li> </ul>  |  |
| 3  | A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.  |  |
| 7  | That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.   |  |
| 13   | The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.   |  |
| 17   | MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.  |  |
| <b>Enhancing the functioning of local audit, and the governance for responding to its findings</b> |  |  |
| 4  | <p>The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> <li>• an annual report being submitted to Full Council by the external auditor;</li> <li>• consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and</li> <li>• formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.</li> </ul> | <b>Agree</b> - we will work with the LGA, NAO and CIPFA to deliver this recommendation |
| 9  | External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.   | <b>Agree</b> - we will work with the NAO and CIPFA to deliver this recommendation      |
| 12   | The external auditor be required to present an Annual Audit Report to the first Full Council   | <b>Agree</b> - we will work with the LGA, NAO and CIPFA and other                      |

|   |  |  |
|---|--|--|
|   | meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.  | key stakeholders to deliver this recommendation, including whether changes to statute are required   |
| 18  | Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.   | <b>Agree</b> - we will work with other departments and the NAO to deliver this recommendation  |
| <b>Improving transparency of local authorities' accounts to the public</b>          |  |  |
| 19  | A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.   | <b>Agree</b> - we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation |
| 20  | The standardised statement should be subject to external audit.  | <b>Agree</b> - we will work with CIPFA, the LGA and the NAO to deliver this recommendation   |
| 21  | The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.   | <b>Agree</b> - we will work with the LGA and CIPFA to deliver this recommendation  |
| 22  | CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary. | <b>Agree</b> - we will look to CIPFA to deliver this recommendation  |
| <b>Action to further consider the functioning of local audit for smaller bodies</b> |  |  |
| 14  | SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.   | <b>Agree</b> - we will look to SAAA to deliver this recommendation   |
| 15  | SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.  | <b>We are considering these recommendations further</b> and will make a full response by spring 2021   |
| 16  | SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.  | <b>Agree</b> - we will look to SAAA to deliver this recommendation   |

|    |  |   |
|----|--|---|
| 23 | <p>JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"><li>• Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;</li><li>• Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and</li><li>• Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.</li></ul> | <p><b>Agree</b> - we will work to JPAG to deliver this recommendation</p> |
|----|--|---|

|   |                         |
|---|-------------------------|
| <b>Joint Independent Audit Committee</b>  | <b>22 February 2021</b> |
| <b>Joint Strategic Risk Register</b>  |                         |
| <b>Report of Ruth Durham, Chief of Staff and Monitoring Officer and Debbie Ford, Deputy Chief Constable</b> |                         |
| <b>Author: Tanya Reade, Corporate Governance Manager, Corporate Development</b>                             |                         |

**1. PURPOSE**

- 1.1 To present the current joint strategic risk register; this incorporates the strategic risks faced by the Force and OPCC within twelve thematic areas.

**2. BACKGROUND**

- 2.1 The Office of Police and Crime Commissioner (OPCC) and Northumbria Police share a Joint Strategic Risk Register (JSRR). Each strategic risk is assigned an Executive or OPCC owner, who has responsibility for the management of controls and the implementation of new controls where necessary.

**Governance of the Joint Strategic Risk Register**

- 2.2 The JSRR identifies each risk, provides context to the risk and identifies current factors affecting thematic areas and captures the consequences if it were to happen. It also provides a summary of existing controls and rates risks on the likelihood of the risk occurring and the impact it would have. All risks are regularly reviewed by the respective owners and updated, where necessary.
- 2.3 Area Commanders, Department Heads and the OPCC are responsible for the identification of emerging risks which cannot be controlled locally, and have the potential to prevent the Force and OPCC from achieving objectives. Recommendations and areas for improvement following external inspection, investigations and audit are considered to ensure they are adequately reflected in current risks. These risks are escalated to the PCC and Executive Team in-line with the governance and decision making structures, and recorded on the JSRR.
- 2.4 The JSRR is presented to the joint Business Meeting between the PCC and the Chief Constable on a quarterly basis. The Joint PCC/ Chief Constable Governance Group and Joint Independent Audit Committee provide additional scrutiny and governance on a quarterly basis.
- 2.5 The JSRR captures risk(s) in twelve thematic areas: Finance; Governance ; Information and Communication Technologies (ICT); Information and Data Management; Information and Data Quality; Infrastructure & Assets; Operational Policing; Partnership & Collaboration; Public Confidence; Regulation & Standards; Strategy; and Workforce.
- 2.6 Appendix A provides an overview of the current RAG status of the strategic risks for Northumbria Police, alongside the Force strategic risk register (thematic risk areas are recorded alphabetically and numbered for ease of reference only).
- 2.7 Appendix B provides an overview of the current RAG status of the risks for the OPCC, alongside the register.

**Recent Updates**

**1. Finance (Force)**

**Reduction in funding and/ or the arising of additional funding pressures which require changes to financial planning and/ or a change to the resourcing of service delivery.** *Updated from Reduction in funding which requires a change to financial planning and/ or a change to the resourcing of service delivery.*

**Failure to effectively manage the allocated annual budget**

- 2.8 The current in-year financial pressure as a consequence of COVID-19 has identified a need to update the strategic risk faced by the Force to reflect such instances.
- 2.9 The potential for lower precept and collection rates has been included as a current factor.
- 2.10 The summary of controls has been updated to include reimbursement from the Home Office of some costs and a proportion of irrecoverable income loss associated with COVID -19. There is also the potential for mitigation from Government in relation to Localised Council Tax Support.
- 2.11 Likelihood remains medium (3) and impact high (4).

**3. Information and Communications Technology (Force)**

**Loss or failure to provide the Core IT solutions and functions that support and enable the Force service delivery.** *Updated from Loss or failure of IT systems which support current service delivery due to the age of technology and insufficient capacity and capabilities and failure to implement new operating platforms in a timely and effective way.*

- 2.12 The summary of controls have been updated to accurately reflect the activities which have taken place over the last six months including agreed funding; a managed programme by the Chief Information Officer to deliver Transformation 2025; significantly re-negotiated contracts to provide focus and obligated on-time delivery; and a wider ICT recruitment programme.
- 2.13 Likelihood has been re-assessed from very high (5) to medium (3); impact remains high (4).

**4. Information and Data Management (Force)**

**Failure to implement and adhere to information and data management processes and legislation leading to data breaches.**

- 2.14 Findings from the Information Commissioner Office (ICO) Data Protection Audit of Northumbria Police (October 2020) have now been published which confirms the risk already identified by the force. An action plan is being developed in response to the findings and will contribute to the controls already in place.
- 2.15 Likelihood remains very high (5) and impact high (4).

**7. Operational Policing (Force)**

**Failure to provide our requirements under the Civil Contingencies Act regarding planning and preparedness for civil emergencies; delivery of our responsibilities under the Strategic Policing Requirement; and ability to maintain core policing functions in times of emergency.**

- 2.16 The summary of controls has been updated to include the NPoCC mobilisation commitment and deployments to British overseas territories with COVID-19 considerations in the Mobilisation Plan.
- 2.17 Likelihood remains low (2) and impact high (4).

**8. Partnership & Collaboration (Force)**

**Reduction in or withdrawal of current and/ or future partnership arrangements or collaborations leading to impact on service delivery or ineffective management of these arrangements including commercial partnerships (management of commercial contracts).**

- 2.18 It has been identified that ineffective partner agency arrangements may result in missed learning opportunities, which can impact on serious case review decisions and outcomes.
- 2.19 The summary of controls has been updated to include partnership arrangements in place across the criminal justice systems, which provide the ability to utilise resources across disciplines to meet demand.
- 2.20 Likelihood remains low (2) and impact high (4).

**Partnership & Collaboration (OPCC)**

**Reduction in or withdrawal of current and future partnership arrangements for the OPCC and force lead to the need to identify, develop and retain partnerships and inability to support communities with sustainable multi agency responses.**

- 2.21 The victim services review has concluded; implementation of the decision made by the PCC and Chief Constable will now be closely monitored.
- 2.22 Whilst the criminal justice system continues to be a current factor worthy of note given the ongoing challenges of the pandemic, experience to date is that criminal justice partners are continuing to stay engaged with the Local Criminal Justice Board partnership vision.
- 2.23 Likelihood remains medium (3) and impact high (4).

**Public Confidence (OPCC)**

**Loss of public confidence in the PCC resulting from a lack of engagement and communication leading to failure to reflect public priorities in the Police and Crime Plan. Failure to hold the Chief Constable to account on behalf of the public for delivery of their priorities or deliver other statutory obligations.**

- 2.24 EU exit continues to be an area of uncertainty and has been added as a current factor. To mitigate this, the PCC receives a monthly update from the Chief Constable.
- 2.25 Likelihood remains low (2) and impact high (4).

**11. Strategy (Force)**

**Northumbria Police fails to deliver its strategic objectives and those of the Police and Crime Plan, due to ineffective business planning, including performance, risk, demand, transformation, workforce and financial management**



- 2.26 The summary of controls has been updated to reflect the ongoing work to improve service delivery to victims of crime, including the transfer of Victim First Northumbria services to the Force and investigative standards.
- 2.27 Likelihood remains low (2) and impact high (4).
- 2.28 The Force has assessed five areas as high risk: Finance; ICT; Information and Data Management; Information and Data Quality; and Workforce.
- 2.29 The OPCC has assessed two areas as high risk: Finance and Partnership and Collaboration.

### 3. **CONSIDERATIONS**

|   |            |
|---|------------|
| <b>Government Security Classification</b>   | Official   |
| <b>Freedom of Information</b>   | Non-Exempt |
| <b>Consultation</b>   | Yes        |
| <b>Resources</b>  | No         |
| There are no additional financial considerations arising from this report.              |            |
| <b>Code of Ethics</b>   | No         |
| There are no ethical implications arising from the content of this report.              |            |
| <b>Equality</b>   | No         |
| There are no equality implications arising from the content of this report.             |            |
| <b>Legal</b>  | No         |
| There are no legal considerations arising from the content of this report.              |            |
| <b>Risk</b>   | No         |
| There are no additional risk management implications directly arising from this report. |            |
| <b>Communication</b>  | No         |
| <b>Evaluation</b>   | No         |

**AGENDA ITEM 11  
APPENDIX A**

**Overview of the RAG status of Strategic Risk – Northumbria Police**

|                   |               |              |                             |   |               |
|-------------------|---------------|--------------|-----------------------------|---|---------------|
| <b>LIKELIHOOD</b> | Very High (5) |              |                             | 4 Information and Data Management   |               |
|                   | High (4)      |              |                             | 5 Information and Data Quality  |               |
|                   | Medium (3)    |              | 10 Regulation and Standards | 1 Finance<br>3 ICT<br>12 Workforce  |               |
|                   | Low (2)       |              | 6 Infrastructure and Assets | 7 Operational Policing<br>8 Partnership and Collaboration<br>9 Public Confidence<br>11 Strategy |               |
|                   | Very Low (1)  | 2 Governance |                             |   |               |
|                   | Very Low (1)  | Low (2)      | Medium (3)                  | High (4)  | Very High (5) |
|                   | <b>IMPACT</b> |              |                             |   |               |

|                          |   |           |
|--------------------------|---|-----------|
| <b>I</b>                 | <p><b>Strategic Risk – Finance</b></p> <p><b>Reduction in funding and/ or the arising of additional funding pressures which require changes to financial planning and/ or a change to the resourcing of service delivery.</b></p> <p><b>Failure to effectively manage the allocated annual budget.</b></p>  |           |
| Owner(s)                 | Chief Constable and Director of Finance   |           |
| Governance and Oversight | Executive Board/ Business Meeting   |           |
| Context                  | <ul style="list-style-type: none"> <li>▪ Reduction in central government funding as announced in the annual Home Office Police Funding Settlement.</li> <li>▪ The funding settlement currently provides certainty for only one financial year and carries continued long-term uncertainty over several funding strands, including Uplift and Pensions.</li> <li>▪ An in-year event or change, outside of Northumbria Police's control, may lead to unbudgeted costs that cannot be met from within the annual budget.</li> </ul>  |           |
| Current factors          | <ul style="list-style-type: none"> <li>▪ An in-year potential budget pressure as a consequence of COVID-19 including pressure on precept and collection rates.</li> <li>▪ An in-year potential overspend as reported to PCC at quarter 2 2020/21.</li> </ul>  |           |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Short notice change to national funding may require a change in short and medium term force financial planning, including a need to deliver unplanned savings thereby impacting on service delivery.</li> <li>▪ Any in-year pressures which become a forecast overspend must be addressed through consideration of in-year savings and discussion with the PCC.</li> </ul>   |           |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Transparent ownership of financial matters between the PCC and Chief Constable.</li> <li>▪ Comprehensive approach to business planning cycle and annual budget setting process.</li> <li>▪ Well understood in-year financial monitoring and reporting governance.</li> <li>▪ Home Office reimbursement of some costs relating to COVID -19: PPE medical grade; non-medical grade PPE and logistics cost; as well as a proportion of irrecoverable income loss.</li> <li>▪ The Spending Review 2020 announcement included provision for 75% of Council Tax collection deficits for 2020/21 to be met by government, and additional funding provided in 2021/22 for Localised Council Tax Support. This will partially mitigate expected reductions in budgeted Council Tax Precept income, the full extent of which cannot be determined at this time.</li> </ul> |           |
| Likelihood               | 3   | <b>12</b> |
| Impact                   | 4   |           |

|                          |   |          |
|--------------------------|---|----------|
| <b>2</b>                 | <b>Strategic Risk – Governance</b>  |          |
|                          | <b>Failures originating from a lack of scrutiny, oversight, transparency, internal controls and adherence to legislation.</b>   |          |
| Owner(s)                 | Deputy Chief Constable  |          |
| Governance and Oversight | Executive Board   |          |
| Context                  | <ul style="list-style-type: none"> <li>▪ Chief Constable is unable to account to the PCC for the exercise of his functions and those under his direction and control.</li> <li>▪ There is a breakdown in relationship between the Force and Office of the Police and Crime Commissioner.</li> </ul>   |          |
| Current factors          | <ul style="list-style-type: none"> <li>▪ None.</li> </ul>   |          |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Inability to identify and respond to deteriorating performance resulting in policing priorities not being achieved.</li> <li>▪ Inability to work effectively in partnership to provide services to victims and witnesses.</li> <li>▪ Slippage/ failure of projects, which hamper the achievement of objectives.</li> <li>▪ A decline in quality and service delivery, leading to a reduction in satisfaction levels.</li> <li>▪ Adverse external inspection reports, leading to recommendations and wider escalation.</li> <li>▪ Loss of public confidence.</li> </ul> |          |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ A comprehensive governance and decision making structure is in place providing appropriate governance arrangements.</li> </ul>   |          |
| Likelihood<br>Impact     | 1<br>2  | <b>2</b> |

