

# JOINT INDEPENDENT AUDIT COMMITTEE

MONDAY, 24 FEBRUARY 2020, 14:00

MEETING TO BE HELD IN STEPHENSON ROOM  
FORCE HEADQUARTERS  
MIDDLE ENGINE LANE

## AGENDA

### OPEN SESSION UNDER THE FREEDOM OF INFORMATION ACT 2000

1. **INTRODUCTION**
2. **DECLARATION OF INTEREST**
3. **MINUTES OF THE OPEN SESSION OF THE JOINT INDEPENDENT AUDIT COMMITTEE 18 NOVEMBER 2019**  
*(Paper attached)*
4. **MATTERS ARISING**  
*(Action list attached)*
5. **EXTERNAL AUDIT STRATEGY MEMORANDUM (CC & PCC)**  
Report of External Auditor  
*(Paper attached)*
6. **TREASURY MANAGEMENT POLICY STATEMENT AND STRATEGY**  
Report of Head of Finance  
*(Paper attached)*
7. **ANNUAL GOVERNANCE REVIEW – ASSURANCE FRAMEWORK**  
Report of Head of Finance  
*(Paper attached)*
8. **SUMMARY OF RECENT EXTERNAL INSPECTION REPORTS**  
Head of Corporate Development  
*(Paper attached)*
9. **JOINT STRATEGIC RISK REPORT**  
Head of Corporate Development  
*(Paper attached)*
10. **INTERNAL AUDIT CHARTER, STRATEGY STATEMENT 2020 – 2023 AND ANNUAL AUDIT PLAN 2020/21**  
Report of Internal Audit Manager  
*(Paper attached)*
11. **FORWARD PLAN**  
*(Paper attached)*

## 12. 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>
13	7
14	7
15	7
16	7
17	7
18	7

**NORTHUMBRIA POLICE MINUTES**


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<b>Title</b> Joint Independent Audit Committee (JIAC)	<b>Meeting Number</b> 04/2019
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<b>Date</b> 18 November 2019	<b>Location</b> Meeting Room 2 Forth Banks	<b>Duration</b> 14:00-15:50
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**Present:**

<b>Committee Members</b>	N Mundy K Amlani P Angier P Wood	Chair
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<b>Officers:</b>	R Durham D Ford M Tait P Godden K Laing	OPCC Chief of Staff and Monitoring Officer Deputy Chief Constable Joint Chief Finance Officer Head of Corporate Development Department Head of Finance Department
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<b>Invitees:</b>	R Bowmaker J Dafter C Waddell J Greener R Rooney	Internal Audit, Gateshead Council Senior Manager, Mazars Partner, Mazars Senior Manager, Mazars Governance and Planning Adviser (Secretary)
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<b>Apologies:</b>	J Guy	Committee Member
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**1. INTRODUCTION**

N Mundy welcomed J Greener to the JIAC, and thanked J Dafter for his contributions.

N Mundy highlighted the three strands committee members focus on in preparation for the meeting: external audit; internal audit; and, Her Majesty's Inspectorate of Constabulary Fire and Rescue Service (HMICFRS) inspections, and the process involved in triangulating the findings of the respective reports in order to seek assurance.

N Mundy provided apologies for J Guy.

**2. DECLARATION OF INTEREST**

Committee members provided updates against the previously circulated Declaration of Interest proforma.

Update *noted*.

**3. MINUTES OF PREVIOUS MEETING HELD ON 22 JULY 2019**

The minutes were agreed as a true and accurate record.

#### **4. MATTERS ARISING**

Action list updated.

#### **03/2019 Minute 13 – Update on Internal Work and Progress Against Annual Audit Plan Quarter 1, 2019/20**

M Tait confirmed the anticipated implementation date for Office 365 would be provided as part of the ICT session facilitated for members prior to the February JJAC.

#### **5. ANNUAL AUDIT LETTER (CC & PCC)**

C Waddell confirmed Mazars have issued an unqualified opinion on both CC and PCC, with no queries or objections received from the public. N Mundy congratulated the Force on receipt of an unqualified opinion.

##### **Annual Audit Letter – Chief Constable**

N Mundy queried why both audit letters do not reflect issues raised within the recent HMICFRS PEEL inspection of which the Force was graded 'requires improvement'. N Mundy commented the findings of the inspection could reasonably have been expected to be identified by Mazars during audit. C Waddell advised the PEEL report was issued two months post audit and highlighted inspection activity is not commented on within audits unless an inspection has identified unlawful activity. N Mundy thanks C Waddell for the clarification. Additionally, C Waddell noted an audit arrangement consultation period is open; the consultation touches on use of third party evidence. It was confirmed the latest PEEL inspection report will be considered when compiling the next audit plan.

N Mundy sought assurance regarding Northumbria Police's use of reserves, stating it is the Force responsibility to ensure it can look forward to a sustainable future that matches investment. K Laing advised use of reserves has been managed down to ensure sustainability. M Tait added the Force position on use of reserves is wholly transparent, with sufficient resource available to provide resilience. M Tait confirmed the Medium Term Financial Strategy (MTFS) sets out a sustainable four year strategy.

##### **Annual Audit Letter – Police and Crime Commissioner (PCC)**

C Waddell noted the PCC annual audit letter is largely similar to that issued for the Chief Constable; however adjustments to pensions changed the PCCs audit requirements. As such, a programme of work was undertaken which resulted in an additional fee incurred.

***Agreed: CC and PCC Annual Audit Letters.***

#### **6. SUMMARY OF RECENT EXTERNAL INSPECTION REPORTS**

P Godden provided details of external inspections which have taken place in the quarter since the previous JJAC.

N Mundy sought clarity on the Force Management Statement (FMS). P Godden explained the FMS is completed on an annual basis and acts as a Force assessment of demand which feeds into the business planning cycle; a public facing executive summary is available.

***Action: D Ford to facilitate sharing of FMS Executive Summary with committee members.***

R Durham confirmed the process for addressing recommendations where Northumbria Police is not directly inspected. She explained all thematic reports are reported to the PCC to identify work in inspection areas and treated the same as if the Force was inspected.

P Godden provided confirmation of management of areas for improvement (AFI) from the Joint Targeted Area Inspection (JTAI) stating Northumbria Police's Head of Safeguarding attends all relevant meetings to oversee allocated actions.

Concerning Leading Lights, an inspection which sought to address issues in recruiting officers to senior posts, D Ford advised Northumbria Police will invest in developing its own staff as leaders.

P Godden advised the PEEL inspection had garnered disappointing results; four recommendations and 18 AFIs were allocated to Northumbria Police. Leads have been identified, and a range of activity is ongoing to address the recommendations. R Durham confirmed the PCC will meet with the Force HMICFRS Liaison Lead to gain a greater understanding of the inspection process.

P Wood queried when a re-inspection could be expected. D Ford commented the Force is inspected on a risk basis; at this time it is not known when the next inspection will take place, or what the focus will be, however, it is hoped a number of AFIs will be closed off promptly to ensure the Force is in a better position prior to a re-inspection. Concerning the progression of AFIs, P Angier requested further detail is added to the report appendix.

**Action: P Godden to include additional context of AFI progression in future reports.**

D Ford gave notice to a 50 day review carried out by Mason's Advisory on Force ICT systems. The review will look strategically to identify if current systems are fit to deliver the Transformation 2025 programme in the short term, and future business longer term.

Members discussed the rising issue of fraud. P Godden acknowledged a national approach to fraud is required as outlined in the inspection report. D Ford corroborated this, noting fraud is a major cause for concern nationally; work is ongoing locally regarding preventative work through education.

P Godden highlighted a number of recommendations awaiting final sign off from HMICFRS. P Angier commented it would be useful if the appendix showed the number of recommendations open because work is progressing, and the number open whilst awaiting HMICFRS sign off.

**Action: P Godden to include status of open AFIs in future reports.**

## **7. JOINT STRATEGIC RISK REGISTER (JSRR) REPORT**

P Godden provided an update against the JSRR, confirming high risk items are longer term in nature; confirmation was provided that there are sufficient controls in place to manage such risks.

N Mundy queried to what extent the PEEL inspection findings and AFIs are appropriately reflected in the strategic risks. P Godden explained as the risk register is reviewed on a quarterly basis, the inspection findings are adequately reflected.

D Ford provided assurance to P Angier that there is sufficient space within the Force to manage an increase in officer numbers as a result of Operation Uplift.

P Wood enquired if Northumbria Police is confident it can resist a cyber-attack. M Tait advised an Information Security Officer (ISO) is in post who has a robust understanding of this area of business to mitigate risk. D Ford additionally commented she is the Force Senior Information Risk Owner (SIRO) and attends monthly meetings where updates and assurances are provided against protections.

N Mundy queried whether a risk concerning use of force should be added to the register as a result of PEEL AFIs. D Ford advised the AFI is related to how Northumbria Police uses its data to identify how the public feel about use of force.

P Godden confirmed he is satisfied all risks are valid, but noted future reviews of the register will be mindful of AFIs and risk alignment.

Update *noted*.

## **8. TREASURY MANAGEMENT MID-YEAR REPORT 2019/20**

K Laing presented the report, noting the mid-year review projects under budget on borrowing. K Laing gave an update on Public Works Loan Board (PWLB) interest rates, confirming the Force secured a rate of 1.17% prior to an increase in interest rates.

P Wood queried if Northumbria Police is insured against PWLB interest rate rises in the coming years. K Laing explained the rise in interest rates opens the market to use different vehicles. Additionally, he noted a slight downgrade in the sovereign rate could have an impact on interest rates.

N Mundy queried the potential impact Brexit may have on interest rates; K Laing explained the market is currently too volatile to make predictions.

N Mundy thanked K Laing for the report.

***Agreed: The Treasury Management Mid-Year Report 2019/20.***

## **9. EMERGENT INTERNAL AUDIT PLAN 2020/21 – 2022/23**

R Bowmaker presented the proposed internal audit plan, welcoming feedback from members; the final version of the plan will be presented at the February JIAC. N Mundy raised a query regarding audit of ICT Change Management.

***Action: R Bowmaker to confirm where ICT Change Management is featured within the audit plan.***

R Bowmaker explained a 13 point process is used to identify frequency of audit, in response to P Angier enquiring if a biennial audit is sufficient for reporting on joint working arrangements. M Tait supported the proposed audit frequency, noting there is not a great deal of financial risk associated.

