



AUDIT COMMITTEE

**Friday 2 December 2016 at 2 pm
In the Filby Room, Jubilee House, Falconers Chase,
Wymondham, Norfolk NR18 0WW**

A G E N D A

Note for Members of the Public: If you have any specific requirements to enable you to attend the meeting, please contact the OPCCN (details overleaf) prior to the meeting.

Part 1 – Public Agenda

1. Welcome and Apologies
2. Declarations of Personal and/or Prejudicial Interests
3. To approve the minutes of the meeting held on 27 September 2016 PAGE 3
4. Internal Audit
 - Reports from Head of Internal Audit

 - a) Internal Audit Plan Update 2016/17 PAGE 7
 - b) Follow Up Review PAGE 25
 - c) Internal Audit Plan 2017/18 PAGE 43
5. Annual Audit Letter for the Year Ended 31 March 2016 PAGE 65
6. Treasury Management Update 2015/16 PAGE 93
 - Report from Chief Finance Officer
7. Forward Work Plan PAGE 103
 - Report from Chief Finance Officer

Part 2 – Private Agenda

8. Strategic Risk Register PAGE 105
- a) Norfolk Constabulary Risk Register FOLLOW
- Report from Sarah Bolt
- b) PCC Risk Register FOLLOW
- Report from Chief Finance Officer
9. Date of Next Meeting
- 14 March 2017 at 2pm in the Wroxham Room, Jubilee House, Falconers Chase, Wymondham, Norfolk.

Enquiries to:

OPCCN

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：opccn@norfolk.pnn.police.uk 联系诺福克警察和犯罪事务专员办公室。

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Se desejar obter uma cópia deste documento em português, por favor contacte o Gabinete do Comissário da Polícia e Crimes através do 01953 424455 ou pelo e-mail: opccn@norfolk.pnn.police.uk

Jei šio dokumento kopiją norėtumėte gauti lietuvių kalba, prašome susisiekti su Policijos ir nusikalstamumo komisarių tarnyba Norfolk grafystėje (Office of the Police and Crime Commissioner for Norfolk) telefonu 01953 424455 arba elektroninio pašto adresu opccn@norfolk.pnn.police.uk

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OFFICE OF THE POLICE & CRIME
COMMISSIONER FOR NORFOLK



NORFOLK
CONSTABULARY
Our Priority is You

**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD ON TUESDAY 27 SEPTEMBER 2016 AT 2 P.M.
IN THE WROXAM ROOM, JUBILEE HOUSE, FALCONERS CHASE, WYMONDHAM**

Attendance:

Mr R Chapman (Chairman)
Mr R Bennett
Mrs J Hills
Mr P Hargrave

Also in attendance:

Mr M Stokes	Chief Executive (OPCC)
Mr J Hummersone	Chief Finance Officer (CFO)
Mr S Bailey	Chief Constable
Mr K Suter	Executive Director (Ernst and Young)
Mr P Jasper	Head of Finance
Mr I Fearn	Head of Financial Accounting and Specialist Functions
Miss J Heal	Financial Accountant
Mr C Harris	Head of Internal Audit, TIAA
Ms F Dodimead	TIAA

1. Welcome and Apologies

The Chairman welcomed those present, including Mr Peter Hargrave, one of two newly appointed members. Apologies were received from Mr Lorne Green, Police and Crime Commissioner, and new member Anna Bennett.

2. Declarations of Personal and/or Prejudicial Interests

None reported.

3. To confirm the minutes of the meeting held on 8 July 2016

The minutes of the meeting held on 8 July 2016 were agreed.

4. Internal Audit:

a) Internal Audit Progress Report – 2016/17

The Committee reviewed the summary report which provided an update on the progress of internal audit reviews as at 13 September 2016.

Five final audit reports had been published since the last meeting of the Committee, four having 'Reasonable' Assurance and one 'Substantial' Assurance:

Transport Services	Reasonable
Corporate Communications	Reasonable
Freedom of Information/Data Protection/Document Security	Reasonable
Firewalls	Substantial
ICT Disaster Recovery	Reasonable

The report summarised each of the reports including the management comments on the priority 1 and 2 recommendations. All of the audits had been planned.

Ms Dodimead presented the report and members sought clarification on a number of points.

- It was established that a draft report on the Duty Management System (to be presented to the next meeting) was likely to have a 'Limited' assurance grading.
- Clarification on whether the Transport audit had looked at vehicle disposal arrangements in the context of best prices being received. **Ms Dodimead agreed to check.**
- The control of Twitter accounts. The Chief Constable explained the arrangements which were the responsibility of Corporate Communications.
- Whether it was reasonable for some of the completion dates of the Corporate Communications recommendations to be as late as 31/3/17. The Chief Constable hoped that completion would be earlier.
- How TIAA arrived at their assurance grades. Chris Harris explained that the grading included a subjective element as well as numbers of high/low priority recommendations.
- Why physical disaster recovery exercises had not taken place. **Ms Dodimead agreed to check.**
- The volume of FOI requests. These were thought to be in the hundreds.

b) Internal Audit recommendations follow up.