|                       |  |  |
|-----------------------|--|--|
| <b>3</b>              | <b>Strategic Risk – Information and Communications Technology</b>  |  |
|                       | <b>Loss or failure to provide the Core IT solutions and functions that support and enable the Force service delivery.</b>  |  |
|                       | Owner(s)   | Chief Information Officer  |
|                       | Governance and Oversight   | Transformation Board/ Strategic Resourcing Board   |
|                       | Context  | <ul style="list-style-type: none"> <li>▪ Limitations of current ICT systems and the impact on service delivery.</li> <li>▪ Significant IT transformation programme.</li> <li>▪ Loss of Critical ICT Services.</li> <li>▪ A malicious intent to compromise or access information or data.</li> <li>▪ Failure of national projects to deliver on time and to specification.</li> <li>▪ Impact internally and externally of second COVID -19 wave.</li> </ul> |
|                       | Current factors  | <ul style="list-style-type: none"> <li>▪ New technology/ new working practices being introduced.</li> <li>▪ Masons Advisory Risk Assessment and identification.</li> <li>▪ Major IT Transformation now running (recruitment phase).</li> </ul>   |
| Potential consequence | <ul style="list-style-type: none"> <li>▪ Ineffective IT system to support business processes.</li> <li>▪ Loss of information from systems as a result of a cyber-attack.</li> <li>▪ Loss of confidence in systems and the organisation from users, the public, partner organisations.</li> <li>▪ Inability to effectively communicate with partners and the public.</li> </ul>   |  |
| Summary of Controls   | <ul style="list-style-type: none"> <li>▪ Funding in place for the systems implementation and ongoing support.</li> <li>▪ Chief Information Officer in post with further call off of advisory services contracted.</li> <li>▪ Centralised hardware security monitoring in place via the National Management Centre provided by the National Enabling Programme.</li> <li>▪ Local enhanced Firewalls now installed providing heightened access controls.</li> <li>▪ Annual and ad-hoc penetration tests performed and remedial action taken.</li> <li>▪ Current application functionality is embedded, understood and stable.</li> <li>▪ Retention payments being agreed for key staff over transition period.</li> <li>▪ Digital Policing Board created to provide oversight, monitoring and governance of project status and ICT operational performance.</li> <li>▪ Wider ICT recruitment programme ongoing with 40% of posts recruited.</li> <li>▪ New Solution Delivery function built focused on providing IT resources to the transformation programme when needed.</li> <li>▪ Managed programme to deliver transformation under Transformation 2025.</li> <li>▪ Contracts significantly renegotiated for Northgate and Sopra Steria to provide focus on obligated on-time delivery underpinned by delay payments.</li> <li>▪ Northgate connect environments available.</li> <li>▪ Data consultant brought in to advise on the retention of the NPICCS data.</li> <li>▪ COVID-19 Overarching programme (Operation Talla) in place empowered to respond quickly to fast changing impact of the virus.</li> </ul> |  |
| Likelihood            | 3  | <b>12</b>  |
| Impact                | 4  |  |

|                     |   |   |
|---------------------|---|---|
| <b>4</b>            | <b>Strategic Risk – Information and Data Management</b>   |   |
|                     | <b>Failure to implement and adhere to information and data management processes and legislation leading to data breaches.</b>   |   |
|                     | Owner(s)  | T/ Assistant Chief Constable Force Coordination   |
|                     | Governance and Oversight  | Operational Information Management Board  |
|                     | <u>Context</u>  | <ul style="list-style-type: none"> <li>▪ Inappropriate handling and management of information.</li> <li>▪ Breach of relevant legislation and/or statutory guidance.</li> <li>▪ Corruption or loss of Force systems.</li> <li>▪ Potential loss of data and information assets</li> <li>▪ Failure to comply with both Force Policy and Procedure and MoPI statutory guidance relating to the retention and destruction of data.</li> <li>▪ Force Policy and Procedure processing, storing and handling of data not followed.</li> <li>▪ Lack of awareness and understanding of GDPR</li> <li>▪ Failure to comply with Information Commissioner’s Office (ICO) best practice, standards and relevant codes of practice.</li> </ul> |
|                     | Current factors   | <ul style="list-style-type: none"> <li>▪ Information Commissioner’s Office Data Protection Audit – October 2020</li> </ul>  |
|                     | Potential consequence   | <ul style="list-style-type: none"> <li>▪ Regulatory action from the ICO – loss of public confidence and financial penalties</li> <li>▪ Litigation, legal action against the Force leading to enforcement action and monetary penalties.</li> <li>▪ Limited ability to access information and/or respond to requests for information. Loss of confidence due to inappropriate or unlawful disclosures of personal data (internally and externally).</li> <li>▪ Compromise of operational activity and/ or covert tactics.</li> <li>▪ Compromise of physical and technical security controls which would impact information assets and/ or systems if vulnerability is exploited.</li> </ul>                                      |
| Summary of Controls | <ul style="list-style-type: none"> <li>▪ Information Management Unit with capability, including the roles of Force Data Protection Officer (DPO) and Information Security Manager (ISM).</li> <li>▪ Oversight and management through the Governance and Decision-making structure – Operational Information Management Board.</li> <li>▪ Plan for the implementation of formal Information asset registers in place.</li> <li>▪ Existing procedures in respect of data breaches ensure obligations placed on the organisation in such instances are met.</li> <li>▪ Monthly meeting with Senior Information Risk Owner to formally assess and govern risk.</li> </ul> |   |
| Likelihood Impact   | 5<br>4  | <b>20</b>   |

|                          |  |           |
|--------------------------|--|-----------|
| <b>5</b>                 | <b>Strategic Risk – Information and Data Quality</b>   |           |
|                          | <b>Failure to improve data quality leading to a reduction in benefits realisation of new operating platforms.</b>  |           |
| Owner(s)                 | T/ Assistant Chief Constable Force Coordination  |           |
| Governance and Oversight | Operational Information Management Board   |           |
| Context                  | <ul style="list-style-type: none"> <li>▪ Poor data quality affecting business decisions.</li> <li>▪ Intelligence not being captured.</li> <li>▪ Up-to-date crime and intelligence data is not available to officers/staff or data is stored in various locations and formats.</li> <li>▪ Inaccurate crime recording or held data leading to non-compliance with regulations, a negative impact upon investigations and reputational damage.</li> </ul>   |           |
| Current factors          | <ul style="list-style-type: none"> <li>▪ Migration to new operating platforms, including Northgate Connect and Steria – Storm.</li> <li>▪ Ability to respond to external inspection findings.</li> </ul>   |           |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Reduction in force performance and delivery</li> <li>▪ Failure to identify risk of vulnerability, officer, public safety.</li> <li>▪ Inaccurate data returns to the Home Office and other bodies e.g. HMICFRS</li> <li>▪ Implications of inaccurate crime recording or held data.</li> <li>▪ Poor quality data is used to base decisions upon, meaning that critical risk factors may be missed or not fully understood.</li> </ul>   |           |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Investment in Information Technology aligned to Masons Advisory review.</li> <li>▪ Migration strategy as part of the Transformation 2025 programme IT strand to ensure data quality, accuracy and compliance with GDPR</li> <li>▪ Quality Assurance &amp; Audits – identification of documentation and standards.</li> <li>▪ Introduction of the Quality Standards Delivery Team.</li> <li>▪ Self-service updates (i.e. HRMS).</li> <li>▪ QlikSense – use of the Business Intelligence tool to identify compliance and data quality issues</li> <li>▪ Engagement with the Home Office/ NPCC National Data Quality Improvement Service (NDQIS).</li> </ul> |           |
| Likelihood               | 4  | <b>16</b> |
| Impact                   | 4  |           |

|                       |   |  |
|-----------------------|---|--|
| <b>6</b>              | <b>Strategic Risk – Infrastructure and Assets</b>   |  |
|                       | <b>Failure to maintain the physical security and safety of our estate and to effectively manage assets to ensure continued effective service delivery through provision of equipment and facilities which keep the workforce capable and able to respond to the public.</b>                                 |  |
|                       | Owner(s)  | Director of Finance  |
|                       | Governance and Oversight  | Strategic Resourcing Board <b>Asset Management</b> / Operational Information Management Board <b>Physical Security</b>         |
|                       | Context   | <ul style="list-style-type: none"> <li>▪ Failure to appropriately maintain assets resulting in critical failure.</li> </ul>    |
|                       | Current factors   | <ul style="list-style-type: none"> <li>▪ COVID-19 - Delays in new supply of vehicles.</li> <li>▪ Physical security.</li> </ul> |
| Potential consequence | <ul style="list-style-type: none"> <li>▪ Injury to users of assets or the public.</li> <li>▪ Reduced availability of assets impacts on services across some or all business areas.</li> <li>▪ Litigation and civil claims.</li> <li>▪ Negative impact on the workforce and on public confidence.</li> </ul> |  |

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| Summary of Controls | <ul style="list-style-type: none"> <li>▪ Established internal arrangements to minimise the impact of proposed estate and infrastructure changes/ refreshes on the business.</li> <li>▪ Business Continuity Plans, Estate Strategies and policies and procedures in place.</li> <li>▪ Regular inspection, testing and maintenance programmes for utility services and equipment.</li> <li>▪ Obligations under fire safety regulations are met.</li> <li>▪ Annual inspection and update of the asbestos management survey and risk assessed asbestos management plan, undertaking any remedial work to reduce risks.</li> <li>▪ Health and Safety management embedded at tactical and strategic level.</li> <li>▪ Vehicles are purchased using national contracts that incorporate role related testing.</li> <li>▪ Vehicle maintenance partners are vetted to ensure security and continuity of service.</li> <li>▪ Internal fuel stock maintained.</li> <li>▪ Assets management software</li> <li>▪ Telematics.</li> </ul> |          |
| Likelihood          | 2  | <b>6</b> |
| Impact              | 3  |          |



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|--------------------------|--|--|
| <b>7</b>                 | <b>Strategic Risk – Operational</b><br><br><b>Failure to provide our requirements under the Civil Contingencies Act regarding planning and preparedness for civil emergencies; delivery of our responsibilities under the Strategic Policing Requirement; and ability to maintain core policing functions in times of emergency.</b>                             |  |
| Owner(s)                 | T/Assistant Chief Constable Force Coordination   |  |
| Governance and Oversight | Strategic Performance Board  |  |
| Context                  | <ul style="list-style-type: none"> <li>▪ Societal Risks; Diseases; Natural Hazards; Major Accidents; Malicious Attacks.</li> </ul>   |  |
| Current factors          | <ul style="list-style-type: none"> <li>▪ COVID-19.</li> </ul>  |  |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Reduced staffing and service provision.</li> <li>▪ Inability to deliver services across some or all business areas.</li> <li>▪ Inability to project accurate resourcing to meet future demand.</li> <li>▪ Inability to contact and recall staff to duty.</li> <li>▪ Ability to meet mobilisation commitment.</li> </ul> |  |

|                     |  |          |
|---------------------|--|----------|
| Summary of Controls | <ul style="list-style-type: none"> <li>▪ Robust business continuity plans in place across all area commands and departments which have been reviewed in light of COVID-19 and EU Exit.</li> <li>▪ COVID-19 Response plan and local response plan prepared for localised lockdowns</li> <li>▪ Concept of Operations developed in line with the States of Policing Matrix to support resourcing decisions in order to maintain critical functionality for the force</li> <li>▪ Close working with National Police Coordination Centre (NPoCC) and the Regional Information and Coordination Centre (RICC) to test and exercise mobilisation commitment and provide and request mutual aid as appropriate.</li> <li>▪ Mobilisation plan includes changes to NPoCC mobilisation commitment and deployments to British overseas territories with COVID-19 considerations.</li> <li>▪ Ability to implement agile ways of working.</li> <li>▪ Northumbria Police currently chairs the Northumbria Local Resilience Forum (LRF) and work closely with partners on preparedness for civil emergencies and the testing and exercising of the multi-agency response.</li> <li>▪ Ability to revise shift pattern to facilitate mobilisation of specialist staff, particularly in respect of Tier 2 assets.</li> <li>▪ Force Coordination Centre and daily pace setter meetings to align demand and resources.</li> </ul> |          |
| Likelihood          | 2  | <b>8</b> |
| Impact              | 4  |          |

|                       |  |   |
|-----------------------|--|---|
| <b>8</b>              | <b>Strategic Risk – Partnership &amp; Collaboration</b>  |   |
|                       | <b>Reduction in or withdrawal of current and/or future partnership arrangements or collaborations leading to impact on service delivery or ineffective management of these arrangements including commercial partnerships (management of commercial contracts).</b>  |   |
|                       | Owner(s)   | Deputy Chief Constable  |
|                       | Governance and Oversight   | Business Meeting  |
|                       | Context  | <ul style="list-style-type: none"> <li>▪ Lack of scoping and user requirements at the outset of partnerships/ collaboration or commercial interest.</li> <li>▪ Future financial constraints on public services.</li> <li>▪ Lack of integrated planning with partners.</li> <li>▪ Reduction in partnership services.</li> <li>▪ Failure of significant collaborative agreement.</li> </ul> |
| Current factors       | <ul style="list-style-type: none"> <li>▪ Reduction in safeguarding activity and preventative work, particularly relating to domestic abuse.</li> <li>▪ Reduction in provision of services supporting Out of Court Disposals and Restorative Justice options.</li> <li>▪ Commercial contract management capability and capacity.</li> <li>▪ COVID 19</li> </ul>   |   |
| Potential consequence | <ul style="list-style-type: none"> <li>▪ Gaps in services and support to communities.</li> <li>▪ Missed opportunities to prevent and reduce crime and disorder.</li> <li>▪ Reduced public confidence.</li> <li>▪ Reduced opportunities for more efficient and effective services.</li> <li>▪ Increased costs due to poor scoping and/ or contract management.</li> <li>▪ Missed learning opportunities for partner agencies from serious case reviews</li> </ul> |   |

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|----------------------|---|----------|
| Summary of Controls  | <ul style="list-style-type: none"> <li>▪ Effective partnership governance arrangements and joint partnership plans through Community Safety Partnerships.</li> <li>▪ Force wide business planning cycle and delivery of local business plans.</li> <li>▪ Strategic Design Authority and Transformation Programme.</li> <li>▪ Improving understanding of demand and external influences of demand enabling effective management of response.</li> <li>▪ Business continuity plans between relevant partners.</li> <li>▪ Access to local and/ or national support programmes.</li> <li>▪ Introduction of Chief Information Officer functions and change lead to oversee ICT projects and contracts.</li> <li>▪ Internal review of commercial contract arrangements in Northumbria Police by Director of Finance.</li> <li>▪ Adoption of recommendations made in HMIC Thematic report ‘The Hard Yards’.</li> <li>▪ Northumbria Police is a member of NETIC (North East Information and Collaboration Team).</li> <li>▪ Joint work between agencies e.g. Newcastle Safeguarding Children’s and Adults Boards and Safer Newcastle to produce a Serious Violence and Criminal Exploitation Strategy.</li> <li>▪ Ability to introduce and maintain joint Criminal Justice Impact and Recovery working exercises when required, utilising resources across disciplines to meet demand.</li> </ul> |          |
| Likelihood<br>Impact | 2<br>4  | <b>8</b> |

|                          |   |          |
|--------------------------|---|----------|
| <b>9</b>                 | <b>Strategic Risk – Public Confidence</b>   |          |
|                          | <b>The loss of public confidence in Northumbria Police due to the behaviour, conduct, actions or inaction of Northumbria Police as an organisation or individuals representing the Force, including reduced legitimacy due to poor engagement, abuse of powers and disproportionality in practices.</b>   |          |
| Owner(s)                 | T/Assistant Chief Constable Communities   |          |
| Governance and Oversight | Confidence and Standards Board/Diversity, Equality and Inclusion Board/ Ethics Advisory Board   |          |
| Context                  | <ul style="list-style-type: none"> <li>▪ Force or an associated individual acts, in an inappropriate, discriminatory way or demonstrates corrupt behaviour.</li> <li>▪ Death or serious injury following police contact, or following other adverse or critical incident, as a result of police action or omission.</li> <li>▪ Misuse or deliberate disclosure of sensitive data or information.</li> </ul>   |          |
| Current factors          | <ul style="list-style-type: none"> <li>▪ Current operating context and legitimacy in use of police powers</li> <li>▪ Disproportionality in use of powers.</li> <li>▪ Embed organisational learning across the Force.</li> <li>▪ Compliance with all elements of the national guidance on vetting.</li> </ul>  |          |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Abuse of authority for financial or sexual purpose, fraud or theft.</li> <li>▪ Litigation, legal action against the Force.</li> <li>▪ Reduced public confidence.</li> <li>▪ Increased civil interest.</li> </ul>   |          |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Governance arrangements.</li> <li>▪ Completion of Equality Impact Assessments.</li> <li>▪ External advisory groups.</li> <li>▪ Dedicated Counter Corruption Unit with appropriate capacity and capability to deliver a full range of covert tactics.</li> <li>▪ Forcewide internal communications to increase awareness of behaviour and standards, such as corruption, ethical dilemmas, understanding boundaries.</li> <li>▪ Vetting procedures in-line with National Code of Practice.</li> <li>▪ Identification and review of organisational learning, with organisational learning a standing agenda item within the Governance and Decision-making structure.</li> <li>▪ Utilisation of information from abuse of authority problem profile.</li> <li>▪ Unconscious bias training for all staff.</li> <li>▪ Focus on diversity in recruitment, attraction, selection and retention.</li> <li>▪ Development of formal external public confidence meeting</li> <li>▪ Continued appraisal and development of staff</li> </ul> |          |
| Likelihood<br>Impact     | 2<br>4  | <b>8</b> |