P Wood queried if the cyber audit would take into account PEEL inspection findings; R Bowmaker confirmed it would. Additionally, N Mundy queried the importance of risk and resilience management. R Bowmaker commented audit areas are considered based on how well they are managed; risk is monitored on an ongoing basis and as such is seen to be relatively low risk.

Update *noted*.

## **10. JIAC FORWARD PLAN**

The forward plan for 2020 was presented. N Mundy suggested providing the JIAC Annual Report in July, rather than November as indicated against the forward plan.

***Agreed: N Mundy to present the JIAC Annual Report in July 2020.***

K Laing provided members with proposed dates for 2020 JIAC meetings.

**Agreed: 2020 JJAC dates as follows: 24 February; 18 May; 20 July; 16 November.**

**Action: R Rooney to facilitate meeting invites for 2020.**

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

The press and public were excluded from the meeting.



**AGENDA ITEM 4**

<b>SOURCE</b> Meeting / date / minute ref.	<b>ACTION</b>	<b>ASSIGNED TO</b>	<b>UPDATE</b> Cleared or update
<b>03/2019</b> <b>Minute 10</b>	<b><u>Joint Strategic Risk Register Report July 2019</u></b> To facilitate an ICT session with committee members.	M Tait	Update to be provided.
<b>04/2019</b> <b>Minute 6</b>	<b><u>Summary of Recent External Inspection Reports</u></b> To facilitate sharing of the Force Management Statement Executive Summary with committee members.	D Ford	FMS Executive Summary circulated to all Committee Members.
	To include additional context of AFI progression, and status of open AFIs in future reports.	P Godden	Provided within HMICFRS update paper.
<b>09/2019</b> <b>Minute 9</b>	<b><u>Emergent Internal Audit Plan 2020/21-2022/23</u></b> To confirm where ICT Change Management is featured within the audit plan.	R Bowmaker	Update to be provided.
<b>10/2019</b> <b>Minute 10</b>	<b><u>JIAC Forward Plan</u></b> To present the JIAC Annual Report in July 2020	N Mundy	Added to forward plan for July 2020.
	To facilitate meeting invites for 2020.	R Rooney	Meeting invites for 2020 have been circulated.



<b>JOINT INDEPENDENT AUDIT COMMITTEE</b>	<b>24 FEBRUARY 2020</b>
<b>TREASURY POLICY STATEMENT &amp; TREASURY STRATEGY 2020/21 TO 2023/24</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 2020/21 to 2023/24 Treasury Policy Statement and Strategy.

## **2 RECOMMENDATION**

- 2.1 To recommend the adoption by the Commissioner of the attached four year 2020/21 to 2023/24 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 2020/21 to 2023/24 - see Appendices - 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 Ministry of Housing, Communities & Local Government (MHCLG) 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 2020/21 to 2023/24 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 2020/21 to 2023/24 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: 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 Asset Services Treasury Management Strategy template 2020/21.

**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 2020/21 to 2023/24

### 1. Introduction

1.1 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.

1.2 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.'

1.3 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 budget setting process for 2020/21.

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

1.5 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 2020/21 to 2023/24 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 Given the link to the budget and capital programme, these indicators were approved by the Commissioner on 20 February 2020 as part of the 2020/21 Budget and council tax precept report. For completeness, the approved indicators are also attached to the Treasury Strategy at Appendix 4.

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 2020/21 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 4.11 of the Treasury Strategy 2020/21 to 2023/24.

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 Asset Services, 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 2020/21 to 2023/24

### 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:

Area of Responsibility	Commissioner/ Committee/ Officer	Frequency
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, -monthly monitoring meeting

1.3 The revised Treasury Management Code covers the following Prudential Indicators which were approved by the Commissioner on 20 February 2020:

- 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 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.

1.5 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 Asset Services. A more detailed interest rate forecast is shown in Appendix 3.

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

	March 2020	June 2020	Sept 2020	Dec 2020	March 2021	June 2021	March 2022	March 2023
<b>Bank Rate</b>	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%
<b>5 yr PWLB*</b>	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.90%	3.10%
<b>10 yr PWLB</b>	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	3.10%	3.30%
<b>25 yr PWLB</b>	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.70%	3.90%
<b>50 yr PWLB</b>	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.60%	3.80%

\* (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 above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a comprehensive trade deal within the short time to December 2020, as the prime minister has pledged.

### Economic Background

- 2.4 2019 was a weak year for UK economic growth as political and Brexit uncertainty depressed confidence. It was therefore little surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after that election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the March

Budget delivers with a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.

- 2.5 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

**Investment and Borrowing Rates**

- 2.6 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- 2.7 Borrowing interest rates were on a major falling trend during the first half of 2019/20. However, on 09 October 2019 Her Majesty’s Treasury (HMT) and the PWLB announced an increased the margin over gilts by 100bps, effectively adding 1% to all PWLB rates going forward. The policy of avoiding new borrowing by maximising internal borrowing has served PCC’s and local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates requires a rethink of local authority treasury management strategy and risk management. As Link Asset Services’ long-term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are close to or above 2.25%, there is little value in borrowing from the PWLB at present.
- 2.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 2.9 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 2020/21 to 2023/24 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 I 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 prudential indicators have been reviewed and updated and approved by the Commissioner on 20 February 2020. They can be found 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 2020/21 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 2020/21 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 Variable rate short term borrowing is expected to be cheaper than long term fixed borrowing and therefore may be considered throughout the financial year. Due to the expectation that interest rates will rise, the risk of the potential increase in interest rates will be balanced against any potential short term savings.

- 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 2020/21.
- 4.7 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 Asset Services trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.
- 4.8 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**

- 4.9 The Commissioner, in conjunction with Link Asset Services, 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.*
- 4.10 Against this background, caution will be adopted in the management of the 2020/21 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**

- 4.11 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**

- 4.12 As at 31 January 2020 the Commissioner has net debt of £60,207m; this means that borrowing is currently higher than investments with total borrowing of £94.969m and investments of £34.762.
- 4.13 Investment interest rates are expected to be below long term borrowing rates throughout 2020/21 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. In accordance with the revised Code, 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 Following the decision by the PWLB on 09 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:
- Local authorities (primarily shorter dated maturities).
  - Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates).

- Municipal Bonds Agency (Lancashire County Council is the local authority set to become the first borrower from the UK Municipal Bonds Agency (UKMBA) for £250m to £300m).

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

## 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 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates in October 2019 only applied to new borrowing rates and not to premature debt repayment rates.
- 5.5 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.
- 5.6 All rescheduling will be reported to Commissioner in the mid-year and annual reports.

## 6. Investment Strategy 2020/21 to 2023/24

### 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.

**Changes to the Credit Rating Methodology**

- 6.10 The rating element of our own credit assessment process focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor’s, this has been a change in the use of Fitch and Moody’s ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.
- 6.11 The Police and Crime Commissioner will continue to use UK banks irrespective of the UK sovereign rating and will continue to specify a minimum sovereign rating of AA+ for non-UK banks. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background, will still have an influence on the ratings of a financial institution.

## Creditworthiness Policy

- 6.12 The creditworthiness service provided by Link Asset Services is used to assess the creditworthiness of counterparties. The service provided by Link Asset Services 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:

High Rated	Fitch	Moody's	Standard & Poor's
Short term (ability to repay short term debt)	FI+	P-1	A-1+
Long term (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 2020/21 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 Asset Services 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 Asset Services 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.

#### **Nationalised/Part Nationalised Banks**

- 6.21 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 Asset Services creditworthiness list as detailed in 6.14.

#### **Foreign Banks**

- 6.22 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 Asset Services 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**

- 6.23 The Commissioner invests with other Local Authorities on an ad-hoc basis; each investment is considered on an individual basis and agreed by the CFO, prior to funds being placed. Limits are detailed at Appendix 6.

**Non-specified Investments**

6.24 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:

Non High Rated	Fitch	Moody's	Standard & Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

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

6.25 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 6.17 above and investment limits are detailed at Appendix 6.

6.26 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 Asset Services creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- 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.

6.27 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**

6.28 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.

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

### Investments defined as capital expenditure

- 6.30 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’**.
- 6.31 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

- 6.32 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.
- 6.33 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.
- 6.34 On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years. The Commissioner takes the view that base rate will remain at 0.75% until quarter 2 2021. Further increases to base rate are estimated at 0.25% in quarter 2 in 2022. Bank Rate forecasts for financial year ends (March) are:
- 2019/20 0.75%
  - 2020/21 0.75%
  - 2021/22 1.00%
  - 2022/23 1.25%
- 6.35 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**

- 6.36 The Commissioner will use an investment benchmark to assess the investment performance of its investment portfolio against the 7 day LIBID.

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

- 6.37 By the end of September each year the PCC will receive a report from Joint Audit Committee on its investment activity as part of its annual treasury report.

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

- 6.38 The Commissioner uses Link Asset Services, Treasury Solutions as its external treasury management advisers.
- 6.39 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.
- 6.40 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**

- 6.41 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

PWLB rates set out in the table below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

<b>Bank Rate</b>														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
<b>5yr PWLB Rate</b>														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.20%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	-	-	-	-	-
<b>10yr PWLB Rate</b>														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.34%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.34%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
<b>25yr PWLB Rate</b>														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.88%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	2.88%	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
<b>50yr PWLB Rate</b>														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.73%	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	2.73%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

As at 31/01/2020



## 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**

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Borrowing	175,000	170,000	165,000	165,000
Other Long Term Liabilities	0	0	0	0
<b>Total</b>	<b>175,000</b>	<b>170,000</b>	<b>165,000</b>	<b>165,000</b>

## Operational Boundary for External Debt

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Borrowing	155,000	150,000	145,000	145,000
Other Long Term Liabilities	0	0	0	0
<b>Total</b>	<b>155,000</b>	<b>150,000</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 2023/24. 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.

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

Following the changes in guidance issued by CIPFA the maturity structure of borrowing is required to 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	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £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>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Forecast Borrowing as at 31 March	86,969	89,031	101,519	105,282
Capital Financing Requirement as at 31 March	120,805	115,585	110,465	109,328
Amount of borrowing (over) / under CFR	33,836	26,554	8,946	4,046

Forecast borrowing is within the CFR estimates for 2020/21 to 2023/24.