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|--------------------------|---|----------|
| <b>10</b>                | <b>Strategic Risk – Regulation &amp; Standards</b>  |          |
|                          | <b>Northumbria Police and/ or its staff fail to operate within the regulatory framework applicable to policing activity as defined by law or by Northumbria Police and in doing so create risks which may result in harm to individuals, groups or organisations.</b>   |          |
| Owner(s)                 | Deputy Chief Constable  |          |
| Governance and Oversight | Confidence & Standards Board/ Operation Talla Gold  |          |
| Context                  | <ul style="list-style-type: none"> <li>▪ Litigation, legal action and/or prosecution of the Force and/ or individuals by former officers or staff members.</li> <li>▪ Failure to comply with regulatory framework.</li> <li>▪ EU Exit.</li> </ul>   |          |
| Current factors          | <ul style="list-style-type: none"> <li>▪ Operational risks affecting policing as a result of exit from the European Union.</li> <li>▪ Application of legislation under Health Protection Regulations during COVID -19</li> </ul>  |          |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Litigation, legal action and/or prosecution of the Force and/ or individual staff.</li> <li>▪ Associated costs of dealing with litigation.</li> <li>▪ Negative impact on the workforce and public confidence,</li> <li>▪ Failure to achieve/ maintain relevant ISO/ IEC accreditation in line with relevant codes of practice,</li> <li>▪ Failure to comply with relevant Health and Safety regulations.</li> <li>▪ Loss of the key European law enforcement statutory instruments.</li> </ul>   |          |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ International Crime Co-ordination Centre in place to manage risks associated with the loss of EU policing tools, supported by a national media campaign.</li> <li>▪ Force, regional and national communication and meeting structure to discuss the loss of EU tools and wider implications of EU Exit.</li> <li>▪ Contingency plans with Crown Prosecution Service, HM Courts and Tribunals Service and Probation in response to EU Exit.</li> <li>▪ Central review of all civil claims, with adverse trends and lessons learnt reported to Confidence and Standards Board.</li> <li>▪ Audit arrangements and Quality Management System.</li> <li>▪ ISO governance meeting.</li> <li>▪ Health and Safety Management System and provision of health and safety advice.</li> <li>▪ Investigations and review of health and safety incidents, with lessons learnt reported to Confidence and Standards Board.</li> <li>▪ Talla Gold structure in response to COVID-19 second wave implemented 11/09/20 which includes assessment of enforcement and proportionality alongside external engagement to gain legitimacy.</li> </ul> |          |
| Likelihood<br>Impact     | 3<br>3  | <b>9</b> |

|                          |   |          |
|--------------------------|---|----------|
| <b>11</b>                | <b>Strategic Risk – Strategy</b>  |          |
|                          | <b>Northumbria Police fails to deliver its strategic objectives and those of the Police and Crime Plan, due to ineffective business planning, including performance, risk, demand, transformation, workforce and financial management.</b>  |          |
| Owner(s)                 | Chief Constable   |          |
| Governance and Oversight | Executive Board   |          |
| Context                  | <ul style="list-style-type: none"> <li>▪ Failure to deliver the Force Strategy 2025.</li> <li>▪ Failure to deliver against objectives set out in the Police and Crime Plan.</li> <li>▪ Failure to achieve the business benefits from the Transformation Programme.</li> <li>▪ Compliance and standards not meeting acceptable levels impacting on victim services.</li> <li>▪ Failure to meet areas for improvement highlighted by external bodies.</li> </ul>  |          |
| Current factors          | <ul style="list-style-type: none"> <li>▪ COVID-19 - Suspension of court trials resulting in significant backlog of court trials and an increased risk of victim attrition.</li> </ul>   |          |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Deteriorating performance resulting in policing priorities not being achieved.</li> <li>▪ A decline in quality and service delivery, leading to a reduction in satisfaction and confidence.</li> <li>▪ Adverse external inspection reports, leading to recommendations and wider escalation.</li> <li>▪ Reduction in services provided to victims and witnesses as a result of ineffective partnership working with other criminal justice agencies.</li> <li>▪ Delays to criminal justice outcomes.</li> <li>▪ Slippage/ failure of projects, which hamper the achievement of objectives.</li> </ul>  |          |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Business planning cycle and delivery of local business plans.</li> <li>▪ Forcewide Performance Management Framework.</li> <li>▪ Oversight and management of performance using the Governance and Decision-making structure.</li> <li>▪ Transformation 2025 Programme.</li> <li>▪ Local Criminal Justice Board, LCJB Plan and supporting governance structures.</li> <li>▪ Operation Talla Gold/ Silver structure.</li> <li>▪ Effective relationships and communication with partners locally enabling response to national issues (e.g. LCJB Strategic Recovery Group).</li> <li>▪ Victim service review to improve service delivery to victims of crime and investigative standards.</li> <li>▪ Transfer of Victim First Northumbria services to Northumbria Police.</li> </ul> |          |
| Likelihood<br>Impact     | 2<br>4  | <b>8</b> |

|                       |   |   |
|-----------------------|---|---|
| <b>12</b>             | <b>Strategic Risk – Workforce</b>   |   |
|                       | <b>Recruitment and retention of a skilled, capable, resilient and diverse workforce with capacity and capabilities required to deliver current and future policing effectively and efficiently.</b>       |   |
|                       | Owner(s)  | Director of People & Development  |
|                       | Governance and Oversight  | Strategic Resourcing Board/ Wellbeing and Leadership Board/ Diversity, Equality and Inclusion (DEI) Board   |
|                       | Context   | <ul style="list-style-type: none"> <li>▪ A shortfall in resource, in terms of capacity and capability, to meet current or future policing demands.</li> <li>▪ An inability to attract and retain a diverse workforce.</li> </ul>  |
|                       | Current factors   | <ul style="list-style-type: none"> <li>▪ COVID-19 – Lack of appropriate utilisation by the workforce of Personal Protective Equipment (PPE).</li> <li>▪ COVID-19 – Inability to meet the uplift requirement and the capacity for internal resources to continue to deliver uplift in three month rolling cycles.</li> <li>▪ COVID-19 – Additional pressure on workforce wellbeing.</li> <li>▪ Impact on the investigative capability across the Force, including insufficient numbers against PIP2 trained officer profile combined with lack of experience of those trained, within the Secondary Investigation Unit.</li> </ul> |
| Potential consequence | <ul style="list-style-type: none"> <li>▪ Reduction in service quality/ delivery leading to reduced public trust and confidence.</li> <li>▪ Increased demand and potential impact on wellbeing.</li> </ul> |   |

|                     |   |           |
|---------------------|---|-----------|
| Summary of Controls | <ul style="list-style-type: none"> <li>▪ Resourcing Strategy in place together with a comprehensive approach to workforce planning.</li> <li>▪ Revised workforce principles in place to respond to COVID-19 and the future workplace considerations.</li> <li>▪ Leadership capabilities plan.</li> <li>▪ DE&amp;I delivery plan.</li> <li>▪ Uplift focus on increasing diversity.</li> <li>▪ Established Area Command Local Health Management Groups.</li> <li>▪ Training plans in place.</li> <li>▪ Working groups/ meetings to monitor performance/ identify and resolve risks/ issues in specific areas.</li> <li>▪ Implementation of a new graduate IPLDP course to provide an investigative career path for officers.</li> <li>▪ Centrally managed recruitment and allocation of resources.</li> <li>▪ Introduction of local points of contact for all PPE queries/ issues.</li> <li>▪ Communication plans implemented.</li> <li>▪ Monthly progress reports/ returns provided to the National Police Uplift Programme.</li> <li>▪ Regular and formal engagement with staff associations and the Federation. Understanding of workforce skills and leadership development opportunities.</li> </ul> |           |
| Likelihood          | 3   | <b>12</b> |
| Impact              | 4   |           |



**Overview of the RAG status of Strategic Risk – OPCC**

|                   |               |                      |            |   |               |
|-------------------|---------------|----------------------|------------|---|---------------|
| <b>LIKELIHOOD</b> | Very High (5) |                      |            |   |               |
|                   | High (4)      |                      |            |   |               |
|                   | Medium (3)    |                      |            | (OPCC)<br>Finance<br><br>(OPCC)<br>Partnership and<br>Collaboration |               |
|                   | Low (2)       |                      |            | (OPCC)<br>Public Confidence   |               |
|                   | Very Low (1)  | (OPCC)<br>Governance |            |   |               |
|                   | Very Low (1)  | Low (2)              | Medium (3) | High (4)  | Very High (5) |
|                   | <b>IMPACT</b> |                      |            |   |               |

**OPCC has identified risks in four thematic risk areas: Finance; Governance; Partnership and Collaboration; and Public Confidence**



|                          |   |           |
|--------------------------|---|-----------|
| <b>OPCC</b>              | <b>Strategic Risk – Finance (OPCC)</b>  |           |
|                          | <b>Government reduces funding to PCCs/ Police Forces which results in a reduced service ability. The need to contain expenditure within available resources and enable Northumbria Police to police effectively.</b>  |           |
| Owner(s)                 | Chief Finance Officer – OPCC  |           |
| Governance and Oversight | Business Meeting/ OPCC Business Meeting   |           |
| Context                  | <ul style="list-style-type: none"> <li>▪ The PCC has a robust, balanced MTFs that meets the medium term financial plans of the Chief Constable and facilitates delivery against the Police and Crime Plan.</li> <li>▪ The balanced nature is predicated by the risk of Home Office funding being guaranteed for one year only which requires an annual review of the MTFs and potential reprioritisation of spending plans</li> <li>▪ Affordability may also be affected by changes in national interest rates.</li> <li>▪ Reserves policy is crucial to medium term sustainability.</li> <li>▪ In-year financial monitoring must be robust.</li> </ul> |           |
| Current factors          | <ul style="list-style-type: none"> <li>▪ An in-year potential budget pressure as a consequence of COVID-19.</li> </ul>  |           |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Short notice change to national funding may require a change in short and medium term force financial planning, including a need to deliver unplanned savings thereby impacting on service delivery.</li> <li>▪ Any in-year pressures which become a forecast overspend must be addressed through consideration of in-year savings and discussion with the CC.</li> </ul>  |           |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Transparent ownership of financial matters between the PCC and Chief Constable.</li> <li>▪ Comprehensive approach to business planning cycle and annual budget setting process.</li> <li>▪ Well understood in-year financial monitoring and reporting governance.</li> <li>▪ Medium and long term financial planning.</li> <li>▪ Regular oversight of revenue &amp; capital budget.</li> <li>▪ Maintain adequate risk assessed reserves.</li> <li>▪ Audit Committee/ Internal Audit Treasury Management strategy in place outcomes reviewed by PCC.</li> <li>▪ HMICFRS inspection regime.</li> </ul>           |           |
| Likelihood               | 3   | <b>12</b> |
| Impact                   | 4   |           |

|                          |  |   |
|--------------------------|--|---|
| <b>OPCC</b>              | <b>Strategic Risk – Governance (OPCC )</b>   |   |
|                          | <b>Existing arrangements for the PCC to carry out robust scrutiny and hold the Chief Constable to account for efficient and effective delivery of the Police and Crime Plan are ineffective or inconsistent.</b>   |   |
| Owner(s)                 | Chief of Staff and Monitoring Officer  |   |
| Governance and Oversight | Business Meeting/ Annual Scrutiny Programme/ CC/ PCC Governance Meeting/ JIAC/ Police and Crime Panel/ PCC/ CC 1:1 Meeting   |   |
| Context                  | <ul style="list-style-type: none"> <li>▪ Ineffective governance, scrutiny, oversight of services and outcomes delivered and lack of reaction to organisational learning by NP</li> <li>▪ Need to target resources and priorities towards changing performance/ landscapes or community needs.</li> <li>▪ Chief Constable setting high performance standards and appropriate culture and values is crucial to meaningful scrutiny.</li> <li>▪ Trust in the transparency of NP.</li> <li>▪ Effective governance includes effective oversight of complaints against the Chief Constable and Northumbria Police.</li> <li>▪ Effective systems and controls to manage risk are needed to support the delivery of service.</li> <li>▪ A strong relationship between the Office of the Police and Crime Commissioner and Force which is resilient to external factors.</li> </ul> |   |
| Current factors          | <ul style="list-style-type: none"> <li>▪ National PCC Review</li> <li>▪ Development of a new Police and Crime Plan</li> </ul>  |   |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Loss of public confidence.</li> <li>▪ Reputational risk</li> <li>▪ A decline in quality and service delivery, leading to a reduction in public satisfaction with policing.</li> <li>▪ Deteriorating performance resulting in policing priorities not being achieved.</li> <li>▪ Poor relationship with Northumbria Police.</li> <li>▪ Government Intervention.</li> <li>▪ Challenge by the Police and Crime Panel</li> <li>▪ Adverse external inspection reports, leading to recommendations and potential escalation.</li> </ul>   |   |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Police and Crime Plan (regularly reviewed)</li> <li>▪ Business Meeting</li> <li>▪ Annual Scrutiny Programme</li> <li>▪ Provision of the Complaints Statutory Review Process</li> <li>▪ Public and Partnership Engagement and Feedback</li> <li>▪ PCC and Chief Constable 1:1s</li> <li>▪ Police and Crime Panel Scrutiny</li> <li>▪ Scrutinising Force response to HMICFRS Inspection Findings</li> <li>▪ Audit Committee, audit, annual governance statement</li> <li>▪ Contributing to Governments PCC Review</li> </ul>  |   |
| Likelihood Impact        | 1<br>2   | 2 |

|                          |  |           |
|--------------------------|--|-----------|
| <b>OPCC</b>              | <b>Strategic Risk – Partnership &amp; Collaboration (OPCC )</b>  |           |
|                          | <b>Reduction in or withdrawal of current and future partnership arrangements for the OPCC and force lead to the need to identify, develop and retain partnerships and inability to support communities with sustainable multi agency responses.</b>  |           |
| Owner(s)                 | Chief of Staff and Monitoring Officer  |           |
| Governance and Oversight | Business Meeting/ VRU Strategic Board/ Local Criminal Justice Board  |           |
| Context                  | <ul style="list-style-type: none"> <li>▪ Uncertainty of sustained resourcing to deliver current public health approach collaboration - Violence Reduction Unit and other joint projects including Victims Service Provision.</li> <li>▪ Challenging budget and service pressures within organisations both in public and voluntary sector can lead to silo working.</li> <li>▪ Potential for national issues and crisis to affect collaborative working.</li> <li>▪ Requirement to retain engagement of the public as a partner.</li> <li>▪ Ensuring external factors do not alter relationships preventing joint working.</li> <li>▪ Clear outcomes not being identified and reported can risk sustainability and ongoing partner engagement.</li> </ul>  |           |
| Current factors          | <ul style="list-style-type: none"> <li>▪ Awaiting confirmation of funding for the Violence Reduction Unit</li> <li>▪ PCC Review Government ambition to strengthen and expand the role of PCCs and maximise potential for wider efficiencies.</li> <li>▪ Impact of the current pandemic on the Local Criminal Justice System</li> <li>▪ Ongoing Victim Services Review has now concluded and progress is underway to implement the new arrangements.</li> </ul>   |           |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Reduced public confidence.</li> <li>▪ Reduced opportunities for more efficient and effective services.</li> <li>▪ Missed opportunities to prevent and reduce crime and disorder and maintain an efficient and effective Criminal Justice System</li> <li>▪ Increased costs due to poor partnership and commissioned service management.</li> </ul>  |           |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Effective partnership/ commissioning governance arrangements that identify and report outcomes and progress</li> <li>▪ Comprehensive public engagement and communication strategies to inform multi agency responses.</li> <li>▪ Scrutiny of effectiveness of Force collaborative activity.</li> <li>▪ Focus on accessing funds for collaborative working and lobbying government for sustained funding streams.</li> <li>▪ VRU Strategic Board and Response Strategy</li> <li>▪ PCC Chairing Local Criminal Justice Board, development of LCJB Business Plan and Covid Recovery Group.</li> <li>▪ Collaboration and engagement with other PCCs, nationally and regionally.</li> <li>▪ Comprehensive engagement with and monitoring of commissioned services.</li> <li>▪ Regular ‘sector’ engagement meetings with potential and current partners.</li> <li>▪ Joint Transition Group between the OPCC, VFN and Northumbria Police in place to oversee the introduction of the new victim service arrangements.</li> </ul> |           |
| Likelihood               | 3  | <b>12</b> |
| Impact                   | 4  |           |

|                          |  |          |
|--------------------------|--|----------|
| <b>OPCC</b>              | <b>Strategic Risk – Public Confidence (OPCC)</b>   |          |
|                          | <b>Loss of public confidence in the PCC resulting from a lack of engagement and communication, leading to a failure to reflect public priorities in the Police and Crime Plan. Failure to hold the Chief Constable to account on behalf of the public for delivery of their priorities or deliver other statutory obligations.</b>   |          |
| Owner(s)                 | Chief of Staff and Monitoring Officer and Director of Planning and Delivery  |          |
| Governance and Oversight | Business Meeting/ Annual Scrutiny Programme  |          |
| Context                  | <ul style="list-style-type: none"> <li>▪ A robust communications plan is needed to demonstrate effective and visible accountability of the chief constable to the PCC.</li> <li>▪ PCC needs to understand and react to changing communities or priorities and reflect this in the Police and Crime Plan.</li> <li>▪ Engagement with communities to identify and respond to trends identified through the complaints process and external communication to reflect organisational learning.</li> <li>▪ The OPCC business must ensure compliance with legal, information management legislation and transparency guidance.</li> </ul>  |          |
| Current factors          | <ul style="list-style-type: none"> <li>▪ Role of social media in shaping public perceptions</li> <li>▪ Changes to law to allow the public to report crimes via social media</li> <li>▪ EU Exit</li> </ul>  |          |
| Potential consequence    | <ul style="list-style-type: none"> <li>▪ Reputational damage</li> <li>▪ Police and Crime plan and actual delivery not aligned to public concerns and priorities</li> <li>▪ Reduction/ loss of satisfaction and confidence in OPCC and in Police by local people</li> <li>▪ Loss of trust/ confidence in the PCC as a result of crime perceptions</li> <li>▪ Poor service delivery damages public confidence</li> <li>▪ Relationship with force and partners</li> <li>▪ Government penalties Poor assessment results</li> </ul>   |          |
| Summary of Controls      | <ul style="list-style-type: none"> <li>▪ Police and Crime Plan (regularly updated to reflect the priorities of local people)</li> <li>▪ Annual Scrutiny Programme</li> <li>▪ Reporting back to the public on their concerns and progress towards the Police and Crime plan</li> <li>▪ PCC Advisory Groups</li> <li>▪ Annual Report</li> <li>▪ OPCC Business Plan</li> <li>▪ Governance Framework</li> <li>▪ Annual Assurance Statement/Audit Committee</li> <li>▪ Internal Audit</li> <li>▪ OPCC Website</li> <li>▪ Data Protection Officer</li> <li>▪ Independent Complaints Review process</li> <li>▪ Service level agreement with Northumbria Police</li> <li>▪ PCC and Chief Constable monthly EU Exit briefing</li> </ul> |          |
| Likelihood               | 2  | <b>8</b> |
| Impact                   | 4  |          |



|   |                         |
|---|-------------------------|
| <b>Joint Independent Audit Committee</b>                                      | <b>22 February 2021</b> |
| <b>Summary of Recent External Inspection, Investigation and Audit Reports</b> |                         |
| <b>Paul Godden, Head of Corporate Development Department</b>                  |                         |

**1. PURPOSE**

- 1.1. To provide details of recent external inspection, investigation and audit reports and an overview of the process in place to manage the Force's response to recommendations and findings.

**2. BACKGROUND**

- 2.1. The following inspection reports have been published by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) or other relevant inspection bodies since the last Joint Independent Audit Committee:

[Pre-charge bail and released under investigation: striking a balance](#)

['Feeling heard': partner agencies working together to make a difference for children with mental ill health](#)

[Impact of the pandemic on the criminal justice system](#)

- 2.2. The following report was published following a joint investigation by HMICFRS, the College of Policing and the Independent Office for Police Conduct of a policing super-complaint; it is the first police super-complaint investigation to be published.

[Safe to share? Liberty and Southall Black Sisters' super-complaint on policing and immigration status](#)

- 2.3. The Information Commissioner's Office (ICO) has also published its report following an audit of Northumbria Police to independently determine the extent to which the Force is complying with data protection legislation.

[Information Commissioner's Office data protection audit report – Northumbria Police](#)

- 2.4. All HMICFRS reports and other external inspection, investigation and audit reports are considered by the Executive Team. A lead is appointed to consider the findings and identify actions in response to any recommendations and areas for improvement. The Force position is reported to the Police and Crime Commissioner at the Business Meeting to inform the statutory response required under section 55 of the Police Act 1996 where this is required.

- 2.5. All activity is regularly reviewed by the respective owners. Delivery is overseen by the Executive Team through the Force's governance and decision-making structure and progress is reported to the Scrutiny Meeting of the Office of the Police and Crime Commissioner.

- 2.6. Corporate Development Department acts as the central liaison point for all HMICFRS related matters.

- 2.7. The HMICFRS Monitoring Portal includes causes of concern and recommendations made to police forces by HMICFRS since January 2013, and more recently (since September 2019) areas for improvement. Since the last meeting, five areas for improvement arising from the thematic report 'Fraud: Time to choose' published in April 2019 were also added to the portal. Two

recommendations from the inspection of pre-charge bail and released under investigation have also been added.

2.8. The position as at 29<sup>th</sup> January 2021 was:

|  | <b>Recs</b> | <b>AFIs</b> |
|--|-------------|-------------|
| <b>Total (HMICFRS Monitoring Portal)</b>                                     | <b>244</b>  | <b>52</b>   |
| Total closed   | 188         | 6           |
| <b>Total open</b>  | <b>56</b>   | <b>46</b>   |
| <i>Awaiting national position</i>  | 17          | 0           |
| <i>Considered complete by the Force; awaiting HMICFRS review</i>             | 18          | 24          |
| <i>Reviewed by HMICFRS for closure; awaiting update on the portal</i>        | 4           | 6           |
| <i>Considered complete by the force; awaiting update to Scrutiny Meeting</i> | 0           | 1           |
| <b>Subject to ongoing Force activity</b>                                     | <b>17</b>   | <b>15</b>   |

- 2.9. Appendix A provides an overview of the outstanding recommendations and AFIs assigned to Northumbria Police by HMICFRS on the monitoring portal. It includes the number closed by HMICFRS alongside the number of recommendations or AFIs assessed as complete by the Force, which have been reviewed at the Scrutiny Meeting and which will be presented to HMICFRS for review/ closure. A summary of progress, together with an expected delivery date and RAG status is also included.
- 2.10. HMICFRS independently assesses the recommendations and AFIs either through further inspection or by undertaking reality testing. This activity has been impacted by COVID-19 as HMICFRS suspended all inspection work requiring appreciable input from forces until October 2020 and inspection/ review work is currently being undertaken remotely.
- 2.11. Northumbria Police was one of eleven forces chosen to be part of the HMICFRS revisit of the 2019 fraud inspection report in January 2021. Informal feedback from the inspection team was positive and the portal has since been updated to reflect the completion of both recommendations and four of the five AFIs. The last AFI will remain open to ensure the positive early results become established and embedded.
- 2.12. Two evidence-led domestic abuse recommendations and one PEEL Effectiveness AFI have also been assessed as complete by the HMICFRS Force Liaison Lead. Further recommendations and AFIs are being considered following updates provided in December 2020; update of the portal is awaited.
- 2.13. In addition, a further two recommendations and six AFIs have been assessed as complete by the Force and presented to the Scrutiny Meeting. These relate to Roads Policing (two recommendations and two AFIs); and Custody (one AFI).
- 2.14. Following review through Force governance boards, a further AFI assessed as complete in relation to PEEL Efficiency is scheduled for presentation to Scrutiny Meeting in the next three months in-line with quarterly reporting arrangements. The next reporting dates are provided in Appendix A, ahead of reporting at the following JJAC.
- 2.15. The Force remains satisfied with progress in response to the recommendations and AFIs. Whilst there are no significant risks that would impact on achievement of outstanding recommendations or AFIs, additional focus and effort remains in relation to incident demand and risk management.
- 2.16. A second review was undertaken of grade 2 incident demand and risk management examining incidents from September 2020. This determined further work was required to ensure consistent and effective risk and demand management. In response, an interim risk desk is being piloted within the communications centre to ensure enhanced focus on the management of risk. In

addition, the formation of dedicated performance sergeants, focused on incident management, risk and resourcing reviews is expected to improve the supervision and prioritisation of incidents. A further qualitative review is scheduled for the end of February 2021.

2.17. Vetting, previously reported as an area for additional focus, has progressed well. The levels of outstanding renewals are now considered 'business as usual' and all backlogs have been cleared.

2.18. The following is an overview of the reports published since the last meeting:

**Pre-charge bail and released under investigation: striking a balance (published 8th December 2020)**

2.19. A joint thematic inspection led by HMICFRS and supported by Her Majesty's Crown Prosecution Service Inspectorate was undertaken on the police and Crown Prosecution Service (CPS) responses to pre-charge bail and the use of released under investigation (RUI).

2.20. Six police forces in England and Wales (not including Northumbria) were inspected to assess how they used bail and RUI between October 2019 and February 2020.

2.21. The inspection found that: suspects are still faced with lengthy delays and that the changes to bail legislation also had unintended consequences for victims, who view them as overwhelmingly negative; not enough thought was given as to how the legislative changes would affect victims; RUI leaves too many victims without the reassurance and protection that bail conditions can provide; there was an inconsistent implementation of the changes by forces due to a lack of clear guidance; investigations involving suspects released under investigation tend to take longer and are subject to less scrutiny than ones involving formal bail; and victims and suspects do not understand the legislation and are not being updated about the progress of their case.

2.22. As a result of the inspection, 10 recommendations were made. Two of these were for police forces regarding the development of processes and systems to clearly show whether suspects are on bail or RUI and the recording of whether a suspect is on bail or RUI on the MG3 form when it is submitted to the CPS.

**'Feeling heard': partner agencies working together to make a difference for children with mental ill health (published 9th December 2020)**

2.23. The report summarises findings from six Joint Targeted Area Inspections carried out between September 2019 and February 2020 by Ofsted, the Care Quality Commission, HMICFRS and Her Majesty's Inspectorate of Probation. It considered the extent to which agencies work collaboratively with partners to identify children experiencing mental ill health, as well as how they intervened early to support these children and get them the help that they need when problems arise.

2.24. There were many good examples of agencies working together in innovative ways to improve services and support for children with mental health needs, such as co-location of services, involving voluntary and community sector organisations, and services being flexible in adapting to meet children's needs. However, it was identified that services needed to get better at identifying when a child is suffering from mental ill health. There is a tendency among many professionals to focus on the issue about a child that is presented to them and not to look beyond this for a possible mental health cause.

2.25. The report suggests that training for professionals needs to improve so that they are more alert to the circumstances when they should enquire into a child's mental health. This is so that professionals can identify when the child might need support and so that they know how to get the child the help they need.



- 2.26. There are no recommendations or AFIs within the report; the findings are being reviewed in the context of Northumbria Police.

**Impact of the pandemic on the Criminal Justice System - A joint view of the Criminal Justice Chief Inspectors on the Criminal Justice System's response to Covid-19 (19th January 2021)**

- 2.27. Following inspections by all four Criminal Justice Inspectorates, HM Criminal Justice Chief Inspectors presented their assessment of the impact of the pandemic on the Criminal Justice System (CJS) and how this has affected the work of the police, prosecutors, prisons, probation and youth offending teams.
- 2.28. The determined efforts and commitment of all those who work in the CJS were acknowledged as were some positive initiatives such as the acceleration of digital working. However, grave concerns were expressed about the potential long-term impact of COVID-19 related court backlogs on the CJS across England and Wales.
- 2.29. The report concluded that whilst the system was already facing significant failings, the pandemic has intensified these and whilst the CJS now needs to catch up on any backlogs built up through the pandemic, it also needs to respond to new demands; doing so in a way that responds to changing restrictions and regulations. It was considered that this risks proving an impossible task without resource, time and support.
- 2.30. No recommendations were made. The report is being considered at the Local Criminal Justice Board.

**Safe to share? Report on Liberty and Southall Black Sisters' super-complaint on policing and immigration status (published 17th December 2020)**

- 2.31. This super-complaint considers the treatment of victims of crime and witnesses with insecure immigration status. It focuses on how information is passed to the Home Office (HO) for immigration enforcement. It concerns two features of policing: the passing of victim and witness data to the HO by the police for immigration enforcement purposes; and the operation of and/ or perception of a culture of police prioritising immigration enforcement over safeguarding and the investigation of crime.
- 2.32. The investigation raises concerns about the effect the sharing of immigration information between police and the HO has on victims of crime with unsettled immigration status. It found that the current system was causing significant harm to the public interest. It looked at migrant victims in highly vulnerable circumstances and found that there are inconsistent approaches to information sharing between police and the HO about victims and witnesses to crime.
- 2.33. The investigation resulted in eight recommendations and three actions; three recommendations were made to Chief Constables and two to PCCs (one jointly); and one to all recipients.
- 2.34. For Chief Constables: pending the outcome of a legal review, where officers only have concerns or doubts about a victim's immigration status, they immediately stop sharing information on domestic abuse victims with Immigration Enforcement; and taking steps to ensure that all migrant victims and witnesses of crime are effectively supported through safe reporting pathways to the police and other statutory agencies.
- 2.35. For PCCs to conduct an assessment of local access to specialist victim support organisations or networks and take any necessary steps to build up such networks.

- 2.36. For Chief Constables and PCCs to promote migrant victims' and witnesses' confidence in reporting crimes to the police through safe reporting pathways, without fear of prioritised immigration control.
- 2.37. All recipients to provide an update to HMCIC on progress in implementing these recommendations within six months of the date of publication of this report.

**Information Commissioner's Office data protection audit report – Northumbria Police (published 18th December 2020)**

- 2.38. An ICO audit of Northumbria Police was undertaken in October 2020. The purpose of the audit was to independently determine the extent to which the Force, within the scope of the agreed audit, is complying with data protection legislation. There were three areas of scope: Governance and Accountability; Training and Awareness; and Information Risk Management.
- 2.39. Where weaknesses were identified recommendations have been made, primarily around enhancing existing processes to facilitate compliance with data protection legislation. Assurance ratings were attributed as follows: Governance and Accountability (Limited – 31 recommendations); Training and Awareness (Reasonable – 11 recommendations); and Information Risk Management (Reasonable – 18 recommendations). In addition seven AFIs were allocated.
- 2.40. The audit identified considerable scope for improvement in existing arrangements for Governance and Accountability to reduce the risk of non-compliance with data protection legislation and has identified some scope for improvement with regard to Training and Awareness and Information Risk Management.
- 2.41. An initial action plan in response to the findings was submitted to the ICO on the 21st January 2021 and an update provided week commencing 15th February. Action owners have been assigned and timescales for delivery agreed. An Information Management Working Group has been established to deliver the plan, which reports directly to the Operational Information Management Board on progress and also to the ICO in line with their recommendations.

**3. FINANCIAL CONSIDERATIONS**

- 3.1 There are no additional financial considerations arising from this report.

**4. LEGAL CONSIDERATIONS**

- 4.1 There are no legal considerations arising from the content of this report.