## Affordability

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

<b>Affordability</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revenue Budget	302,527	304,500	308,400	311,100
Capital Expenditure	16,741	18,649	17,955	7,952
Capital Financing Requirement as at 31 March	120,805	115,585	110,465	109,328
Interest Cost	3,170	3,370	3,520	3,370
Minimum Revenue Provision	7,952	9,901	8,741	8,751
Revenue Financing Costs	11,122	13,271	12,261	12,121
Ratio of financing cost to revenue stream %	3.68%	4.36%	3.98%	3.90%

## **Minimum Revenue Provision (MRP) Statement 2020/21**

The MRP charge for 2020/21 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.

### Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expenditure	Circumstance of use	Maximum period
<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. <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 Varied minimum credit rating <i>See section 6</i>	No	In-house	365 days
<b>Money Market Funds (CNAV &amp; LVNAV (not VNAV))</b> These funds are instant access and therefore do not have a maturity date.	No	Yes	Secure  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)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
<b>Term deposits / Certificates of Deposit</b> with rated deposit takers (banks and building societies) which do not meet the Commissioner's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating <i>Minimum: Fitch Long term A- Short term F1</i>	No	In-house	75%	6 months (but set on an individual counterparty basis)
<b>Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year</b>	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	20%	3 years

## Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount	Max Period	Not to Exceed Limit or %
High Rated  (Specified Investments – High rated and up to 365 days see Appendix 5)	Minimum Fitch rating of F1+ short term and AA- long term.  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)  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.  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.	£7.5m	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 ( <i>not VNAV</i> ) AAA Money Market Fund rating with assets >£1bn	£7.5m per counter party	Overnight	£25m in total

## 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 Asset Services credit worthiness service.

Based on lowest available rating

### AAA

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

### AA+

- Finland
- U.S.A.

### AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

### AA-

- Belgium
- Qatar

THIS LIST IS AS AT 07.01.20

<b>JOINT INDEPENDENT AUDIT COMMITTEE</b>	<b>24 FEBRUARY 2020</b>
<b>ANNUAL GOVERNANCE REVIEW - ASSURANCE FRAMEWORK – 2019/20</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 2019/20.

**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 2019/20 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 and data quality
  - Business Planning
  - Partnership arrangements and governance
  - Resourcing – People
  - Information Systems
  - Information Management
  - 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:

**5.9.2 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.

**5.9.3 Performance management and data quality**

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.

#### **5.9.4 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.

#### **5.9.5 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.

#### **5.9.6 Information Systems & Information Management**

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

#### **5.9.7 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.

#### **5.9.8 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
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

**AGENDA ITEM 7**

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

<b>Joint Independent Audit Committee</b>	<b>24 February 2020</b>
<b>Summary of Recent External Inspection Reports</b>	
<b>Paul Godden, Head of Corporate Development Department</b>	

**1. PURPOSE**

- 1.1. To provide details of recent external inspection reports and an overview of the process in place to manage the Force's response to inspection 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 (JIAC):

Ofsted Monitoring Visit

[Both sides of the coin: An inspection of how the police and National Crime Agency consider vulnerable people who are both victims and offenders in 'county lines' drug offending](#)

[Evidence led domestic abuse prosecutions](#)

[Northumbria Police - Joint inspection of police custody](#)

- 2.2. Corporate Development Department acts as the central liaison point for all HMICFRS related matters.
- 2.3. All HMICFRS inspection reports and other external inspection reports are considered by the Executive Team. A lead is appointed to consider inspection 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 Joint Business Meeting to inform a statutory response to the reports within 56 days.
- 2.4. All activity is regularly reviewed by the respective owners and monitored within the Force's governance structure. Delivery is overseen at Executive Team level and reported to the Scrutiny Meeting of the Office of the Police and Crime Commissioner (OPCC).
- 2.5. 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. Appendix A provides an overview of the outstanding recommendations and AFIs assigned to Northumbria Police by HMICFRS on the monitoring portal and an indication of the number assessed as complete.
- 2.6. In response to the request at the last meeting to *include additional context of AFI progression in future reports*, context regarding the nature of recommendations and AFIs has been included in the appendix.
- 2.7. Scrutiny carried out by the PCC in the monthly meetings since the last JIAC meeting has covered a number of key areas of performance on an ongoing basis, with a focus at present on the HMICFRS 2018/19 PEEL inspection report. This focus sits within the wider remit of scrutiny around service areas considered by the PCC including:
- Stop and Search – specifically the work to embed the understanding of unconscious bias.

- Use of Force – internal scrutiny processes to understand and analyse data and external scrutiny from the Joint Independent Advisory Group.
  - Professional Standards – position against national recommendations and assurance that Force processes to monitor and prevent staff and officers abusing their position for sexual purpose are robust.
  - Fraud – position against national recommendations with the development of a fraud working group and a published policy for responding to reports of fraud.
- 2.8. No matters of exception have been raised by the OPCC at these meetings in response to previous inspections.
- 2.9. Since the last meeting of the JIAC, the number of open recommendations has reduced by one following re-assessment of the PEEL police effectiveness 2017 recommendation relating to the review of neighbourhood policing by HMICFRS as being superseded. Of the 46 open recommendations, 17 relate to an inspection of undercover policing published in 2014 and are on hold awaiting the outcome of a national inquiry.
- 2.10. HMICFRS independently assesses the recommendations and AFIs either through further inspection or by undertaking reality testing. 12 recommendations have been assessed as complete by HMICFRS since the last reported position. These relate to the remaining recommendations from the 2016 crime data integrity inspection (three); the policing response to modern day slavery and human trafficking (one); PEEL: effectiveness 2017 (one); and the initial response to hate crime (six) and one of the recommendations relating to fraud. The monitoring portal is awaiting update.
- 2.11. Recommendations and AFIs from the two recently published reports on the ‘Joint inspection of custody: Northumbria’ and the thematic inspection report on ‘Evidence led domestic abuse prosecutions’ are also awaiting update on the monitoring portal.
- 2.12. The following is an overview of the HMICFRS reports and Ofsted report published since the last meeting:

**Ofsted monitoring visit (8th January 2020)**

- 2.13. On 4th and 5th December 2019, the Force was subject of a monitoring visit by Ofsted to assess apprenticeship training provision. (Delivery of apprenticeships for employees commenced in May 2018. At the time of the visit, 13 apprentices were on customer service practitioner standards at level 2, and 17 on emergency service contact handling standards at level 3.)
- 2.14. The force was assessed over three themes:
- How much progress have leaders made in ensuring that the provider is meeting all the requirements of successful apprenticeship provision? (*insufficient progress*)
  - What progress have leaders and managers made in ensuring that apprentices benefit from high-quality training that leads to positive outcomes for apprentices? (*insufficient progress*)
  - How much progress have leaders and managers made in ensuring that effective safeguarding arrangements are in place? (*reasonable progress*)
- 2.15. The assessment highlighted that programmes incorporate sufficient off-the-job learning to meet apprenticeship requirements; that the curriculum supports apprentices to develop the knowledge, skills and behaviours that they need to carry out their specialist call-handling roles; that they contribute well to meet the organisation’s workforce development needs; they had a good understanding of safeguarding; and that a high level of welfare support for staff was evident.
- 2.16. However, it also identified a lack of planning of the programmes prior to implementation; insufficient ongoing support, feedback and guidance for apprentices; and insufficient staff resources.

- 2.17. Recent changes to aid improvement were acknowledged.  
**Both sides of the coin: An inspection of how the police and National Crime Agency consider vulnerable people who are both victims and offenders in 'county lines' drug offending (published 10th January 2020)**
- 2.18. The Government's Serious Violence Strategy included a commitment that HMICFRS would carry out a thematic inspection of police forces' ability to identify, respond to and disrupt county lines-related criminality and abuse. Northumbria Police was not inspected.
- 2.19. The report stated that police forces and the National Crime Agency have successfully improved their understanding of 'county lines' drug offending; however, highlighted that current policing models are too disjointed to allow for the most effective response.
- 2.20. The report outlines 10 recommendations designed to facilitate the creation of a national, co-ordinated response to county lines offences.
- 2.21. There are no force specific recommendations.

**Evidence led domestic abuse prosecutions (published 23<sup>rd</sup> January 2020)**

- 2.22. A joint thematic inspection was undertaken by HMCPSI and HMICFRS to ascertain whether the guidance and policy on evidence led prosecutions is widely understood by both police officers and prosecutors; and whether they seek to build viable evidence led prosecutions where appropriate. Four CPS areas and four police forces were visited. Northumbria was not one of the contributing forces.
- 2.23. The report confirms that the police and the CPS recognise domestic abuse as a priority area of work and continue to commit resources, training and support to ensure that it is treated as such. However, the inspection found that because there are no systems to flag relevant cases, neither the police nor the CPS can distinguish those cases where an evidence led approach may be more effective and there is no opportunity to learn lessons and share good practice.
- 2.24. Eight recommendations have been made regarding: sharing examples of good work; training; the role of domestic abuse champions; supervisory oversight; and the requirement for prosecutors to define an effective prosecution strategy and at review stage, a strategy for proceeding with an evidence led prosecution.

**Northumbria Police – Joint inspection of police custody (published 23<sup>rd</sup> January 2020)**

- 2.25. HM Inspectorate of Prisons and HMICFRS undertake a programme of inspection to review every police custody suite in England and Wales to assess the effectiveness of custody services and outcomes for detainees throughout the different stages of detention.
- 2.26. An unannounced inspection took place in Northumbria Police between 2nd and 13th September 2019 and examined the force's approach to custody provision in relation to safe detention and the respectful treatment of detainees, with a particular focus on vulnerable people and children.
- 2.27. Inspectors found that good progress had been made since the last inspection, especially in the health services provided to detainees. A clear governance structure provided effective oversight of the delivery of custody services. Areas requiring attention included: that the Force did not always follow the requirements of the Police and Criminal Evidence Act 1984 (PACE) codes of practice for the detention, treatment and questioning of persons; inconsistencies in the quality of recording; insufficient quality assurance processes; the requirement for toilets in cells to be obscured on CCTV; resilience suites not ready to be used; and the need for Authorised Professional Practice and internal guidance to be followed.

- 2.28. The inspection resulted in three causes of concern with three recommendations and nineteen areas for improvement. Two examples of good practice were also highlighted.
- 2.29. An action plan will be submitted to HMICFRS by 23rd April 2020; activity in response is already underway. A revisit will be undertaken approximately one year following the inspection.

**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 the recent external inspection reports. There are no matters of exception to report in response to the progress made against previous inspection findings.