**5. EQUALITY CONSIDERATIONS**

- 5.1 There are no equality implications arising from the content of this report.

**6. RISK MANAGEMENT**

- 6.1 Activity in response to HMICFRS findings is monitored through the Northumbria Police governance structure and by the Office of the Police and Crime Commissioner.
- 6.2 HMICFRS expects that progress is made in response to the recommendations and uses progress against previous recommendations to assess risk when considering future inspection activity.

**7. RECOMMENDATIONS**

- 7.1 To note there are no matters of exception to report in response to previous inspections.



| Report Title   | Business Lead                                 | Executive Lead           | Recommendation/ Area for Improvement (AFI) | Number of recommendations/ AFIs<br>( & number closed on the HMICFRS Monitoring Portal)    Number considered complete by the Force |   | Context  | Anticipated completion date  | Progress on delivery   | RAG    | Reported to Scrutiny Meeting | PCC response   | Next report to Scrutiny Meeting |
|--|---|--------------------------|--|---|---|--|--|--|--------|------------------------------|--|---------------------------------|
| <p>PEEL: Police legitimacy 2017</p> <p>Published: 12/12/2017<br/>CC response to PCC: 22/1/2018<br/>PCC Section 55 response: February 2018<br/>Reported to JIAC: 19/2/2018</p>  | Stop and Search Lead/ Head of People Services | T/ACC (Communities)      | Recommendation                             | 1 (0)   | 0 | <p>This is a national recommendation regarding the use of stop and search.</p> <p><b>Issue</b><br/>Northumbria officers have been trained in unconscious bias. The findings from the Force's Legitimacy Inspection in 2017 determined that the Force was well placed, with officers receiving information about unconscious bias during stop and search training. HMICFRS also stated that the officers spoken to had a full and comprehensive understanding of how they should be treating people fairly and with respect in their interactions with the public and each other.</p> <p><b>Focus for Northumbria Police</b><br/>Findings in the 2018/19 PEEL inspection acknowledged that the Force had complied with most of this recommendation; however, could not evidence sufficient understanding of unconscious bias and analysis of find rates for drug supply and possession. As a result, unconscious bias has been raised as an AFI within the 2018/19 PEEL inspection below.</p>   | Revised training delivery commenced in July 2020 and will form part of a longer term training input. | <p>The training already provided alongside additional planned training and awareness sessions should help to further embed understanding of unconscious bias and strengthen the Force's position.</p> <p>Analysis of find rates for drug supply and possession is now being undertaken.</p> <p>Elements of unconscious bias training are undertaken throughout the mandatory training including onboarding, PCDA and stop and search.</p> <p>A forcewide approach is being implemented for the delivery of unconscious bias and diversity training to support the workforce. This will form a module of the overall Diversity, Equality and Inclusion training programme.</p> <p>A digital package has been developed. Learning includes videos, training modules, written resources and topic discussions at virtual learning events.</p> <p><b>Update: January 2021</b><br/>A force wide unconscious bias communications campaign is ongoing.</p> <p>Twelve internal virtual deliveries of unconscious bias sessions have taken place so far with the wider workforce with 165 people attending. Between July and October, 688 hours of training covering unconscious bias within it has taken place either focusing only on UB or included in wider diversity training. Twelve further events have provided insight and awareness to Professional Standards Department and all recruitment assessors and selection panellists; this will continue to be developed and the impact evaluated.</p> <p>The unconscious bias digital package was launched at the end of December 2020. As at 1st February 2021, 78% of staff, officers and volunteers had completed it.</p> <p>The impact of training delivery will be measured at each of the courses through pre and post evaluation, testing through action learning sets following the training and through the HIVE survey engagement scores.</p>   | Green  | 28/01/2021                   | The PCC was satisfied with the progress made.          | 24/06/2021                      |
| <p>PEEL Effectiveness</p> <p>PEEL: Police effectiveness, efficiency and legitimacy 2018/19 - Northumbria Police</p> <p>Published: 27/9/19<br/>CC response to PCC: 14/11/19<br/>PCC Section 55 response: November 2019<br/>Reported to JIAC: 18/11/19</p> | Multiple                                      | ACC (Force Coordination) | Recommendation                             | 2 (0)   | 0 | <p>The recommendations related to response to incidents. The Force needed to ensure that response was determined by the initial assessment of risk rather than the availability of response officers and that in the event that incidents to vulnerable victims were delayed, to ensure full justification for the delay with supervisory oversight.</p> <p>The AFIs related to: the process for commissioning and analysis of problem profiles; consistency of engagement approach; understanding and use of problem solving; evaluation and sharing of effective practice; understanding of the nature and scale of vulnerability; and review of the domestic abuse risk assessment grading policy.</p> <p>These were about improving current practices to extend understanding of communities, uncovering hidden demand and having effective and consistent processes to problem solve and share learning. The domestic abuse risk assessment grading process was already a recognised issue and was under review at the time of the inspection.</p> <p><b>Focus for Northumbria Police</b><br/>To ensure that vulnerable incidents are recognised and responded to appropriately to ensure safeguarding, evidence gathering and investigation.</p> | Apr-21 (revised from December 2020)  | <p>The Force has progressed all of the recommendations and AFIs and improvements are evident in all areas.</p> <p>Activity in response to the AFIs includes the implementation of:</p> <ul style="list-style-type: none"> <li>- A revised process for the commissioning and analysis of problem profiles. Further work is ongoing to improve partnership involvement in the process.</li> <li>- An engagement strategy with engagement toolkits and plans for engagement throughout the year. Effective use of digital methods have assisted with engagement since the onset of COVID-19.</li> <li>- Work is progressing well to embed problem solving across the force and problem solving inputs now feature on student officer training courses.</li> </ul> <p>The problem solving plan process has been established alongside quality assurance mechanisms. POP on a page documents were completed for violence hot spots identified within the Violence Reduction Unit Insight Report and this approach was commended by the Home Office with Force examples disseminated to other forces across the country as good practice.</p> <p>An examination of the data quality issues that impact upon our ability to fully assess the nature and scale of vulnerability has been undertaken. Whilst best use of information will be made within the constraints of the current systems, full benefits may not be achievable until implementation of the new IT systems.</p> <p><b>Update: January 2021</b><br/>A problem solving central repository is in place on the intranet which enables all staff to access useful guidance documents and view good practice themed Problem Orientated Policing (POP) plans to ensure shared learning.</p> <p>Weekly online training events commenced on 14/01/21 to ensure joint learning/sharing of good practice between Neighbourhood teams across the Force with partners from 6 Local Authorities.</p> <p>The new Force business intelligence tool QlikSense provides the ability to bring data from a variety of sources. A number of dashboards have been developed that provide officers and staff with the capability to view performance metrics, demand data and other analysis. In support of the Force's understanding of vulnerability, a domestic abuse application has recently been released alongside the already released Missing Persons application.</p> <p>The domestic abuse risk assessment grading policy has been revised and implementation of a new procedure and training has been undertaken which is compliant with 'Safelives' MARAC guidelines. Changes as a result of the new procedure are being monitored. The HMICFRS Force Liaison Lead has assessed the AFI in relation to this update as complete.</p> <p>Although some progress has been made in relation to the response to incident recommendations, the second deep dive review using incidents from September 2020 indicated that further progress needed to be made to ensure consistent assessment and management of grade two incidents. In response a new task and finish group has been established alongside Performance Sergeants and an interim risk desk pilot within the control room. The risk desk was implemented on 4th January 2021 and rolled out Forcewide on 18th January 2021. An early review of the risk desk shows it is having beneficial effects with improved management of G2V incidents on delay, timely re-contact with victims and addressing interim risk. A further deep dive is scheduled for the end of February 2021 to assess progress overall.</p> | Yellow | 25/11/2020                   | The PCC was satisfied with the work being carried out. | 25/02/2021                      |

| Report Title   | Business Lead | Executive Lead | Recommendation/ Area for Improvement (AFI) | Number of recommendations/ AFIs (& number closed on the HMICFRS Monitoring Portal) Number considered complete by the Force |   | Context   | Anticipated completion date            | Progress on delivery   | RAG   | Reported to Scrutiny Meeting | PCC response   | Next report to Scrutiny Meeting |
|--|---------------|----------------|--|--|---|---|--|--|-------|------------------------------|--|---------------------------------|
| <p>PEEL Efficiency</p> <p>PEEL: Police effectiveness, efficiency and legitimacy 2018/19 - Northumbria Police</p> <p>Published: 27/9/19</p> <p>CC response to PCC: 14/11/19</p> <p>PCC Section 55 response: November 2019</p> <p>Reported to JIAC: 18/11/19</p> | Multiple      | DCC Ford       | AFI  | 9(0)   | 2 | <p><b>Issue</b></p> <p>There were nine AFIs regarding understanding of current and future demand including analysis of data from partners; making best use of resources to meet the needs of the public; and understanding the capacity and capability of the workforce.</p> <p>The Force had recently undertaken a review of resources to inform the new Force Operating Model (FOM); however, recognises the need for further work to understand demand across all services, including hidden demand.</p> <p>Whilst the Force recorded operational skills and qualifications obtained by officers/staff during their police career, information was not held relating to academic, professional or personal skills. This is necessary in order to better understand the capacity and capability of the workforce and identify any gaps/ opportunities to support future development.</p> <p><b>Focus for Northumbria Police</b></p> <p>To further improve understanding of demand, capacity and capability.</p> | Jun-21<br>(revised from December 2020) | <p>Work has been undertaken in response to all of the AFIs. Two AFIs are considered complete regarding the awareness of officer and staff workload when allocating and deploying resource; and the alignment of strategic plans with financial planning and these have been reported to Scrutiny Meeting.</p> <p>Activity to support understanding of demand is progressing well. A business intelligence function has been created and a new business intelligence tool (QlikSense) has been implemented. Local business plans include information on current and future demand alongside analysis of capacity and capability. Whilst there is additional longer term work ongoing to further improve understanding, the Force is in an improved position.</p> <p>A survey was undertaken to collate all academic, professional and personal skills information and this is being combined with operational skills data to provide a richer picture of capacity and capability. This will allow a gap analysis to be undertaken and planned activity to mitigate any identified gaps.</p> <p>One AFI regarding ensuring that resource allocation allows appropriate response to urgent calls for service, particularly for incidents concerning vulnerable persons, is in part linked to the previous response recommendations in PEEL effectiveness, but has also been part mitigated by the introduction of the new Force Operating Model that has enabled improved response times.</p> <p><b>Update: January 2021</b></p> <p>A further AFI to ensure assumptions in relation to future demand are based on sound evidence and analysis so that resources can be best allocated, is now considered complete and will be reported to Scrutiny Meeting in February 2021. Activity has included the completion of business plans for 2021/22; the production of a demand catalogue to inform FMS 2021; and demand and capacity work for the Communications Department. Good progress has been made to further develop business and resource planning.</p> <p>The RAG status has been updated to amber to reflect delays in delivery as a result of Covid-19 with regard to the skills audits and to allow for the recruitment of a project manager created to manage ICT Projects/ National Projects &amp; Programmes. In the interim, appropriate governance is being put in place to bring the programmes of work closer together and create a single view of all local and national projects.</p> | Amber | 25/11/2020                   | The PCC was satisfied with the work being carried out. | 25/02/2021                      |

| Report Title  | Business Lead  | Executive Lead           | Recommendation/ Area for Improvement (AFI) | Number of recommendations/ AFIs (& number closed on the HMICFRS Monitoring Portal) | Number considered complete by the Force | Context   | Anticipated completion date | Progress on delivery  | RAG | Reported to Scrutiny Meeting | PCC response  | Next report to Scrutiny Meeting |
|---|--|--------------------------|--|--|---|---|-----------------------------|---|-----|------------------------------|---|---------------------------------|
| PEEL Legitimacy<br>PEEL: Police effectiveness, efficiency and legitimacy 2018/19 - Northumbria Police<br>Published: 27/9/19<br>CC response to PCC: 14/11/19<br>PCC Section 55 response: November 2019<br>Reported to JIAC: 18/11/19 | Multiple   | ACC (Force Coordination) | Recommendation                             | 2(0)   | 0                                       | <b>Issue</b><br>Two recommendations regarding understanding, analysis and scrutiny of use of force and three AFIs regarding: training and understanding of unconscious bias; proactive approach to counter corruption; and confidential reporting mechanisms.<br><br>The inspection highlighted that whilst good at recording use of force, it needed to make better use of this to understand how force is being used. The Force had identified a requirement for increased scrutiny and transparency regarding use of force prior to the inspection.  | Nov-20                      | Significant activity has been undertaken throughout the year to gain a far better understanding of use of force and to establish improved governance with internal and external scrutiny. Whilst there are factors that impact our understanding of how officers and staff are using force such as recording compliance and quality of data, the Force is in a much stronger and improving position. Some of the data issues are as a result of waiting for requested changes to the national Chronicle system where use of force information is recorded.<br><br>A confidential reporting mechanism for the workforce to report potential corruption and inappropriate behaviour of colleagues is now in place and forcewide communications are ongoing to increase awareness of it.<br><br><b>Update: January 2021</b><br>A review of force policy and procedure on use of force has been undertaken; quarterly data has been published on the Force website; internal and external scrutiny of Use of Force is being undertaken; and evidence regarding progress and the scrutiny and governance of use of force within Northumbria has been provided to HMICFRS for review.   |     | 28/01/2021                   | The PCC was satisfied with the progress being made.                                       | 24/06/2021                      |
| The poor relation: the police and Crown Prosecution Service's response to crimes against older people<br>Published: 17/7/19<br>CC response to PCC: 22/8/19<br>PCC Section 55 response: September 2020<br>Reported to JIAC: 18/11/19 | Head of Safeguarding & Head of Prosecution & Victim Services | ACC (Investigations)     | Recommendation                             | 4 (0)  | 3                                       | <b>Issue</b><br>National recommendations regarding adult safeguarding: victim support services; victim needs assessments; referrals; and the analysis of current and future demand.<br><br>The report highlighted the need for better services for older people subject of crime.<br><br><b>The Force already has a safeguarding policy and a robust system for reporting concerns for adults. Force policy and guidance in respect of vulnerable adults outlines the requirement for safeguarding referrals. There is no particular threshold for the submission of an Adult Concern Notification (ACN). Submission is based on the officer's assessment of risk, in particular, risk of abuse or neglect. Victim needs assessments are submitted for all crime victims.</b> | Oct-20                      | The Force was already in a strong position with regard to these recommendations as mechanisms were already in place for all adult crime victims irrespective of age. Once a national definition of 'adults at risk' is defined, current practices will be adapted accordingly.<br><br>Analysis of demand will be incorporated into the Force Management Statement.<br><br>Currently the service is progressing with cope and recovery being completed by Victims First Northumbria (VFN) with the main court services now being conducted by court liaison staff.<br><br><b>Update: January 2021</b><br>With regards to the future provision of cope and recovery services, a due diligence exercise has been completed, a decision regarding a transfer of service agreed, consultation is underway with existing VFN staff and a business transfer plan in place. The target date for completion is no later than the 01/04/21. With regards to the wider review progress, future business design is being progressed with a view to providing an enhanced level of support to all victims and witnesses who are required to attend court, this will include a focus on over 60's and any particular needs presented by this group.   |     | 27/08/2020                   | The PCC was satisfied with progress and no issues were raised.                            | 25/02/2021                      |
| Shining a light on betrayal: Abuse of position for a sexual purpose<br>Published: 27/9/19<br>CC response to PCC: 14/11/19<br>PCC Section 55 response: November 2019<br>Reported to JIAC: 18/11/19                                   | Head of Professional Standards Department                    | DCC Ford                 | Recommendation                             | 3 (0)  | 1                                       | <b>Issue</b><br>National recommendations regarding: abuse of authority; counter corruption; and vetting.<br><br>The Force was already well placed in this area and received a 'good' grading overall for Legitimacy within the PEEL inspection, which includes those areas under consideration within this inspection.<br><br><b>Focus for Northumbria Police</b><br>To ensure all staff vetting statuses are reviewed and are up to date.  | Jan-21                      | Northumbria's legitimacy inspection suggested that the Force was already well positioned with regard to these recommendations. One of the recommendations is considered complete regarding having enough people with the right skills to look proactively for intelligence about those abusing their position for a sexual purpose.<br><br>The majority of the counter corruption recommendation is complete; however, completion of the final element regarding encrypted apps is dependent upon national negotiation with hardware manufacturers.<br><br>Whilst vetting was positively reviewed within PEEL 2018/19 with inspectors highlighting great improvements in vetting the workforce, the current uplift of police officer numbers coupled with contractor vetting linked to the large scale estate refurbishment and IT systems renewal impacted on the ability of the vetting department to complete all requirements as defined by the recommendation.<br><br>Changes to structure, resourcing and working practices have been implemented to facilitate vetting requirements.<br><br><b>Update: January 2021</b><br>The use of WhatsApp and also personal use of IT and Northumbria Police phones was considered at the Ethics Advisory Board in November 2020 to help inform the future force position on these issues. This has been discussed with the Senior Information Risk Owner (SIRO) and further consideration by the Information Management Unit (IMU) and PSD is ongoing.<br><br>The force has implemented appropriate monitoring software to all desktop devices and technical issues in deploying the software to handheld devices have been overcome.<br><br>The levels of outstanding renewal vettings are now considered 'business as usual' and all backlogs have been cleared. |     | 28/01/2020                   | The PCC was satisfied with progress.  | 29/04/2021                      |
| Evidence led domestic abuse (DA) prosecutions<br>Published: 23/1/20<br>CC response to PCC: 24/3/20<br>PCC Section 55 response: March 2020<br>Reported to JIAC: 24/2/20  | Head of Safeguarding   | ACC (Investigations)     | Recommendation                             | 5(0)   | 4                                       | <b>Issue</b><br>National recommendations regarding a review of training plans for DA: use of DA champions; clear guidance that evidence led investigations should be afforded the same quality of investigations as other investigations; decisions to take no further action in DA cases receive the same robustness of supervisory oversight as other DA cases and that police and CPS share examples of good work and successful outcomes.<br><br><b>Domestic abuse is a force priority and is closely monitored; evidence-led investigations form part of this.</b>   | Oct-20                      | Activity is progressing well.<br><br>Appropriate training will be delivered via CPD.<br><br>Performance management arrangements are in place.<br><br>A process has been put in place to identify and share learning with the CPS, This consists of a regular meeting between the force DA lead and the CPS DA lead who will examine recent cases, identify learning, then feed the learning back into each organisation.<br><br><b>Update: January 2021</b><br>Four recommendations are considered complete by the Force. An update was provided to the HMICFRS Liaison Lead in December 2020 and to date, two recommendations have been marked as complete on the portal but need to be ratified before closure. Further updates are awaited.<br><br>The final recommendation was for forces with domestic abuse champions. Northumbria does not have a network of DA champions, however, the DA strategic lead has undertaken consultation with members of the DA performance improvement group and discussions are underway to determine what the purpose of DA champions would be, what they would do on a practical basis, who would undertake the role and what would be expected to be achieved as a result of having them. A draft terms of reference has been created for discussion at the DA strategic/operational meeting. Once agreed, training requirements will be identified.   |     | 29/10/2020                   | The PCC was satisfied with progress and with the proposed closure of the recommendations. | 29/04/2021                      |