**AGENDA ITEM 8**  
**APPENDIX A - Response to HMICFRS reports**

Monitoring Portal (as at 27/01/2020)	Open	Closed	Total
Recommendations	46	173	219
AFIs	19	0	19

Of the 46 open recommendations:

- 17 relate to an inspection of undercover policing in England & Wales and are awaiting the outcome of the independent Undercover Policing Inquiry.
- 3 relate to the Crime Data Integrity inspection 2016 and were assessed as complete by HMICFRS since the last meeting. The monitoring portal is awaiting update.

Report Title	Published	Reported to JIAC	Business Lead	Executive Lead	Reported to Joint Business Meeting	Number of recommendations/ Areas for Improvement (AFIs) (& number completed)		Context
PEEL: Police legitimacy 2017	12/12/2017	19/02/2018	Stop and Search Lead/ Head of People Services	DCC Ford	22/01/2018	Recommendations	1 (0)	National recommendation regarding the use of stop and search. HMICFRS acknowledged that the Force had complied with most of this recommendation; however, the 2018/19 PEEL inspection could not evidence sufficient understanding of unconscious bias and analysis of find rates for drug supply and possession. Unconscious bias has been raised as an AFI within the 2018/19 PEEL inspection below.
PEEL: Police effectiveness, efficiency and legitimacy 2018/19 - Northumbria Police	27/09/2019	18/11/2019	Multiple	DCC Ford	14/11/2019	Recommendations	4 (0)	Effectiveness - two recommendations regarding response to incidents. Legitimacy - two recommendations regarding understanding, analysis and scrutiny of use of force.
						AFIs	18 (0)	Effectiveness - six AFIs regarding: the process for commissioning and analysis of problem profiles; understanding and use of problem solving; consistency of engagement approach; understanding of the nature and scale of vulnerability; evaluation and sharing of effective practice; and review of the domestic abuse risk assessment grading policy. Efficiency - 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. Legitimacy - three AFIs regarding: training and understanding of unconscious bias; pro-active approach to counter corruption; and confidential reporting mechanisms.
Northumbria – National child protection inspection	28/06/2018	23/07/2018	Head of Safeguarding	ACC Bacon	02/05/2019	Recommendations	7(3)	Four remaining recommendations 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.
Fraud: Time to choose	02/04/2019	13/05/2019	Head of Crime	ACC Bacon	16/05/2019	Recommendations	2 (0)	One national recommendation regarding the publication of Force policy for responding to and investigating allegations of fraud assessed as complete by HMICFRS since the last meeting. The monitoring portal is awaiting update. One national recommendation regarding the reporting of fraud outcomes to the National Fraud Intelligence Bureau.
The poor relation: the police and Crown Prosecution Service's response to crimes against older people	17/07/2019	18/11/2019	Head of Safeguarding & Head of Prosecution & Victim Services	ACC Bacon	22/08/2019	Recommendations	4 (0)	National recommendations regarding adult safeguarding; victim support services; victim needs assessments; referrals; and the analysis of current and future demand.
Shining a light on betrayal: Abuse of position for a sexual purpose	27/09/2019	18/11/2019	Head of Professional Standards Department	DCC Ford	14/11/2019	Recommendations	3 (0)	National recommendations regarding: abuse of authority; counter corruption; and vetting.
Cyber: Keep the light on - An inspection of the police response to cyber-dependent crime	24/10/2019	18/11/2019	Head of Crime	ACC Bacon	12/12/2019	AFI	1 (0)	National AFI regarding an assessment of the use of cyber specials and volunteers.
<b>Recommendations assessed as complete by HMICFRS - monitoring portal awaiting update</b>								
Stolen freedom: the policing response to modern slavery and human trafficking	24/10/2017	04/12/2017	Head of Safeguarding	ACC Bacon	30/11/2017	Recommendations	7 (6)	Final recommendation assessed as complete by HMICFRS since the last meeting.
PEEL: Effectiveness 2017	22/03/2018	14/05/2018	Multiple	DCC Ford	19/04/2018	Recommendations	4 (3)	Final recommendation assessed as complete by HMICFRS since the last meeting.
Understanding the difference: the initial police response to hate crime	19/07/2018	19/11/2018	Superintendent Central AC	DCC Ford	JBM 10/01/2019 New action plan presented to Scrutiny in April 2019	Recommendations	6 (0)	All recommendations assessed as complete by HMICFRS since the last meeting.



**Short Report for Information**

<b>Joint Independent Audit Committee</b>	<b>24 February 2020</b>
<b>Joint Strategic Risk Register</b>	
<b>Report of Deputy Chief Constable Debbie Ford</b>	
<b>Author: Tanya Reade, Corporate Governance Manager, Corporate Development Department</b>	

**1. PURPOSE**

- 1.1 To present the current Joint Strategic Risk Register.

**2. BACKGROUND**

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

**Governance of Risk Register**

- 2.2 The risk register (Appendix A) identifies each risk and 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 additional controls identified or changed, 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 PCC from achieving objectives. Recommendations and areas for improvement following external inspections are considered to ensure they are adequately reflected in current risks. These risks are escalated to the PCC and Executive Team via the relevant Boards in line with the governance and decision making structures, and recorded on the Joint Strategic Risk Register.
- 2.4 The register 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 A joint strategic risk management event takes place on an annual basis, attended by the Executive Team and OPCC Chief of Staff. The updated joint strategic risk register is scheduled to be submitted to the Joint Independent Audit Committee (JIAC) on 20 July 2020.
- 2.6 The key changes/ updates to the risk register since the last JIAC are outlined below. Appendix B provides an overview of the RAG status of the risks.
- 2.7 Five risks remain assessed as high risk relating to: organisational learning; operational and financial risks associated with delivery of the Emergency Services Network (ESN); the increase in the cost of Employers' Pension Contributions; and limitations of current ICT systems.

**Short Report for Information**

- 2.8 The organisational learning framework, aligned to the governance and decision-making structure, has been reviewed and a new procedure implemented to manage learning at a local and force wide level. The rating of Risk 2 will be reviewed once new processes are embedded.
- 2.9 Following the Police Funding settlement announcement on 22 January 2020, the financial risks relating to 'Significant increase in the cost of Employers' Pension Contributions' (Risk 19) and 'Further cuts to police funding' (Risk 17) will be re-assessed and updates presented to the next Joint Business Meeting.

**Existing Risks**

Operational

**Risk 3 – Failure to provide an effective police response to a critical incident and / or deliver continuity of service.**

- 2.11 The summary of controls has been updated to reflect the annual review and testing of plans with multi-agency partners. There is ongoing support with the Local Resilience Forum, chaired by ACC Local Policing, Operations and Custody, with representation at all levels.
- 2.12 In addition, the Force Coordination Centre Project has commenced with proposed improvements to the process and governance structures to be implemented by April 2020. A review of the Force mobilisation plan has commenced, following implementation of the new Force Operating Model.

Likelihood low (2) and impact medium (3) remain unchanged.

Workforce

**Risk 8 – Insufficient resources, in terms of capacity and capability, to meet current or future policing demands.**

- 2.13 The potential consequences have been updated, highlighting the limited experience of detectives within the Secondary Investigation Unit and insufficient PIP (Professionalising the Investigative Process) level 2 capability Force wide, which are already being addressed within existing controls.

Likelihood low (2) and impact high (4) remain unchanged.

Collaboration and Partnership

**Risk 27 – Failure of significant contracts and/ or collaborative agreements.**

- 2.14 Annual External Joint Working Arrangements have been included in the summary of controls. The Force is annually assessed by Gateshead Council Audit Team to review and dip sample partnership arrangements and processes in order to provide the force with a rating and recommendations for best practice. Recommendations are directed to the Force Directors and the Office of the Police and Crime Commissioner (OPCC).

Likelihood very low (1) and impact medium (3) remain unchanged.

- 2.15 One risk has been removed from the register.

**Short Report for Information**Operational

**Significant delays in the provision of forensic analysis following temporary suspension of all law enforcement submissions to Eurofins following a cyber attack.**

- 2.16 National Gold and Force Silver groups have been disbanded and forensic analysis is now monitored as business as usual by the Force Scientific Support Officer. The provision of forensic analysis has returned to demand levels prior to the Eurofins cyber-attack.
- 2.17 No new strategic risks have been identified.

**3. CONSIDERATIONS**

<b>Government Security Classification</b>	Official
<b>Report Exemption</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



No.	Theme	Governance and Oversight	Strategic Risk	Rationale	Potential Consequence	Summary of Controls	RAG	Likelihood (1-5) Impact (1-5)	Owner Executive Team	Owner OPCC
1	Strategy	Scrutiny	Failure to deliver against objectives set out in the Police and Crime Plan.	Ongoing Risk	Loss of public confidence. Reduction in satisfaction levels. A decline in quality and service delivery, leading to a reduction in satisfaction levels. Adverse external inspection reports, leading to recommendations and wider escalation.	Robust Force Performance Management Framework. Oversight and management of performance using Force Governance and Decision-making Structure (Strategic Performance Board, and other boards such as Confidence and Standards Board). OPCC Scrutiny Meeting. Police and Crime Panel.	8	Likelihood 2 Impact 4	Chief Constable	Police and Crime Commissioner
2	Strategy	Confidence and Standards Board	Failure to effectively identify and respond to organisational learning.	Limitations to IT systems impacts on the ability to effectively share organisational learning April 2019	Loss of public confidence. Successes not being identified and shared to embed sustainable good practice. Potential negative impact to continuous improvement. Possible reduction in problem solving opportunities if learning is not identified in a timely manner.	Organisational learning is a mandatory agenda item at all Boards with a responsibility to identify lessons learned and good practice, and to record on the organisational learning log and action local learning solutions. Quarterly update on identified organisational learning, actions and outcomes reported to Confidence and Standards Board. Organisational Learning Framework in place which manages local and force responsibility, reviews the organisational learning log, and considers and actions formal organisational learning. Development of a digital platform (Knowledge Hub) to share organisational learning.	12	Likelihood 3 Impact 4	Deputy Chief Constable	Police and Crime Commissioner
3	Operational	Local Policing Board	Failure to provide an effective police response to a critical incident and / or deliver continuity of service.	Societal Risks Diseases Natural Hazards Major Accidents Malicious Attacks Ongoing Risk	Reduced staffing and service provision across some or all business areas. Inability to deliver services as a result of reduced staffing and service provision across some or all business areas. Accurate resources data and the ability to project resourcing to meet future demand. Inability to contact and recall staff to duty. Ability to meet mobilisation commitment post the new operating model.	Health & Well-Being Programme. Fleet services and fuel reserves are maintained. Business Continuity Plans and testing are in place including a bespoke plan for Brexit. Continuous process to test and exercise plans with multi agency partners, ensuring relevance of content for developing threat and to retain capacity and capability of relevant staff. This is a cyclical process of review and testing completed annually. Understanding, embedding and testing across the tri-service partners to meet the requirements of the national guidance in relation to Marauding Terrorist attack (Operation Plato and Joint Operating Principles (JOPSS)). Policies and processes agreed for multi-agency response to major incidents have been tested and function. Ongoing support with Local Resilience Forum, Chaired by ACC Local Policing, Operations and Custody, with representation at all levels. (LRF). Force Co-ordination Centre (FCC) based at Ponteland to manage the resourcing data on a daily basis, data projections and having resourcing functionality available. FCC project to improve process and governance structures. Monthly Counter Terrorism Preparedness meetings. Ability to implement a Casualty Advice Bureau for victims, using trained officers, in the event of a local or foreign force incident. Disaster Victim Identification (DVI) process in place using trained officers. Trained family liaison officers in place across the force who work with partners i.e. Homicide Service, Victims First Northumbria to provide welfare support and advice to affected persons. signposting victims to relevant support agencies as required. Review of the Force mobilisation plan following implementation of the new Force Operating Model (FOM).	6	Likelihood 2 Impact 3	ACC Local Policing, Operations and Custody	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
4	Operational	Investigations Board	An ineffective Criminal Justice System within the region.	Significant impact on the delivery of the Police and Crime Plan and public confidence. Ongoing Risk	Uncoordinated criminal justice activity. Inability to work effectively in partnership with other criminal justice agencies to provide services to victims and witnesses. Cases not being progressed or offenders prosecuted in time limits.	Alignment with the national and local protocol for LCJB. Terms of reference and appropriate membership of the LCJB. Bi-monthly LCJB meetings. LCJB Business Plan. Effective sub group and reporting process. Effective performance management framework. Contingency plan within the custody framework to accommodate remand prisoners from court in the event of disruption within the prison service. Victims First Northumbria support the victim journey and witnesses throughout the criminal justice system. Third party sector support for victims and witnesses. Contingency plans with Crown Prosecution Service, HM Courts and Tribunals Service and Probation regarding breakup of services and in line with Brexit plans. Brexit contingency plans are in place with key stakeholders and form part of a national structure.	6	Likelihood 2 Impact 3	ACC Crime, NERSOU, Criminal Justice and Safeguarding	Police and Crime Commissioner

5	Operational (also reflected in Financial risk 20)	Strategic Performance Board	Failure to deliver the Emergency Services Network (ESN) required functionality and coverage.	The national programme have reviewed and made changes to the delivery of the Emergency Services Network.  April 2019	The force may no longer be aligned with the Three Emergency Services National Programme and not be in a position to transition to ESN service when required.  ESN solution fails to supply adequate coverage or capacity to support operational policing in Northumbria Police.  The force may be asked to transition to the ESN service prior to full ESN coverage being delivered.	Operational Communications in Policing (OCiP) have set up a Gold, Silver and Bronze structure to manage the ESN programme. Northumbria Police are represented at Gold level by a regional Senior Responsible Officer (SRO) and force SROs are in place. Northumbria Police are represented at Silver level by the Regional ESN Project Manager and subject matter experts represent the force at bronze level meetings.  Oversight of the ESN programme is carried out by the National Chief Constables' Reference Group. Final approval to transition to ESN sits with the Executive Team.  A National Risk Register is maintained by OCiP to monitor the risks associated with the delivery of ESN.  Coverage testing and assurance will be undertaken to identify the actual coverage delivered to Northumbria Police & bordering force areas, as soon as devices and coverage are available.  Challenge the ESN programme where coverage has not been delivered as per the contract.  To reduce the impact to operational policing, the force is currently investigating alternative solutions such as vehicle gateways to provide additional coverage.  The force has identified a number of critical locations where coverage is required before the force would transition to the ESN service. There is also an agreed national acceptance criteria which must be met before forces will transition to the ESN service.  The current understanding from initial predictions is there are no critical areas of no vehicle coverage within the force. As testing takes place, Chief Officers will be kept informed and the Programme will also be pushed to resolve areas of no coverage to reduce the risk impact to the force. Further hand held and in building coverage will also be tested.	16	Likelihood 4 Impact 4	T/ ACC Communications and Information Management	Police and Crime Commissioner and Chief of Staff
6	Operational	Executive Board / Joint Business Meeting	Financial and operational risks affecting policing as a result of exit from the European Union	Continued financial and operational uncertainty as a result of exit from the European Union.  April 2019	Loss of the key European law enforcement statutory instruments. Movement / volatility in interest rates causing an increase in borrowing costs or a reduction in investment income. Credit: uncertainty to UK banks – fewer counterparties to invest with, if ratings fall below the limits approved in the Commissioners TM Policy and Strategy Statement. CSR impact if grant funding reduced if UK economy underperforms. Performance / yield impacted by lower bond rates, increasing pension fund deficit and required contribution rates. Inflation: weaker Pound, higher import costs, tariff / export charges. Demand pressures as a result of impact on external stakeholders / partner agencies – loss of direct EU funding, reduction in government funding or business rates income, supply chain issues, workforce or contract issues. Supply chain: change to procurement law restricting the supply market, delays within the supply chain (e.g. uniform).	International Crime Co-ordination Centre (ICCC) in place to manages risks associated with the loss of EU policing tools, supported by a national media campaign. Force, regional and national communication and meeting structure to discuss the loss of EU tools, wider implications of Brexit, share best practice and learning and offer peer support. Additional resources appointed to support the Northern forces and identified to provide advice to frontline and senior officers on international policing topics and policy change. A review of all records held on Europol systems (Schengen) with a view to conversion to alternative systems. Review significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment. An IPCC 24/7 helpline will be available post Brexit to offer support to forces. Superintendent Operations is deputy for force LRF to maintain effective operational and communication link with partners, key stakeholders and / or contractors to understand how Brexit affects their risks and any shared risks. Assess the impact of the risk assessment on the assumptions used to generate the Medium Term Financial Strategy. Treasury Management Policy and Strategy Statement reviewed and updated for 2019/20. Reporting to the Joint Independent Audit Committee and OPCC Business Meeting. Strategic and operational plans are updated as decisions are made. An impact assessment has been carried out on all key contracts and work is ongoing with suppliers to mitigate risks. Fair, transparent and competitive procurement processes to continue to deliver value for money. Procurement will continue to assess the supply market and advise appropriate stakeholders if risk increases. Supplier lead times are built into stock holding strategies. Procurement will work with Suppliers and include alternative supply contingency plans into contract agreements to cover extended deliveries.	9	Likelihood 3 Impact 3	ACC Local Policing, Operations and Custody	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
7	Operational	Investigations Board	Failure to achieve DFU Service Level Agreements	Risks associated with devices awaiting examination  April 2019	Risk to the force's effectiveness to safeguard vulnerable victims and conduct investigations.  Failure to bring offenders to justice in a timely manner will increase risk to vulnerable victims  Negative impact on investigations, victim care and safeguarding.  Negative impact on criminal justice system and outcomes.  Risks associated with devices currently awaiting examination are not assessed or understood.  Lack of reputation and credibility.  Public confidence.  Negative impact on the workforce welfare due to demand outweighing capacity.	Implementation of monthly Gold Group meetings (chaired by T/ACC Protective Services) in addition to Silver Group meetings and monthly governance and oversight.  DFU investment opportunities.  Outsourcing of mobile phone examinations to reduce work loads.  Fixed Term resources in place to deal with short term demands.  Increase in DFU resources to meet demands of ISO and maintain accreditation. Effective resource management to ensure DFU resources are not abstracted to meet ISO or other additional demands.  Magnet Automate software is being utilised on live cases after a period of testing and configuration; evaluation to take place once sufficient data.  POLIT triage service established to reduce demand submitted to the laboratory.  Robust review of all backlog cases to ensure only appropriate submissions exist with appropriate strategies to reduce unnecessary demand on the laboratory.  Improvements being made in relation to the use of Digital Forensic strategies to increase officer awareness and reduce demand, utilising new Digital Media Advisors (DMA's) across the force.  Challenge made to a UKAS finding in relation to the DFU backlog and this has resulted in a decision that it will not have an adverse impact upon our accreditation.  Increasing the use of Digital Evidence Suites enabling kiosk examination of mobile phones to decrease low level demand.  Implementation of an "Assessment centre" to reduce demand on investigators within the DFU and to ensure compliance with digital forensic strategies. Also	8	Likelihood 2 Impact 4	ACC Crime, NERSOU, Criminal Justice and Safeguarding	N/A