| Report Title   | Business Lead                  | Executive Lead           | Recommendation/ Area for Improvement (AFI) | Number of recommendations/ AFIs (& number closed on the HMICFRS Monitoring Portal) Number considered complete by the Force |   | Context  | Anticipated completion date                            | Progress on delivery   | RAG | Reported to Scrutiny Meeting | PCC response  | Next report to Scrutiny Meeting |
|--|--------------------------------|--------------------------|--|--|---|--|--|--|-----|------------------------------|---|---------------------------------|
| Northumbria Police - Joint inspection of police custody<br>Published: 23/11/20<br>CC response to PCC: 20/2/20<br>PCC Section 55 response: March 2020<br>Reported to JIAC: 24/2/20                                    | Head of Custody                | ACC (Investigations)     | Recommendation                             | 3(0)   | 3 | <b>Issue</b><br>Three recommendations regarding the consistent application of legislation and guidance; the full and accurate recording of information on custody records; and ensuring dignity of detainees when using toilet facilities.<br><br>Nineteen AFIs in relation to performance information and quality assurance; full and accurate recording of information on records; use of force; approach to the dignity and meeting the individual and diverse needs of detainees; notices highlighting CCTV in operation; adherence to legal requirements for fire regulations; the provision of a wider diet, nicotine replacement products and better blankets; and strengthening work with local authority partners to monitor children entering custody and the provision of appropriate adults.   | Sep-20   | A review of the Force action plan in response to the inspection was undertaken by HMICFRS on 7th September 2020. Feedback was positive on the progress made, however, the monitoring portal will not be updated until a new custody follow-up process on the portal has been implemented.<br><br><b>Update: January 2021</b><br>Significant progress has been made and all recommendations and 18 of the AFIs are considered complete.<br><br>The remaining AFI pertains to the provision of specialist support for detainees with alcohol and drug dependencies.<br><br>Whilst a standard level of support is given to those with drug or alcohol problems, such as signposting to external support agencies when they leave custody, the force is progressing work with partner agencies to secure an equitable service level agreement across all custody sites and local authority areas for the provision of further support. This is dependent upon external organisations for delivery.   |     | 28/01/2021                   | No issues were raised.  | 29/07/2021                      |
| A joint thematic inspection of Integrated Offender Management (IOM)<br>Published: 28/2/20<br>CC response to PCC: 16/4/20<br>PCC Section 55 response: May 2020<br>Reported to JIAC: 22/6/20                           | ACC Hutchison                  | T/ACC (Communities)      | Recommendation                             | 4(0)   | 3 | <b>Issue</b><br>National recommendations regarding defining the IOM operating models; improving the quality and accuracy of recording in IOM cases; analysis of training needs; and to ensure that service users are kept informed, as much as possible, about the benefits of inclusion in IOM.<br><br>Northumbria had already reviewed its IOM provision and established new policy and procedures prior to the publication of this report.<br><br><b>The Force is well positioned with regard to IOM.</b>   | Sep-20   | The Force was already in a strong position with regard to IOM. Policy and process for the IOM operating model including recording activity was in place prior to the findings of this inspection. Service users are now informed via a notification letter of their selection and deselection within the IOM cohort.<br><br>All Northumbria Police dedicated IOM officers have been in role for a number of years and have considerable experience as well as having benefited from participation in NPS/ CRC training inputs and support. All are part embedded with CRC teams.<br><br>Updates were presented to Scrutiny Meeting in August 2020 outlining the proposed closure of three of the recommendations.<br><br><b>Update: January 2021</b><br>A training needs assessment for officers has been completed. Training has been developed and will be delivered shortly.  |     | 27/08/2020                   | No issues were raised with the proposed closure of the three recommendations. | 25/02/2021                      |
| Roads Policing: Not optional - An inspection of roads policing in England and Wales<br>Published 15/07/2020<br>CC response to PCC: 27/08/20<br>PCC Section 55 response: September 2020<br>Reported to JIAC: 24/08/20 | Head of Operations Department  | ACC (Force Coordination) | Recommendation                             | 6(0)   | 2 | <b>Issue</b><br>National recommendations stating that with immediate effect: roads policing should be included in the force's strategic threat and risk assessments; that there is enough analytical capability to identify risks and threats on the road network within the force area and that this is used to reduce risks; forces should comply with Department for Transport Circular 1/2007 in relation to the use of speed and red-light cameras; forces where Operation Snap (the provision of digital video footage by the public) has been adopted, should make sure that it has enough resources and process to support its efficient and effective use; forces should satisfy themselves that the resources allocated to policing the strategic road network within their force areas are sufficient; and chief constables should make sure that appropriate welfare support is provided to specialist investigators and family liaison officers involved in the investigation of fatal road traffic collisions.<br><br>AFIs with regard to force-level support to national roads policing operations and intelligence structure; the efficient and effective exchange of all collision data with other relevant bodies; and the awareness and understanding of the changes in the Professionalising Investigation Programme within police forces. | Mar-21   | The Force is already compliant with two of the recommendations. It complies with Department for Transport circular 1/2007 and whilst the Force does not have Operation Snap, it has a similar scheme that is suitably resourced. In addition, two of the AFIs are also considered complete. These were presented to Scrutiny Meeting in November 2020.<br><br>All national and local initiatives for road safety are being mapped out and overseen by the Road Safety Sergeant and Inspector who are coordinating investment with partners. Analysis is underway to improve our understanding of road safety risks with a problem solving approach.<br><br>There are sufficient resources to meet demand on the Strategic Road Network as this is prioritised above all other activity undertaken, however, the level of resources has led to less capacity to service other areas of the road network (including rural), road safety, targeting risk drivers, prevention/education and supporting national and regional road safety campaigns. Recruitment of further Motor Patrols officers is underway.<br><br><b>Update: January 2021</b><br>There is currently no local STRA for roads policing although the Force has contributed to a national STRA. Work is ongoing to develop a local STRA.<br><br>The Road Safety Sergeant is responsible for maintaining effective partnership arrangements across all partners and is supported by other supervisors across the department.<br><br>There is a well established process in place for managing welfare of Investigating Officers and Family Liaison Officers (FLOs) with plans in place to maintain profiles and provide additional wellbeing support. Since the last update, 12 new FLOs have been trained ensuring that Ops are at the correct profile levels and a new Ops wellbeing plan has been developed. |     | 26/11/2020                   | No issues were raised.  | 25/05/2021                      |
| PEEL spotlight report: The Hard Yards – Police to police collaboration<br>Published 21/07/20<br>CC response to PCC: 27/08/20<br>PCC Section 55 response: September 2020<br>Reported to JIAC: 24/08/20                | Funding and Innovation Manager | DCC Ford                 | Recommendation                             | 1(0)   | 0 | <b>Issue</b><br>The report highlighted one national recommendation for forces suggesting that if forces had not yet implemented an effective system to track the benefits of their collaborations, they should use the methodology created by the NPCC, the College of Policing and the Home Office.<br><br><b>Focus for Northumbria Police</b><br>To improve ability to track the benefits of collaborations.   | Date to be determined once methodology shared by NPCC. | The Force's Strategy is to seek formal collaborative opportunities when there are clear business benefits and efficiencies to be achieved. The North East Transformation, Innovation and Collaboration (NETIC) is a regional collaborative policing programme involving the seven forces in north-east England; the Chief Constable receives regular policy updates to inform the collaboration's support for national programmes and regional work. The Force has a methodology for tracking and capturing business benefits. A review of the methodology due to be created by the NPCC, the College of Policing and the Home Office will be conducted once published.  |     | 26/11/2020                   | No issues were raised.  | 25/05/2021                      |
| Pre-charge bail and released under investigation: striking a balance<br>Published 08/12/2020<br>CC response to PCC: 28/01/21<br>PCC Section 55 response: September 2020<br>Reported to JIAC: 22/02/21                | To be confirmed                | ACC (Investigations)     | Recommendations                            | 2(0)   | - | <b>Issue</b><br>The report highlighted two national recommendations suggesting that forces should develop processes and systems to clearly show whether suspects are on bail or RUI and that forces should record whether a suspect is on bail or RUI on the MG3 form when it is submitted to the CPS.<br><br><b>The Force is already able to differentiate between those suspects on bail and those RUI.</b><br><b>Whilst systems currently allow the recording of bail details for a suspect within the functionality of the MG 3, it does not ask for details of RUI; officers in charge have a responsibility to update the CPS in relation to any changes to Bail or RUI</b>  | To be determined                                       | <b>Update: January 2021</b><br>The report has been reviewed and an update of the Force position presented to the PCC on 28/01/20.<br><br>The ability to update the MG3 screen to facilitate an update with regards to RUI is being examined.   |     | N/A                          | N/A   | To be determined                |
| Fraud: Time to choose<br>Published: 2/4/19<br>CC response to PCC: 16/5/19<br>PCC Section 55 response: August 2019<br>Reported to JIAC: 13/5/19   | Head of Crime                  | ACC (Investigations)     | AFI  | 5(0)   | 4 | <b>Issue</b><br>National AFIs regarding improving the way the force uses the National Fraud Intelligence Bureau monthly victim lists to identify and support vulnerable victims and others who require additional support; ensuring forces improve the identification and mapping of organised crime groups in which the principal criminality is fraud; increased use of ancillary orders against fraudsters;<br><br>compliance with the Code of Practice for Victims of Crime when investigating fraud; and ensuring that fraudsters are included among those considered for serious organised crime 'prevent' tactics, including by local strategic partnership boards and through integrated offender management processes.<br><br><b>Focus for Northumbria Police</b><br>Continue to improve VCOP compliance  | Mar-21   | <b>Update: January 2021</b><br>An action plan was created following publication of this report and numerous activities have been undertaken to improve performance. Northumbria was selected as one of eleven forces to be part of the HMICFRS revisit of the 2019 fraud inspection report in January 2021. Feedback following the inspection was very positive and as a result, four of the five AFIs were considered complete by the HMICFRS Force Liaison Lead (FLL). The fifth AFI regarding compliance with VCOP has remained open to be assessed through the continuous monitoring regime. The FLL wants to ensure that the positive early results become established and embedded.<br><br>Three AFIs had previously been reported to Scrutiny as complete. The fourth was awaiting the outcome of quality assurance work before completion. This has been undertaken and the AFI will be reported as complete to Scrutiny Meeting in May 2021 in line with scheduled reporting. HMICFRS has assessed as complete.   |     | 26/11/2020                   | The PCC was satisfied with progress.  | 25/05/2021                      |

| Report Title  | Business Lead                     | Executive Lead           | Recommendation/ Area for Improvement (AFI) | Number of recommendations/ AFIs (& number closed on the HMICFRS Monitoring Portal) / Number considered complete by the Force |    | Context   | Anticipated completion date | Progress on delivery   | RAG | Reported to Scrutiny Meeting | PCC response  | Next report to Scrutiny Meeting |
|---|-----------------------------------|--------------------------|--|--|----|---|-----------------------------|--|-----|------------------------------|---|---------------------------------|
| An inspection of undercover policing in England & Wales<br>Published: 13/10/14  |                                   | ACC (Investigations)     | Recommendation                             | 17(0)  | 17 | Awaiting the outcome of a national inquiry.   | N/A                         | The Force action plan in response to the recommendations was signed off as complete in July 2016.  |     |                              |   | -                               |
| Northumbria – National child protection inspection (and Post-inspection Review)<br>Published: 28/6/18 (Post-inspection review 11/4/19)<br>CC response to PCC: 26/7/18 (Post-inspection review 2/5/2019)<br>PCC Section 55 response: August 2018 & June 2019<br>Reported to JIAC: 23/7/18 (Post-inspection review 13/5/19) | Head of Safeguarding              | ACC (Investigations)     | Recommendation                             | 7(7)   | 7  | <b>Issue</b><br>Four remaining recommendations following the post inspection review regarding: the investigation of child sexual exploitation; detention of children in custody; recording of information where there are concerns about the welfare of children; and practices in relation to missing children.<br><b>Focus for Northumbria Police</b><br>Ensuring the timely safeguarding of children with regard to CSE and the provision of appropriate adult support for children in custody.  | N/A                         | <b>Update September 2020</b><br>All recommendations have been reviewed by HMICFRS and closed on the monitoring portal.   |     | 28/07/2020                   | The PCC was satisfied with action taken and supported the closure of recommendations. | -                               |
| National Child Protection Inspections: 2019 thematic report<br>Published: 27/2/20<br>CC response to PCC: 16/4/20<br>PCC Section 55 response: May 2020<br>Reported to JIAC: 22/6/20  | Head of Safeguarding              | ACC (Investigations)     | Recommendation                             | 3(0)   | 3  | <b>Issue</b><br>National recommendations to reduce the unnecessary criminalisation of children; to review performance management and quality assurance approaches; and for forces not yet inspected by the NCPi or JTAI to take steps to identify and implement good practice and the learning highlighted from these programmes.<br><b>The Force was already responding to the force specific recommendations and is, therefore, in a positive position with regard to the national recommendations.</b>   | N/A                         | <b>Update July 2020</b><br>All recommendations are considered complete and are awaiting HMICFRS review.  |     | 28/07/2020                   | The PCC was satisfied with action taken and supported the closure of recommendations. | -                               |
| Fraud: Time to choose<br>Published: 2/4/19<br>CC response to PCC: 16/5/19<br>PCC Section 55 response: August 2019<br>Reported to JIAC: 13/5/19  | Head of Crime                     | ACC (Investigations)     | Recommendation                             | 2 (0)  | 2  | <b>Issue</b><br>National recommendations regarding the publication of Force policy for responding to and investigating allegations of fraud and the reporting of fraud outcomes to the National Fraud Intelligence Bureau.<br><b>Focus for Northumbria Police</b><br>Ensuring the process for reporting of fraud outcomes is robust.  | N/A                         | <b>Update May 2020</b><br>Both of these recommendations are considered complete. One has been reviewed and is awaiting update on the HMICFRS monitoring portal and the other is awaiting HMICFRS review.   |     | 14/05/2020                   | The PCC was satisfied with action taken and supported the closure of recommendations. | -                               |
| Cyber: Keep the light on - An inspection of the police response to cyber-dependent crime<br>Published: 24/10/19<br>CC response to PCC: 12/12/19<br>PCC Section 55 response: December 2019<br>Reported to JIAC: 18/11/19   | Head of Crime                     | ACC (Investigations)     | AFI  | 1(0)   | 1  | <b>Issue</b><br>National AFI regarding an assessment of the use of cyber specials and volunteers.<br><b>Use of cyber volunteers is already established.</b>   | N/A                         | <b>Update May 2020</b><br>This AFI is considered complete and is awaiting review by HMICFRS.<br>The force was inspected as part of this thematic inspection and feedback on the Force's use of cyber volunteers was positive.  |     | 14/05/2020                   | The PCC was satisfied with the position and supported closure of the AFI.             | -                               |
| Counter-terrorism policing - An inspection of the police's contribution to the government's Prevent programme<br>Published: 9/3/20<br>CC response to PCC: 16/4/20<br>PCC Section 55 response: May 2020<br>Reported to JIAC: 22/6/20   | Head of Crime                     | ACC (Investigations)     | Recommendation                             | 1(0)   | 1  | <b>Issue</b><br>A national recommendation to review the attendance of force representatives at Channel panels so that police are correctly represented by decision makers who can contribute to managing risk.<br><b>The Force is already compliant.</b>  | N/A                         | <b>Update July 2020</b><br>The review is complete - a Prevent specialist attends every Channel Panel; this was in place prior to the recommendation.<br>An update was presented to Scrutiny Meeting in August 2020 outlining the proposed closure of this recommendation .   |     | 27/08/2020                   | No issues were raised with the proposed closure of the recommendation.                | -                               |
| A call for help - Police contact management through call handling and control rooms (published 09/07/2020)<br>Published 09/07/2020<br>CC response to PCC: to be reported 27/08/20<br>PCC Section 55 response: September 2020<br>Reported to JIAC: 24/08/20  | Head of Communications Department | ACC (Force Coordination) | AFI  | 6 (6)  | -  | <b>Issue</b><br>Six AFIs regarding: the effective assessment of risk at all points of contact with the public; ensuring that where there is a vulnerability desk, it makes a positive contribution to initial safeguarding; ensuring that staff are trained, supervised and supported to be effective in their control room roles; investment in technology and collaborative work to inform and improve risk assessments, responses and investigations to keep the public safe; services provided to communities meet the new national contact management strategy; and involvement in the single online home and the social media projects. | N/A                         | <b>Update September 2020</b><br>The following update was provided by HMICFRS:<br>In July 2020, HMICFRS published a PEEL spotlight report entitled 'A call for help' covering police contact management through call handling and control rooms. Within the report, we discussed the next steps the service should take to improve performance in this key area. At the conclusion of that section we state - We will assess progress towards achieving these steps and the success of initiatives during PEEL (police effectiveness, efficiency, legitimacy) inspections 2020/21. Therefore, rather than allocate each force with an AFI we have included each next step within the PEEL methodology. Each next step will be assessed in 2021/22 and, if required, an AFI will be issued if services are not sufficient after that inspection. |     |                              |   |                                 |

■ On track - no concerns  
■ Progressing - additional action required to ensure delivery/delivery delayed  
■ Risk to completion





**JOINT INDEPENDENT AUDIT COMMITTEE**

**22 FEBRUARY 2021**

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**INTERNAL AUDIT CHARTER, STRATEGY STATEMENT 2021 – 2024 AND ANNUAL AUDIT PLAN 2021/22**

**REPORT OF THE INTERNAL AUDIT MANAGER**

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**1 Purpose of the Report**

- 1.1 To inform the Committee of the Internal Audit Charter, the Internal Audit Strategy Statement 2021/22 – 2023/24 and the annual Audit Plan 2021/22 for the Police and Crime Commissioner and Chief Constable and seek its approval.

**2 Background**

- 2.1 The Internal Audit Service is to be provided under agreement with Gateshead Council. Internal Audit are required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 2.2 The Joint Chief Finance Officer has delegated responsibility to maintain an adequate internal audit of both the Police and Crime Commissioner and Chief Constable's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require public bodies must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.3 The Internal Audit Manager manages the provision of the Internal Audit Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a review and evaluation of all aspects of the internal control environment.
- 2.4 The main aim of the Internal Audit Service is to assist all levels of management in delivering the objectives of the Police and Crime Commissioner and Chief Constable through the assessment of exposure to risk and the continuous improvement of the control environment. The risk-based audit plan provides purpose and direction in the achievement of this aim. It is the responsibility of management to install and maintain effective internal control systems.

- 2.5 A report was brought to Committee in November 2020 outlining the emergent plan for comment. Following further consultation with officers the final plan is attached as an appendix to this report.

**3 Internal Audit Charter**

- 3.1 The purpose, authority and responsibility of Internal Audit must be formally defined in an Internal Audit Charter, consistent with the definition of Internal Auditing outlined in Public Sector Internal Audit Standards (PSIAS).
- 3.3 These standards, based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.4 A key element of compliance with PSIAS is the regular review by the Internal Audit Manager and approval by the Joint Independent Audit Committee of an Internal Audit Charter. The Internal Audit Charter was last presented to Committee in February 2020. The Charter is a formal document that defines Internal Audit's purpose, authority and responsibility and establishes its position within both the Office of the Police and Crime Commissioner (OPCC) and the Force, setting out the Internal Audit Manager's functional reporting relationships, authorises rights of access for Internal Audit staff and defines the scope of Internal Audit activity.
- 3.5 The Internal Audit Manager has carried out an annual review of the Internal Audit Charter and no changes have been made.
- 3.6 The reviewed Internal Audit Charter is attached at Appendix A for approval.

**4 Internal Audit Strategy Statement 2021/22 – 2023/24 and Annual Plan 2021/22**

- 4.1 The strategy of the Internal Audit Service is to deliver a risk-based audit plan in a professional and independent manner and to provide the Police and Crime Commissioner and Chief Constable with an opinion on the level of assurance they can place upon their internal control environment, and to make recommendations to improve it.
- 4.2 Minor changes have been made to the audit strategy at 4.10 and 4.11 of appendix B. They detail the change in presentation of the audit plan for 2021/22 as a response to COVID 19..
- 4.3 Quarterly monitoring of progress against the plan will be reported to the Joint Independent Audit Committee with priorities reviewed on an ongoing basis to direct audit resources to the areas of highest risk.

## **AGENDA ITEM 13**

- 4.4 The Audit Strategy Statement 2021/22 – 2023/24 and the annual Audit Plan for 2021/22 are attached at Appendix B and C. Under Public Sector Internal Audit Standards (PSIAS), the Joint Independent Audit Committee should review the proposed plan prior to its approval.
- 4.5 The Strategy document has been prepared in accordance with PSIAS which outline that the Chief Audit Executive (Internal Audit Manager) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, taking into account the organisation's risk management framework, input from senior management and the Committee. The plan should remain flexible in both content and timing to respond to changes in the organisation's business, risks, operations, programs, systems and controls.
- 4.6 The risk-based plan must take into account the requirement to produce an annual audit opinion on the assurance framework. It must be linked to a strategic 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 organisation's objectives and priorities outlined in the Police and Crime Plan.

### **5 Equal Opportunities implications**

- 5.1 It is considered that there are no equal opportunities implications arising from the report.

### **6 Human Rights implications**

- 6.1 It is considered that there are no human rights implications arising from the report.

### **7 Risk Management implications**

- 7.1 There are no additional risk management implications arising directly from this report. The audit plan supports the adequate and appropriate use of resources.

### **8 Financial implications**

- 8.1 There are no financial implications directly arising from this report

### **9 Recommendations**

- 9.1 The Committee is asked to:
- Approve the Internal Audit Charter,
  - Agree the Internal Audit Strategy Statement 2021/22 – 2023/24,
  - Review the proposed annual plan of work for the Internal Audit Service for 2021/22 and

**AGENDA ITEM 13**

- Agree to receive quarterly monitoring reports showing progress made against the plan.

**POLICE AND CRIME COMMISSIONER AND CHIEF CONSTABLE FOR  
NORTHUMBRIA**

**INTERNAL AUDIT CHARTER**

**1. Introduction**

- 1.1 The Audit Manager is responsible for effectively managing the activity of the Internal Audit provider in accordance with this Charter, the definition of internal auditing, the Code of Ethics and UK Public Sector Internal Audit Standards (PSIAS) and is the formal document that defines Internal Audit's purpose, authority and responsibility. The Charter also establishes Internal Audit's position within the organisation, including access to records, personnel and physical property.

**2. Statutory Basis**

- 2.1 Internal Audit is statutory service in the context of the Accounts and Audit Regulations (England) 2015, which states that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN), which came into effect in April 2013 constitute proper practices to satisfy the requirements for relevant bodies set out in the Accounts and Audit Regulations 2015.
- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of these affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include 'compliance with the statutory requirements for accounts and internal audit'.
- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:
- Ensure an effective internal audit function is resourced and maintained;
  - Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
  - Support internal audit arrangements; and
  - Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively.

- 2.5 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.

### **3. Definition of Internal Audit**

- 3.1 The Internal Audit provider for the Police and Crime Commissioner (PCC) and Chief Constable for Northumbria has adopted the mandatory definition of internal auditing as set out in the common set of PSIAS:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

### **4. Mission of Internal Audit**

- 4.1 The Mission of Internal Audit articulates what Internal Audit aspires to accomplish within an organisation. The Internal Audit Service has adopted the mission statement set out in the PSIAS:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

### **5. Core Principles for the Professional Practice of Internal Auditing**

- 5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective in achieving its mission, all the following Principles should be present and operating effectively:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk based assurance;
- Is insightful, proactive, and future-focussed; and
- Promotes organisational improvement.

### **6. Code of Ethics**

- 6.1 The Code of Ethics, incorporated within PSIAS, is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control

and governance. All internal auditors working for, or providing a service to, the PCC and Chief Constable must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body then they must also comply with the relevant requirements of that body.

6.2 The Code of Ethics is based upon four principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct:

- Integrity;
- Objectivity;
- Confidentiality; and
- Competency.

6.3 **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All Internal Audit staff will:

- Perform their work with honesty, diligence and responsibility.
- Observe the law and make disclosures expected by the law and their profession.
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or the audited bodies.
- Respect and contribute to the legitimate and ethical objectives of the audited bodies.

6.4 **Objectivity:** Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All Internal Audit staff will:

- Not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the audited bodies.
- Not accept anything that may impair or be presumed to impair their professional judgement.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.

6.5 **Confidentiality:** Internal auditors will respect the value and ownership of the information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. All Internal Audit staff will:

- Be prudent in the use and protection of information acquired in the course of their duties.



- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the audited bodies.

6.6 **Competency:** Internal auditors will apply the knowledge, skills and experience needed in the performance of their duties. All Internal Audit staff will:

- Engage only in those services for which they have the necessary knowledge, skills and experience.
- Perform their work in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Continually improve their proficiency, effectiveness and the quality of the service they deliver.

## 7. Principles of Public Life

7.1 Internal Audit staff will also have regard to Nolan's Seven Principles of Public Life in the course of their duties. The seven principles are:

- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office should be as open as possible about all decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

## 8. Purpose, Authority and Responsibilities

### 8.1 Purpose

8.1.1 Internal Audit is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper economic, efficient

and effective use of resources. Internal Audit is one of a number of assurance providers that contribute to the PCC and Chief Constable's assurance framework. The purpose of Internal Audit is to deliver a risk-based audit plan in a professional and independent manner to allow the Internal Audit Manager to provide both the PCC and Chief Constable with an opinion on the level of assurance they can place upon their internal control, risk management and governance arrangements and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Joint Independent Audit Committee and supports the PCC and Chief Constable's Annual Governance Statements which accompany the Annual Statements of Accounts.

8.1.2 To this end the Internal Audit provider is required to review, appraise and report upon:

- The soundness, adequacy and application of accounting, financial and other operational controls.
- The extent of compliance with established policies, plans and procedures, statute and regulations.
- The extent to which assets and interests are properly accounted for and safeguarded from losses of all kinds including fraud, bribery, corruption, other offences, waste, extravagance, inefficient administration, poor value for money or other cause.
- The suitability and reliability of financial and other operational information.
- The economy, efficiency and effectiveness with which resources are utilised.
- Whether operations are being carried out as planned and objectives and goals are being met.
- The investigation of instances of fraud, bribery, corruption and irregularities.

8.1.3 Other objectives include:

- Supporting the Joint Independent Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and to continually add value to the organisation.

## **8.2 Authority**

8.2.1 Internal Audit is an assurance function required under the provisions of the Accounts and Audit Regulations 2015. Delegated responsibility to maintain an adequate and effective internal audit of the PCC and Chief Constable's accounting records and control systems rests with the Joint Chief Finance Officer, as set out in the Commissioner's Delegations to Officers.

- 8.2.2 The scope of Internal Audit provider activity allows for unrestricted coverage of each body's control environment, which includes all of its operations, resources, services and responsibilities in relation to other bodies. The only exception to this is in relation to covert assets. Assurance on the existence and deployment of covert assets will be provided to Internal Audit and onto the Joint Independent Audit Committee by the Assistant Chief Constable responsible for Crime.
- 8.2.3 In accordance with the definitions of PSIAS, the Internal Audit Manager is the OPCC and Force's Chief Audit Executive, the Joint Independent Audit Committee as the Board and Area Commanders/Heads of Department and above are designated as "senior management".
- 8.2.4 The Internal Audit Manager, in consultation with the Joint Chief Finance Officer and the Joint Independent Audit Committee, will have the freedom to determine the priorities for Internal Audit activity.
- 8.2.5 The Internal Audit Manager will carry out a systematic review and evaluation of all aspects of the internal control environment through consideration of the respective risk registers and consultation with senior managers and the external auditor. This enables the Internal Audit Manager to prepare a three-year risk-based plan, covering all areas of the Police Service and to provide purpose and direction in this process. This plan will be linked to a statement of how the Internal Audit service will be delivered and developed in accordance with this Charter and both the PCC and Chief Constable's overall objectives.
- 8.2.6 Subject to the restriction relating to covert assets noted in 8.2.2 above, Financial Regulations grant to Internal Audit, having been security cleared, the authority to:
- Enter at all reasonable times OPCC and the Force premises;
  - Have access to all assets, records, documents, correspondence, control systems and appropriate personnel, subject to appropriate security clearance;
  - Receive any information and explanation considered necessary concerning any matter under consideration;
  - Require any employee to account for cash, stores or any other OPCC or Force asset under their control; and
  - Access records belonging to contractors, when required. This shall be achieved by including an appropriate clause in all contracts.
- 8.2.7 Where required assurances based on the work of Internal Audit may be provided to respective external bodies. This will take the form of a written assurance from the Internal Audit Manager detailing the objectives of the internal audit activity undertaken and a conclusion on the assessment of the internal control environment.
- 8.2.8 The main determinant of the effectiveness of the Internal Audit provider is that it is seen to be independent. To ensure this, the Internal Audit

provider will operate in a framework that allows direct reporting to the PCC, all Chief Officers and the Chair of the Joint Independent Audit Committee.