8	Workforce	Strategic Resourcing Board	Insufficient resources, in terms of capacity and capability, to meet current or future policing demands.	Ongoing Risk	<p>Reduction in service quality/ delivery leading to reduced public trust and confidence.</p> <p>Increased pressure on staff and reduced wellbeing.</p> <p>Limited experience of Detectives within the Secondary Investigation Unit (SIU).</p> <p>Insufficient PIP (Professionalising the Investigative Process) level 2 capability Forcewide.</p>	<p>A comprehensive recruitment plan is in place to meet forecasted resourcing and talent requirements whilst ensuring affordability against the Medium Term Financial Strategy (MTFS)</p> <p>Alternative routes into policing are utilised to enrich the workforce mix and maximise benefit of national schemes (e.g. apprenticeships, Police Now, use of volunteers / students)</p> <p>Regular review of Training Profiles, monitoring and ensuring compliance with training programmes (SRB).</p> <p>Prioritised Force Training Plan produced in consultation FRU and agreed via Area Commanders and Confidence and Standards</p> <p>Development and implementation of Police Staff Investigators role with key areas of the force e.g. Crime, PSD and Safeguarding</p> <p>Workforce wellbeing programme / Health and Safety Management System in place to maximise use of available resource, and reduce loss through accident, injury and ill-health.</p>	8	Likelihood 2 Impact 4	Director of People and Development	Police and Crime Commissioner
9	Public Confidence	Confidence and Standards Board	Litigation, legal action and/or prosecution of the Force and/or individuals by former officers or staff members.	Ongoing Risk	<p>Litigation, legal action and/ or prosecution of the Force and / or individual staff.</p> <p>Reputational consequences, in addition to associated costs of dealing with litigation.</p> <p>Negative impact on the workforce.</p>	<p>Health and Safety Management system utilising 'Plan, Do, Check, Act' model to ensure compliance with legislation.</p> <p>Access to competent Health and Safety advice.</p> <p>Health and Safety training profile applied and in place to support supervision in effectively managing risk.</p> <p>Health and Safety investigations and the review of critical incidents ensures lessons learned are identified and embedded (Confidence and Standards Board).</p> <p>8 point plan in place for investigative approach (assaults against staff) agreed by Chief Constable and Northumbria Police Federation.</p> <p>A clear reporting mechanism is now in place for use of powers (use of force, stop and search).</p> <p>Risk management approach in place whereby review of all civil claims received (DCC and PCC).</p> <p>Adverse trends and lessons learned reported (Confidence and Standards Board).</p> <p>Effective internal and external engagement.</p>	8	Likelihood 2 Impact 4	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
10	Public Confidence	Confidence and Standards Board	Death in custody/death or serious injury following police contact.	Ongoing Risk	<p>Litigation, legal action and/or prosecution against the Force and/or individual officers.</p> <p>Negative impact on the workforce.</p> <p>Reputational impact on confidence in Northumbria Police.</p>	<p>Family liaison support provided by Custody or from within the force.</p> <p>Trauma Risk Management (TRIM) / Post Incident Manager (PIM) processes in place to support officers and staff.</p> <p>Effective internal and external engagement.</p> <p>Adoption of the 'Expectations of Police Custody' into all on-going Continuous Professional Development (CPD) training and within the Custody Action Plan.</p> <p>Inspector attachments to Professional Standards Department (PSD) on a rolling basis.</p> <p>Role specific training.</p> <p>Investigations Operational Board provides oversight for Custody related matters.</p> <p>Ongoing implementation of HMICFRS Custody Inspection recommendations.</p> <p>Analytical support to inform key trends/themes.</p> <p>Incident Review Process ensures lessons learned are identified and embedded.</p> <p>Lessons learned are shared via Custody Matters along with the dissemination of updates by functional leads and awareness development sessions.</p> <p>Health and Safety Management system.</p> <p>Electronic Custody records are in place.</p> <p>Continual Risk Assessments whilst in custody</p> <p>Pre-release risk assessment design with Newcastle University.</p> <p>Safety checks.</p> <p>Healthcare provision provided by an external organisation.</p> <p>Custody audit process.</p> <p>Digital wipe boards utilised in custody suites.</p>	8	Likelihood 2 Impact 4	Deputy Chief Constable	Police and Crime Commissioner

11	Public Confidence	Confidence and Standards Board	Other adverse or critical incident, as a result of police action or omission.	Ongoing Risk	Litigation, legal action and/or prosecution against the Force and/or individual officers. Negative impact on the workforce.	Health and Safety Management system. Risk Assessments. National Decision Making model. Role specific training. Clear awareness and understanding of IOPC referral criteria. Critical Incident debrief process ensures lessons learned are identified and embedded through Boards. Risk management approach in place whereby review of all civil claims received (DCC and PCC). Adverse trends and lessons learned reported (Confidence and Standards Board). Investment in technology (increased access to and use of BWV). Supporting measures to proactively manage negative impact on staff. OHU & TRIM referral processes, instigation of PIM process, workforce liaison officers, staff association and Federation support network.	9	Likelihood 3 Impact 3	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
12	Public Confidence	Confidence and Standards Board	Corrupt behaviour by an officer or police staff member.	Ongoing Risk	Abuse of authority for financial or sexual purpose, fraud or theft.	Counter Corruption Strategic Assessment, Control Strategy, Intelligence Requirement and Intelligence Collection Plan. Abuse of Authority problem profile. Dedicated Counter Corruption Unit with capacity and capability to deliver full range of covert tactics. Resourced analytical hub to support delivery. Force Audit Tool (ATA). Range of internal communication methods including Corruption awareness inputs, ethical dilemma videos, PSD drop ins, Understanding the Boundaries campaign, Functional Lead meetings and dissemination of organisational learning. Vetting procedures at point of entry and in accordance with National Code of Practice. Integrity Health Check in place as part of the Professional Development System (PDS) process. Effective external engagement including creation of a virtual PSD Partnership Joint Engagement Group, redesign of the Northumbria internet site, increased awareness and understanding regarding how to make a complaint. Effective disciplinary process. Development of an internal and external confidential reporting line.	6	Likelihood 2 Impact 3	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
13	Public Confidence	Confidence and Standards Board	Ineffective response to complaints or service recovery.	Ongoing Risk	Reduced level of public confidence Inability to learn from lessons and improve service delivery	Complaints and service recovery monitored at the Confidence and Standards Board. OPCC Scrutiny Meeting. Monthly analysis of complaints, addressing any emerging issues with Area Commands/ Departments. Complaints Triage, based at the OPCC, ensuring all complaints are administered, monitored and managed by the appropriate staff and in a timely manner. Sub group of Confidence and Standards to successfully manage the new legislation. First point of contact and early intervention dealt with at the Customer Service Centre / Triage Team. Review of organisational learning / lessons learned in line with new legislation.	4	Likelihood 1 Impact 4	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
14	Regulation and Standards	Confidence and Standards Board	Failure to achieve and maintain ISO/IEC 17025 accreditation in line with the Forensic Science Regulator Codes of Practice and Conduct.	Requirement to achieve ISO/IEM accreditation April 2019	Reputational impact on confidence and credibility in Northumbria Police. Potential service suspension. Potential to impact on victims. Inability to meet the requirements of vulnerable victims in terms of timeliness and quality.	Quality Management System to identify and mitigate risk to prevent suspension of the accreditation. ISO oversight Governance Meeting chaired by Head of Crime. Resource requirements for Quality Management have been reviewed. Achieved accreditation in digital forensics for a proportion of the work undertaken which will be built on to maintain and improve the scope to include the majority of work undertaken.	9	Likelihood 3 Impact 3	ACC Crime, NERSOU, Criminal Justice and Safeguarding	N/A

15	Regulation and Standards	Confidence and Standards Board	Force/ OPCC or an associated individual acts in a discriminatory way.	Ongoing Risk	Litigation, legal action against the Force/ OPCC. Inequality of service delivery across discriminated groups. Loss of trust and confidence.	Agreement and delivery of Joint Equality Objectives (OPCC and Force). Governance Structure - Gold and Silver Groups. Monitoring and analysis of protected characteristic data (employee lifecycle). Equality Impact Assessments (EIA) in place. OPCC Advisory Group Meetings. Forcewide Training in diversity and inclusion. External organisational staff surveys (Stonewall Workplace Equality Index). Staff Survey. IOPC Discrimination Guidance in place, and has been rolled out to PSD staff, area command officers / staff and external partners (to assist in the effective handling of allegations of discrimination (based on race, sexual orientation, religious belief, age, or disability)). Equality Action Plan.	6	Likelihood 2 Impact 3	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
16	Regulation and Standards	Operational Information Management Board	Ineffective management of information and poor data quality affecting business and operational decision-making.	Ongoing risk	Limited operational and poor business intelligence data to inform decision-making. Inaccurate data returns to the Home Office and other bodies, such as HMICFRS. Reduction in force performance and delivery. Findings made by the ICO are publicised, the Force would be subject to reputational damage and financial penalties if members of the community believed that they were not handling personal and sensitive personal data in accordance with the Regulations.	Operational Information Management Board. Delivery of ICT Strategy. Crime validation and audit processes, as part of the Crime Data Integrity Audit Plan. Migration strategy as part of the Operational Platform Implementation Programme (OPIP) will greatly enhance data, quality, accuracy of data and compliance with GDPR. Force Data Protection Officer (DPO) in place. Data held across the organisation has been identified and information asset registers produced. Existing procedures in respect of Data Breaches ensure required actions set out in the Regulations are met.	8	Likelihood 2 Impact 4	T/ ACC Communications and Information Management	Chief of Staff and Monitoring Officer
17	Financial	Joint Business Meeting	Further cuts to police funding.	Ongoing Risk	Reduction in available finances impacting on the ability to provide frontline services. Impact on service provision, with less flexibility to innovate. Public confidence. Reductions in National Funding or changes in the Funding Formula will reduce the resources available to the PCC for Policing.	Annual MTFS process to review and revise spending plans to match available resources. Flexibilities to increase precept are considered annually based on spending plans and demand. Reserves will be optimised to assist with the phasing of the delivery of savings, but not fall below as a minimum 3% of Net Revenue Expenditure. Actively participate in national discussions on Police Funding through PACCTS and NPCC. Wherever possible, lobby the Home Office and politicians on funding for Northumbria, including multi-year settlements to enable effective budget planning. Effective internal and external engagement and communication plan.	10	Likelihood 2 Impact 5	Director of Finance and IT	Chief of Staff and Monitoring Officer and Chief Finance Officer
18	Financial	Strategic Resourcing Board	Failure to manage annual budget.	Ongoing Risk	Impact on service provision, with less flexibility to innovate and provide front-line services.	Effective financial strategies, including: MTFS, Capital Strategy, Treasury Management, Value for Money profiles and Police Objective Analysis. Regular financial monitoring through Executive Board, OPCC Business Meeting and Joint Business Meeting. Internal Audit and OPCC scrutiny, plus part of External Audit annual Value for Money assessment.	4	Likelihood 1 Impact 4	Director of Finance and IT	Chief of Staff and Monitoring Officer and Chief Finance Officer
19	Financial	Joint Business Meeting	Significant increase in the cost of Employers' Pension Contributions.	Uncertainty re financial implications post 2020/ 21 and next CSR period. Uncertainty on the level of support/ action to be taken by Treasury HO and HMT post 2020/ 21. Ongoing	Requirement to deliver a significant level of further budget savings if a permanent funding solution is not included within the next CSR and post 2020/ 21 funding settlements. Impact on Reserves resulting in reduced financial resilience. Impact on ability to deliver workforce plans, frontline services and Force Operating Model. Impact on service provision, with less flexibility to innovate. Public confidence.	National level focus and engagement with Home Office and HMT on behalf of policing by APCC and NPCC. Annual MTFS process to review and revise spending plans to match available resources. MTFS will include a 'Pensions Reserve' equal to the pension special grant received for 2020/ 21. Thereby providing a minimum of two years of investment certainty until confirmed announcements from the Home Office for future years allowing time to implement any resulting plans following on from the CSR announcement. Reserves will be optimised to help with the phasing of the delivery of savings. Effective internal and external engagement and communication plan.	20	Likelihood 4 Impact 5	Director of Finance and IT	Chief of Staff and Monitoring Officer and Chief Finance Officer