### **8.3 Responsibilities**

8.3.1 The Internal Audit provider will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within them. In addition to the Annual Internal Audit Report the Internal Audit Manager will report progress against the annual audit plan to the Joint Independent Audit Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the results of the Internal Audit Manager's Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

8.3.2 The Internal Audit provider will have no responsibilities over the activities that it audits beyond the furnishing of recommendations and advice to management on associated risks and controls.

8.3.3 The existence of the Internal Audit provider does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered way. Management is expected to implement all agreed audit recommendations by the agreed implementation date. Each recommendation will be followed up at the agreed date to assess the extent to which this has happened.

8.3.4 Arrangements are in place with senior managers to inform Internal Audit of changes in organisational systems and procedures on an ongoing basis.

8.3.5 Every effort will be made to preserve objectivity by ensuring that all Internal Audit provider employees are free from any conflicts of interest and do not undertake any non-audit duties other than those for the demands of the service.

### **9. Resourcing of Internal Audit**

9.1 Resourcing of Internal Audit will take into consideration the following:

- The PCC and Chief Constable's priorities;
- The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity;
- Consultation with senior managers and the external auditor;
- Changes in legislation;
- The scope of planned external audit work; and
- The implications of external inspection reports.

- 9.2 The staffing structure of the Internal Audit provider comprises of professional accountants, accounting technicians and trainee posts with a mix of specialisms to reflect the varied workload of the Service. Where the Internal Audit Manager considers there to be insufficient resources to deliver an effective audit plan this will be drawn to the attention of the Joint Chief Finance Officer and the Chair of the Joint Independent Audit Committee immediately.
- 9.3 At the request of the Joint Chief Finance Officer appropriate specialists from other services should be made available to participate in any audit or review requiring specialist knowledge.
- 9.4 The Internal Audit Manager will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training delivered through both internal and external courses.
- 9.5 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network, the Institute of Internal Auditors (IIA) and through regular liaison with external audit.
- 9.6 The Internal Audit provider will keep abreast of best audit practice by adhering to CIPFA's and the IIA's best practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 9.7 In this regard the Internal Audit provider considers trends and emerging issues that could impact on the organisation.

## **10. Fraud Related Work**

- 10.1 Managing the risk of fraud, bribery and corruption is the responsibility of management and the Internal Audit provider does not have responsibility for the prevention and detection of these matters. Internal Auditors will however be alert to the risk and exposures that can allow fraud, bribery and corruption and will investigate such instances and any irregularities that are identified within the Service. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected.
- 10.2 The Internal Audit Manager has provision in the Audit Plan to allow for the investigation of fraud, bribery and corruption and Financial Regulations, the Counter Fraud and Corruption Policy and Statement on the Prevention of Bribery require them to be notified of all suspected or detected fraud, corruption or impropriety. The Internal Audit Manager will assess the potential impact of such cases on the internal control environment.

## **11. Consulting Services**

11.1 Where resources and skills allow within the Audit Plan, the Internal Audit provider will provide independent and objective services, such as consultancy at the request of management. Consultancy work will be assessed by the Internal Audit Manager for its impact on the internal control environment and the potential added value in terms of the PCC and Chief Constable achieving their legitimate and ethical objectives and will be subject to the Audit Protocol on Consultancy Engagements.





# **The Internal Audit Strategy Statement**

**2021/22 – 2023/24**

**& Annual Plan 2021/22**

Robert Bowmaker  
Internal Audit Manager  
Internal Audit – Gateshead Council



## **1. Introduction**

- 1.1 The Internal Audit Service for the Police and Crime Commissioner and Chief Constable plays an essential role in supporting each body to achieve its objectives and outcomes. The Annual Audit Plan for 2021/22 has been formulated from a review of the major risks that are faced over the next three years. The plan therefore focuses on areas where we can add the most value and provide assurance that risks are being properly managed.
- 1.2 Our objectives over the three years are to promote and champion sound governance and effective internal controls throughout both bodies and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the Police and Crime Plan.
- 1.3 It is the responsibility of management to install and maintain effective internal control systems. The role of Internal Audit, as outlined in the Audit Charter, is to assist managers in the effective discharge of this responsibility and in so doing, deliver the objectives of the Police and Crime Commissioner, Chief Constable and any associated bodies.
- 1.4 Internal Audit is provided to the Police and Crime Commissioner and Chief Constable under an agreement with Gateshead Council.

## **2. Purpose**

- 2.1 This document sets out Internal Audit's Strategy for 2021/22 – 2023/24 and Annual Audit Plan for the Police and Crime Commissioner and Chief Constable for the financial year 2021/22. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
  - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that requires the Chief Audit Executive to produce a risk based annual plan taking into account the requirement to give an independent annual opinion on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and control;
  - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
  - Ensure effective audit coverage and a mechanism to provide independent and objective assurance in particular to the Joint Independent Audit Committee and Senior Managers;

- Identify the key risks that could prevent each body from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
- Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and
- Support lead staff in the areas of finance and legal in fulfilling their obligations as the Section 151 and Monitoring Officers respectively.

### **3. Key Outputs 2021/22**

3.1 Internal Audit will deliver the following key responsibilities:

- To provide ongoing assurance to management on the control environments comprising systems of governance, risk management and internal control;
- To support expected standards of behaviour;
- To be responsive to transformational change and service demands;
- To work together with the external auditors to ensure reliance can be placed on our audit work where appropriate;
- To continue to develop our joint working relationships with other related regional and national groups and bodies;
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across both organisations;
- To monitor and follow-up agreed management actions to audit recommendations within the agreed timescales;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
- To continue to develop and have a key role in corporate governance arrangements; and
- To provide support in respect of counter fraud and corruption investigations where required.

### **4. Key Issues & Annual Audit Plan for 2021/22**

4.1 Having regard to the current risk profile the following main areas have been included in the Annual Plan for 2021/22:

#### **Police and Crime Commissioner Audit Areas**

4.2 This area will focus on the two audits of Grant Distribution and Treasury Management. The Grant Distribution audit will examine the programmes that focus the PCC's funding and activity priorities, derived from the Police and Crime Plan, which have been developed with partners and service

users. The audit of Treasury Management will look at how all borrowing and investments are managed in line with the agreed strategy.

**Chief Constable Audit Areas**

- 4.3 These audits will focus upon the systems and procedures undertaken at establishments and departments across the Force and will also include some tailored work in respect of information technology.

**Combined Audit Areas**

- 4.4 These audits are primarily focused around major financial systems and governance.

**General Allocations**

- 4.5 Where audit reports have had a high priority finding or had an overall opinion of significant weakness they will be followed up by Internal Audit within six months of the final report being issued and time is provided within the plan for any such activity.
- 4.6 During the course of the year the Police and Crime Commissioner, Chief Constable or the Joint Independent Audit Committee can ask Internal Audit to carry out additional work on control systems which may not have been planned for. This time allocation is to provide some scope to do this. Internal Audit is also available to give ad hoc support and advice for staff and officers on internal control and governance issues. Activity in this area also includes preparation and delivery of reports for the Joint Independent Audit Committee.

**2021/22 Annual Audit Plan**

- 4.7 To allow an annual opinion on the effectiveness of the respective internal control environments to be delivered Internal Audit will review all major systems and areas of activity within a three-year period. The three-year risk based strategic plan is reviewed annually after considering:
- Organisational priorities;
  - A review of risk documentation;
  - Consultation with senior managers;
  - Changes in legislation;
  - The scope of planned external audit work;
  - The implications of any external inspection reports; and
  - Time elapsed since the previous audit.
- 4.8 Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, operational impact, links to strategic risks, potential for fraud and sensitivity. Based on a score derived from these assessments, audits are categorised as high, medium or low priority which

dictates where they will be audited within the three-year cycle. High priority areas are audited on an annual basis. However, there are some audits where the frequency is dictated by other criteria such as external reporting requirements in which case they may be conducted annually even though they are not categorised as high risk.

- 4.9 The Annual Audit Plan for 2021/22 has been developed on this basis and is set out at Appendix C. The plan sets out the broad areas for the basis of work during 2020/21 but remains flexible to respond to changing risks and priorities during the year.
- 4.10 The plan has been re-structured to provide additional flexibility due to current pandemic. The level of audit resources required to deliver the core plan is 1,580 hours (1,870 hours for 2020/21) which includes the high risk and IT audit areas, these audits will provide the minimum level of assurance required to inform the annual audit opinion.
- 4.11 In addition, the medium risk (non-IT) audits have been detailed for reference and will be included where possible depending on the restrictions in place around the pandemic, after prioritising the high risk audit areas.

## **5. How the service will be provided**

- 5.1 Internal Audit is delivered under agreement with Gateshead Council. This includes the use of specialist auditors from Newcastle Council for IT auditing. This arrangement will be kept under review on an annual basis.
- 5.2 In order to deliver the Annual Audit Plan at the required level of quality and professionalism, we strive to ensure the team have the necessary mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants and/or qualified Association of Accounting Technicians or undertaking professional studies.
- 5.3 Our professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
  - The complexity of the areas to be reviewed;
  - Factors such as number of locations, number and frequency of transactions; and
  - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.

- 5.4 Staff development needs are continually assessed to ensure we maintain the optimal level and mix of skills required to deliver a highly professional and added value internal audit service.

## **6. Our Performance Management**

- 6.1 The standards for 'proper practice' in relation to internal audit are laid down in the Public Sector Internal Audit Standards and we will continually ensure compliance with these professional standards through a combination of internal and external reviews; with the outcomes reported to the Joint Independent Audit Committee. Examples of this include:
- Internal self-assessments by the Internal Audit Manager;
  - Customer satisfaction questionnaires;
  - Reliance placed on our work by external auditors, where applicable;
  - CIPFA benchmarking information; and
  - External assessment every five years by a recognised, qualified and independent assessor.
- 6.2 To achieve the planned coverage for 2021/22, deliver a high standard of customer care and demonstrate effectiveness of the Service, we have well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

| <b>Performance Indicator</b>  | <b>Target</b> |
|---|---------------|
| Actual hours against planned hours  | 97.25%        |
| Draft audit reports issued within 17 working days following the completion of audit fieldwork | 100%          |
| Number of audit recommendations implemented   | 100%          |
| Customer satisfaction levels  | 95%           |

**AGENDA ITEM 13****Appendix C****Internal Audit Plan 2021/22 - 2023/24**

| <b>Core Plan</b> |                  |   |                |                |                |
|------------------|------------------|---|----------------|----------------|----------------|
| <b>Risk</b>      | <b>Frequency</b> | <b>Audit Area</b>   | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> |
|                  |                  | <b>Police &amp; Crime Commissioner</b>                      |                |                |                |
| High             | Annual           | Treasury Management   | 80             | 80             | 80             |
| High             | Annual           | Grant Distribution  | 50             | 50             | 50             |
|                  |                  | <b>Chief Constable</b>                                      |                |                |                |
|                  |                  | <b>ICT Audits</b>   |                |                |                |
| High             | Annual           | ICT Security - Application & Data; Cyber; Infrastructure    | 60             | 60             | 60             |
| High             | Annual           | Patch Management  | 40             | 40             | 40             |
| Medium           | Biennial         | Configuration Management                                    | 60             |                | 60             |
| Medium           | Biennial         | Resilience and Disaster Recovery                            | 60             |                | 60             |
| Medium           | Biennial         | ICT Strategic Implementation & Reporting                    |                | 60             |                |
| Medium           | Biennial         | ICT Governance and Policy & Procedures                      | 60             |                | 60             |
| Medium           | Biennial         | Asset & Device Management                                   |                | 60             |                |
| Medium           | Biennial         | Licence & Certificate Management                            |                | 60             |                |
|                  |                  | <b>Departmental Audits</b>                                  |                |                |                |
| Annual           | Annual           | Police Charities Fund                                       | 40             | 40             | 40             |
|                  |                  | <b>Theme Based Audits</b>                                   |                |                |                |
| High             | Annual           | Property  | 120            | 120            | 120            |
|                  |                  | <b>Combined Areas</b>                                       |                |                |                |
|                  |                  | <b>Financial Systems</b>                                    |                |                |                |
| High             | Annual           | Creditors and Procurement                                   | 140            | 140            | 140            |
| High             | Annual           | Payroll & Pensions  | 100            | 100            | 100            |
| High             | Annual           | Main Accounting System                                      | 50             | 50             | 50             |
| High             | Annual           | Budgetary Control   | 50             | 50             | 50             |
| High             | Annual           | Employee Claims   | 60             | 60             | 60             |
|                  |                  | <b>Other Combined Areas</b>                                 |                |                |                |
| High             | Annual           | Governance  | 50             | 50             | 50             |
| High             | Annual           | Programme/Project Management                                | 40             | 40             | 40             |
| High             | Annual           | Information Governance & Data Security                      | 80             | 80             | 80             |
| High             | Annual           | Annual Governance Statement - Review of Managers' Assurance | 100            | 100            | 100            |
|                  |                  | <b>Other</b>  |                |                |                |
|                  |                  | Follow Up and Contingency                                   | 70             | 70             | 70             |
|                  |                  | General Advice, Consultancy and Systems Review              | 150            | 150            | 150            |
|                  |                  | Joint Independent Audit Committee - Preparation & Support   | 120            | 120            | 120            |
|                  |                  | <b>Hours</b>  | <b>1,580</b>   | <b>1,580</b>   | <b>1,580</b>   |

## AGENDA ITEM 13

| <b>Supporting Contingent Audits</b> |           |  |              |              |              |
|-------------------------------------|-----------|--|--------------|--------------|--------------|
|                                     |           | <b>Chief Constable</b>                               |              |              |              |
|                                     |           | <b>Departmental Audits</b>                           |              |              |              |
| Medium                              | Biennial  | Asset Management                                     | 100          |              | 100          |
| Medium                              | Biennial  | Fleet Management                                     |              | 70           |              |
| Medium                              | Biennial  | People Services and Development                      | 100          |              | 100          |
| Medium                              | Biennial  | Legal & Insurance Arrangements                       |              | 90           |              |
| Medium                              | Biennial  | Operational Support and Firearms Licencing           |              | 80           |              |
|                                     |           | <b>Theme Based Audits</b>                            |              |              |              |
| Medium                              | Biennial  | Counter Fraud and Corruption Arrangements            | 60           |              | 60           |
|                                     |           | <b>Combined Areas</b>                                |              |              |              |
|                                     |           | <b>Financial Systems</b>                             |              |              |              |
| Medium                              | Biennial  | Debtors  |              | 70           |              |
|                                     |           | <b>Other Combined Areas</b>                          |              |              |              |
| Medium                              | Biennial  | Cash Advances and Income Arrangements                |              | 60           |              |
| Medium                              | Biennial  | Risk Management and Business Continuity Arrangements | 90           |              | 90           |
| Medium                              | Biennial  | Health & Safety                                      |              | 60           |              |
| Medium                              | Biennial  | Performance Management & Data Quality                |              | 60           |              |
| Medium                              | Biennial  | VAT  | 50           |              | 50           |
| Medium                              | Biennial  | Complaints   | 100          |              | 100          |
| Medium                              | Biennial  | Key Partnerships - NERSOU                            |              | 50           |              |
| Low                                 | Triennial | Equality & Diversity                                 |              | 50           |              |
|                                     |           | <b>Hours</b>   | <b>500</b>   | <b>590</b>   | <b>500</b>   |
|                                     |           | <b>Total Hours</b>                                   | <b>2,080</b> | <b>2,170</b> | <b>2,080</b> |