20	Financial (also reflected in Operational risk 5)	Executive Board	Failure to deliver the National Emergency Services Network (ESN) to Northumbria Police on time and to budget.	Further delays anticipated with delivery of national Emergency Services Network resulting in the national Airwave contract being extended to December 2022. December 2016	<p>Late delivery of ESN critical voice system to support operational policing.</p> <p>Current Airwave service is kept running longer and may require more management &amp; support.</p> <p>Current force overt and covert equipment, nearing end of life, may need to be replaced.</p> <p>Increase in forecast revenue budget as predicted savings will not be made when expected.</p> <p>Future funding details still to be provided by the Home Office as some payment and funding decisions are still to be finalised.</p>	<p>Any further extension to the national Airwave contract will be continually assessed by the Home Office and Operational Communications in Policing (OCiP) and communicated directly to the force.</p> <p>The force will retain teams to manage and support the Airwave service until transition to ESN.</p> <p>A contingency plan for the support of Airwave vehicle terminals is in place. The necessary budgetary provision to replace covert equipment and replace handheld equipment before the introduction of ESN service is closely monitored.</p> <p>A national framework for the purchase of Airwave devices and accessories has now been put in place by the Police ICT Company and can be used by the force.</p> <p>Close liaison with Home Office to receive early indication of further programme slippage.</p> <p>Ongoing discussions with the Home Office regarding allocation of funding for future years.</p> <p>Best estimates based on current plans have been included within the force MTFS. In addition, an ESN contingency reserve is being created as part of 2018/19 year-end accounts to provide mitigation against potential increases in cost and programme slippage.</p>	15	Likelihood 5 Impact 3	T/ ACC Communications and Information Management	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
21	Infrastructure and Assets	Strategic Resourcing Board	Disruption to estates and facilities to deliver effective policing services.	Ongoing Risk	<p>Reduced services across some or all business areas.</p> <p>Injury to building users.</p> <p>Litigation and civil claims.</p> <p>Negative impact on the workforce.</p> <p>Closure of buildings leading to major disruption and business continuity issues.</p>	<p>Digital Strategy has been agreed, plans developed and funding put in place for future years to deliver the agreed levels of service across the Force. The Force Improvement Team are considering the future device requirements to support the Force Operating Model</p> <p>Enabler Functions are working closely together to minimise the impact of the business of proposed Estate and Infrastructure changes/refreshes.</p> <ul style="list-style-type: none"> <li>- 'Business Continuity Plans and Estates Strategies.</li> <li>- 'Uninterrupted Power Supply' is fitted at key sites to protect ICT equipment from damage.</li> <li>- All operational orders and business continuity plans are assessed and allocated a RAG status. This is an on-going process to ensure all plans are up-to-date.</li> <li>- Policies and procedures in place.</li> <li>- Fire risk assessments are in place for all properties occupied by OPCC.</li> <li>- OPCC commissioned an in-depth independent survey of fire risk. The risk rating for all properties has been assessed as either 'trivial' or 'tolerable'.</li> <li>- Implementation of Action Plan recommendations will ensure the Chief Constable continues to meet obligations in respect of the Regulatory Reform Fire Safety Order 2005.</li> <li>- Regular maintenance of fire alarms and emergency lighting is undertaken in accordance with BS5839 and BS5266.</li> <li>- Regular evacuation tests and policing of 'housekeeping issues'.</li> <li>- Periodic inspection and test in accordance with Electricity at Work Act 1980 and BS7671 with remediation of priority 1, 2 and 3 defects.</li> <li>- Water Hygiene risk assessment in accordance with ACOP L8 with resultant hygiene maintenance.</li> <li>- Asbestos management survey undertaken which is updated annually by re-inspection. A risk assessed asbestos management plan is updated annually and any remedial works required to reduce risks are undertaken.</li> <li>- Regular maintenance of gas equipment in accordance with manufacturers instructions.</li> <li>- Health and Safety management.</li> </ul>	6	Likelihood 2 Impact 3	ACC Local Policing, Operations and Custody/ Director of Finance and IT	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
22	Infrastructure and Assets	Operational Information Management Board	The loss or inappropriate disclosure of sensitive data or information.	Series of recent incidents of inappropriate disclosure or loss of sensitive information or data. Ongoing Risk	<p>Breach of the Data Protection Act 2018.</p> <p>Breach of GDPR.</p> <p>Litigation, legal action against the Force/OPCC leading to prosecution and monetary penalty.</p> <p>Places individuals at risk, making them more vulnerable.</p> <p>Corruption or loss of Force systems.</p> <p>Public confidence.</p> <p>Failure to identify risk of vulnerability, officer, public safety.</p>	<p>Compliance with National Policing Code of Connection.</p> <p>Implementation of the Information Security Review recommendations.</p> <p>Post incident Senior Information Risk Officer (SIRO) review and response.</p> <p>Internal Audit programme.</p> <p>Staff training including internal training programme for all supervisors.</p> <p>Creation of new Information Management Unit and Information Management action plan and strategy</p> <p>Operational Information Management Board</p> <p>Maintenance of an effective ICT Audit capability.</p> <p>A specific Information Security Risk Register is reviewed and maintained at monthly SIRO meetings and considered quarterly at Information Management Board.</p> <p>Effective internal and external engagement.</p>	8	Likelihood 2 Impact 4	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer

23	Information Technology	Strategic Resourcing Board	Limitations of current ICT systems and the impact on service delivery.	Current ICT system is unable to provide all of the functionality required April 2019	Ineffective IT system to support the entire business process. Inefficiency, relying on a poor process/tool. Impact on police effectiveness and delivery of the Police and Crime Plan.	<p>Rigorous project level risk management process to identify and mitigate project risks.</p> <p>Effective internal and external engagement and communication plan.</p> <p>ICT system issues are considered through Boards and prioritised accordingly.</p> <p>Financial implications of changes are considered at the monthly ICT/Finance review meetings and as part of the MTFs process.</p> <p>ICT attendance at User Groups to understand the future roadmap of systems.</p> <p>Effective supplier management process to ensure suppliers are aware of issues impacting on the use of the system and the opportunities and costs to change the system.</p> <p>Opportunity to consider if current systems can be enhanced or changed prior to renewal time.</p> <p>Opportunity to review business processes to match the "out of box" system functionality.</p> <p>ICT ensure the latest versions of systems, with the additional security and functional changes are available to users.</p> <p>Plans are in place to implement new Operational Platform Implementation Programme (OPIP) systems, HR solution and a review of the duties management system.</p>	16	Likelihood 4 Impact 4	Director of Finance and IT	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
24	Information Technology	Strategic Resourcing Board	Loss of Critical ICT Services	Significant impact on the ability to effectively deliver service and record and access information required to make effective operational decisions. March 2018	Inability to deliver specific services and operational priorities. Impact on police effectiveness. Loss of telephony or Airwave services will impact on the ability to communicate with the public and/or officers. Potential risk of harm to the public and staff. System availability may become more critical at different times - 999 service 24/7/365 and custody system critical at peak times.	<p>Major Disaster Recovery Plan (MDRP) document that identifies roles and responsibilities to bring critical services back into place in the event of a significant loss of critical ICT services including:</p> <ul style="list-style-type: none"> <li>- Uninterrupted Power Supply' is fitted at key sites to protect ICT equipment from damage</li> <li>- Availability of remote access devices.</li> <li>- Remote access to IT systems.</li> <li>- Dual control site to undertake all functionality and provide resilience.</li> <li>- The Force has three machine rooms, two of which can be used to deliver critical ICT services.</li> <li>- BT review of telephony service has been completed.</li> <li>- ICT server, hardware and software upgrades to improve system resilience.</li> </ul> <p>Levels of resilience and data backup to ensure systems can be maintained in service and where loss of service is experienced the system can be reinstated quickly with no/little loss of data.</p> <p>A list of critical systems is included in the MDRP document and regularly reviewed to ensure all systems have been appropriately assessed and level of criticality agreed between operational and support teams.</p> <p>Contingency planning and testing of plans in partnership with key agencies. All operational orders and business continuity plans are assessed and allocated a RAG status.</p> <p>Estates Strategies includes the refresh of infrastructure critical to the delivery of ICT services.</p> <p>Support and maintenance contracts are in place along with callout rotas to provide 24/7 support for critical systems.</p> <p>Regular refresh activity is planned and the refresh schemes included in the MTFs plan for the next 5 years.</p> <p>User acceptance testing on a project basis to ensure new systems are fit for purpose prior to the Force being dependent upon them for service.</p> <p>Systems are patched and updated regularly to minimise the likelihood or impact of loss of system access due to a cyber attack.</p>	9	Likelihood 3 Impact 3	Director of Finance and IT	Police and Crime Commissioner and Chief of Staff and Monitoring Officer
25	Information Technology	Strategic Resourcing Board	Significant IT Transformation	Significant changes to critical systems and business processes will potentially impact on the Force's ability to provide continuity of service. April 2019	If changes to ICT systems are incorrect, not fully considered, not explained in full to staff, delayed or poorly implemented, this may cause a significant loss of service or disruption to service.	<p>Effective Procurement Process to ensure the purchase of robust and effective technical solutions.</p> <p>Appropriate business lead involvement through the delivery of technology change projects.</p> <p>Effective Supplier Management Process.</p> <p>Robust definition of the scope of the transformation and the purpose of the new/changed system.</p> <p>Rigorous User Acceptance Testing against the defined system requirements prior to system go live.</p> <p>Appropriate funding for ICT services included in the Capital Programme.</p> <p>Robust governance and project management processes to assure non-impactive technology change programmes.</p> <p>ICT Strategy includes a programme of technology refresh, updating and replacing older equipment.</p> <p>Robust project risk and issue management process is followed for all change projects.</p> <p>Liaison with users and key departments to ensure appropriate policy, procedure and user training is in place prior to system implementation.</p> <p>Management of IT change projects using professionally trained and force experienced ICT change Project Managers.</p>	8	Likelihood 2 Impact 4	ACC Local Policing, Operations and Custody	Police and Crime Commissioner and Chief of Staff

26	Information Technology	Operational Information Management Board	A malicious intent to compromise information systems or access information or data.	Ongoing Risk	Corruption or loss of Force systems. Disclosure of sensitive information. Public confidence in Northumbria Police.	A number of technologies are in place to protect data from external attack (e.g. fire walls). Intrusion Detection Systems and Intrusion Protection Systems allow unusual activity directed towards the Force to be identified and logged for analysis. Penetration tests, undertaken each year, demonstrate the Force's capability to withstand attacks and safeguard its data and systems, with potential vulnerabilities identified and appropriate patches and fixes put in place to remove the threat. Patching processes have been updated to reflect the frequency of patches being issued by Microsoft and other critical system suppliers. Technology refresh programme in place to replace older and less secure equipment. Identification of key roles within the Force and the introduction of appropriate vetting processes. Effective media management and communication plan.	8	Likelihood 2 Impact 4	T/ ACC Communications and Information Management/ Director of Finance and IT	N/A
27	Collaboration and Partnership	Executive Board	Failure of significant contracts and/ or collaborative agreements.	Potential impact of contract failures April 2019	Inefficient / ineffective service provision and ability to meet service level agreements. Pressure on force to deliver services. Ineffective relationships with collaborative partners. Inability to deliver value for money services.	Section 22 Collaboration Agreements - Protected by Terms and Conditions of contracts. Annual external Joint Working Arrangements. Effective contract monitoring and management within each interdisciplinary: - Deliverables and KPIs monitored within Business Intelligence; - Financial reporting within Finance; - Legal Agreements (such as Section 22a's) within Legal Department; - Procurement exercises within Procurement Department. Scheduled contract performance meetings with contractors and business users. Performance indicators are included in some major operational contracts which are discussed at contract performance meetings. Ability to terminate contract and seek alternative source of supply. Effective contract monitoring in place between Business Leads and providers for local contracts i.e. Fleet, ICT. Contract performance meeting held 6 monthly with Director of Finance and ICT, strategic risks to the force are escalated to Executive Team.	3	Likelihood 1 Impact 3	Director of Finance and IT /Deputy Chief Constable	Police and Crime Commissioner
28	Collaboration and Partnership	Transformation 2025 Programme / Strategic Performance Board	Future sustainability of force operating model and the efficiency of our future plans to operate including, the potential impact of a reduction in partnership services due to financial constraints and/or lack of integrated planning.	Ongoing risk	Inability to deliver the Police and Crime Plan. Reduced ability to deliver strategic objectives. Reduction in opportunities to improve service quality and cost effectiveness. Failure to comply with legislation, namely; Police Reform and Social Responsibility Act 2011 & Policing and Crime Act 2017.	Effective management through the force Transformation 2025 Programme. Effective partnership governance arrangements and joint partnership plans based on Threat, Harm and Risk, through Community Safety Partnerships (CSPs), Children & Adult Safeguarding Boards & Local Multi Agency Problem Solving (LMAPS) groups are in place, which include clear roles and responsibilities. Strategic understanding of the current position in respect of relationships and interdependencies, through annual Partnership and Collaboration benchmarking to map current and future gaps, to best meet demand Sharing best practice and problem solving knowledge through events with partners at a local level, regionally via the North East Transformation Innovation Collaboration (NETIC), and nationally via the National Police Chiefs Council (NPCC) and Police Reform and Transformation Board (PRTB).	8	Likelihood 2 Impact 4	Deputy Chief Constable	Police and Crime Commissioner and Chief of Staff and Monitoring Officer

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

<b>Likelihood</b>	<b>VERY HIGH (5)</b>		20			
	<b>HIGH (4)</b>			5 23	19	
	<b>MEDIUM (3)</b>		6 11 14 24	2		
	<b>LOW (2)</b>		3 4 12 15 21	1 7 8 9 10	16 22 25 26 28	17
	<b>VERY LOW (1)</b>		27	13 18		
	<b>VERY LOW (1)</b>	<b>LOW (2)</b>	<b>MEDIUM (3)</b>	<b>HIGH (4)</b>	<b>VERY HIGH (5)</b>	
	<b>Impact</b>					



**JOINT INDEPENDENT AUDIT COMMITTEE**

**24 FEBRUARY 2020**

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**INTERNAL AUDIT CHARTER, STRATEGY STATEMENT 2020 – 2023 AND ANNUAL AUDIT PLAN 2020/21**

**REPORT OF INTERNAL AUDIT**

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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 2020/21 – 2022/23 and the annual Audit Plan 2020/21 for the Police and Crime Commissioner and Chief Constable and seek its approval.

**2 Background**

- 2.1 The terms of reference for Internal Audit are laid down in the Commissioner's Delegations to Officers and Financial and Contract Regulations.
- 2.2 The Internal Audit Service is to be provided under a written 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.
- 2.3 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.
- 2.4 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.
- 2.5 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

## **AGENDA ITEM 10**

in the achievement of this aim. It is the responsibility of management to install and maintain effective internal control systems.

- 2.6 A report was brought to Committee in November 2019 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).
- 3.2 The Internal Audit Charter was revised in March 2013 to comply with the introduction of a common set of UK Public Sector Internal Audit Standards (PSIAS) that came into effect from 1 April 2013. The PSIAS were further revised in April 2017 and the Charter was updated to reflect these changes.
- 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 2019. 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 revised Internal Audit Charter is attached at Appendix A for approval.

### **4 Internal Audit Strategy Statement 2020/21 – 2022/23 and Annual Plan 2020/21**

- 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.

## **AGENDA ITEM 10**

- 4.2 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.
- 4.3 The Audit Strategy Statement 2020/21 – 2022/23 and the annual Audit Plan for 2020/21 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.
- 4.4 The Strategy document has been prepared in accordance with PSIAS which outline that the Chief Audit Executive 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.
- 4.5 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 2020/21 – 2022/23,

## **AGENDA ITEM 10**

- Review the proposed annual plan of work for the Internal Audit Service for 2020/21 and
- 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. The PSIAS were updated 1 April 2017 and the Charter reflects these changes.
- 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 PCC Chief Finance Officer, in conjunction with the Chief Constable's Director

of Finance and ICT, 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 7.2.2 above, Financial Regulations grant to Internal Audit, having been security cleared, the authority to:
- Enter at all reasonable time 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**

**2020/21 – 2022/23**

**& Annual Plan 2020/21**

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 2020/21 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 and efficient 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 2020/21 – 2022/23 and Annual Audit Plan for the Police and Crime Commissioner and Chief Constable for the financial year 2020/21. 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 2020-21**

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 2020/21**

4.1 Having regard to the current risk profile the following main areas have been included in the Annual Plan for 2020/21:

#### **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.

### **2020/21 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 2020/21 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. The level of audit resources required to deliver the plan is 2,330 hours (2,510 hours for 2019/20).

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

- 5.1 Internal Audit is delivered under a written 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 2020/21, 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%

**Internal Audit Plan 2020/21 - 2022/23**

<b>Risk</b>	<b>Frequency</b>	<b>Audit Area</b>	<b>2020/21 Draft</b>	<b>2021/22</b>	<b>2022/23</b>
		<b>Police &amp; Crime Commissioner</b>			
Medium	Annual	Grant Distribution	50	50	50
High	Annual	Treasury Management	80	80	80
		<b>Chief Constable</b>			
		<b>ICT Audits</b>			
High	Annual	ICT Security - Application & Data; Infrastructure; Cyber	60	60	60
High	Annual	Patch Management	40	60	40
Medium	Biennial	Configuration Management		40	
Medium	Biennial	Resilience		60	
Medium	Biennial	ICT Strategic Implementation & Reporting		60	
Medium	Biennial	Programme/Project Management	60		60
Medium	Biennial	Asset & Device Management	60		60
Medium	Biennial	Licence & Certificate Management	60		60
		<b>Departmental Audits</b>			
Medium	Biennial	Asset Management		100	
Medium	Biennial	Fleet Management	110		110
Medium	Biennial	People Services and Development		100	
Medium	Biennial	Legal & Insurance Arrangements		90	
Medium	Biennial	Operational Support and Firearms Licencing		80	
Low	Annual	Police Charities Fund	40	40	40
Medium	Biennial	Counter Fraud and Corruption Arrangements	60		60
		<b>Theme Based Audits</b>			
High	Annual	Property	180	180	180
High	Annual	Cash & Miscellaneous Income	120	120	120
		<b>Combined Areas</b>			
		<b>Financial Systems</b>			
High	Annual	Creditors and Procurement	180	180	180
Medium	Biennial	Debtors	70		70
High	Annual	Payroll & Pensions	130	130	130
High	Annual	Main Accounting System	70	70	70
High	Annual	Budgetary Control	40	40	40
High	Annual	Employee Claims	80	80	80
		<b>Other Combined Areas</b>			
Medium	Biennial	Risk Management and Business Continuity Arrangements		90	
Low	Triennial	Equality & Diversity			50
Medium	Biennial	Joint Working Arrangements		70	
High	Annual	Governance	50	50	50
Medium	Biennial	Health & Safety	60		60
High	Annual	Information Governance & Data Security	80	80	80
Medium	Biennial	Performance Management & Data Quality	60		60
Medium	Biennial	VAT		50	
Medium	Biennial	Complaints	100		100
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>2,280</b>	<b>2,400</b>	<b>2,330</b>
High		NERSOU	50	50	50
		<b>Total Hours</b>	<b>2,330</b>	<b>2,450</b>	<b>2,380</b>



## Joint Independent Audit Committee (JIAC) Open Forward Plan 2020

Meeting	Report Title
<b>May 2020</b>	Annual Governance Review - Assurance Reports (various) External Audit - Progress Report Summary of Recent Inspection Reports from HMICFRS Joint Strategic Risk Report
<b>July 2020</b>	JIAC Annual Report Final Annual Governance Statements 2019/20 (PCC & CC) Statements of Account Report 2019/20 Audit Completion Reports (PCC & CC) Summary of Recent Inspection Reports from HMICFRS Joint Strategic Risk Report Treasury Management Annual Report
<b>November 2020</b>	Mid-year Treasury Management Report Internal Audit Charter Emergent Audit Plan 2021/22-2023/24 Summary of Recent Inspection Reports from HMICFRS Joint Strategic Risk Report Annual Audit Letter 2019/20 PCC & CC