Mr Harris advised the Committee that a written report would be presented to the next meeting.

5. Statements of Accounts for 2015/16

The Chairman reported that members had had the opportunity prior to the meeting to consider the final draft of the accounts and to discuss the matters arising from the external auditor's report.

The CFO, Mr Hummersone presented his report. He observed that this was the end of the process and only minor points had been raised by EY in the Audit Results Report. Mr Hummersone publically thanked members of his Finance Team, Mr Jasper, Mr Fearn and Miss Heal for this result and the excellent work they had done to produce the accounts on time and to such a good standard. The Chairman similarly conveyed the thanks of the Committee to Mr Jasper and his finance team for their work on the accounts.

Presented with the Accounts was the final version of the Annual Governance Statement which had been updated to include a summary of HMIC inspection recommendations, and the Letters of Representations.

The Audit Results Report was presented by Mr Suter, Executive Director Ernst and Young. He referred to the audit plan brought to the committee earlier in the year. Mr Suter said that he was very pleased to give the headline messages that he expected to give an unqualified opinion on both sets of accounts and the Annual Governance Statement. He was also pleased to state that in relation to the risks identified in Section 3 of the Audit Results Report, that he had no concerns to report to the Committee.

He had also not identified any issues arising from the new financial system (ERP) as a result of his audit or the detailed transaction testing undertaken. Minor adaptations had been made to the audit testing programme where significant variances from the prior year could not be fully explained due to coding changes as a result of the introduction of ERP. He mentioned that whilst the prior period adjustments had caused a little more work for audit this year, he expected that the consistency between Norfolk and Suffolk would give efficiencies going forward.

Value for Money risks were mentioned, but Mr Suter said he was happy that plans were in place, and that he expected to issue an unqualified Value for Money opinion.

The Chairman asked whether Brexit and the new legislation should form part of the risk register. Mr Hummersone said that at the margins, it could affect interest income, and that more information was expected in the Autumn Statement which would filter down to the Police Funding Settlement in mid-December. Mr Suter observed that there could also be non-financial risks, for example how much of the organisation's workforce comprised EU citizens.

Mr Bennett asked whether all the outstanding work had been completed. Mr Suter said any outstanding matters were currently being finalised.

Mr Bennett said he would like to know when all the work was complete and if there were any problems arising. Mr Suter said that the issuing of the final unqualified opinion would demonstrate this.

The Chairman asked whether it was EY's intention for Mr Hewitt to continue in the manager role. Mr Suter said that all portfolios would be reviewed at the end of September, but that he expected Mr Hewitt to continue.

The Chairman also asked what the Scale Fee Variation referred to in Appendix E would be. Mr Suter said he was unsure at this stage and that he would discuss this with the CFO.

Mr Bennett noted that it was a very good audit results report, with an absence of unadjusted or adjusted audit differences, and underlined that this was a pleasing result.

Mr Jasper reminded the Committee the new financial system (ERP) had been introduced in April 2015 and there had been a major restructure of the finance team in November 2015. The fact that four sets of accounts across Norfolk and Suffolk had been successfully prepared and audited was a credit to Mr Fearn and his new team.

The Chairman suggested that the Committee should write to the PCC congratulating him on this highly satisfactory outcome.

The Committee recommended the Statements of Accounts and the Annual Governance Statement for signature by the PCC and the Chief Constable.

At this point, there was a break for signing of the various documents. [The PCC would sign the accounts on the morning of the 28 September 2016].

6. **Forward Work Plan**

The CFO presented the forward work plan to the Committee. Minor changes were noted in respect of internal audit reports. **The CFO would update the plan for the next meeting.**

Part 2 – Private Agenda

7. **Strategic risks Update**

The Committee received the Strategic Risk registers of the OPCC and Constabulary. The Committee noted that Athena featured in various risks. The Chief Constable updated the Committee on the current situation with Athena and expressed his disappointment that the focus was on the negative and improving aspects rather than the positive benefits of this ground breaking police system.

8. **Date of Next Meeting**

At the end of the meeting Mr Bennett expressed his thanks for the way Mr Chapman had chaired meetings over the years with fairness and good humour. Mr Chapman expressed his thanks and wished Mr Bennett well as he took over the Chairmanship.

The next meeting to be held on Friday 2 December 2016 at 2 p.m. in the Filby Room, Jubilee House, Falconers Chase, Wymondham.

Meeting closed at 3.00pm

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CHAIRMAN

tiaa

**Police and Crime Commissioners for Norfolk and Suffolk and Chief
Constables of Norfolk and Suffolk Constabularies**

Norfolk Internal Audit Progress Report

December 2016

INTRODUCTION

1. This summary report provides an update on the progress of our work at the Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies as at 15th November 2016. The report is based on internal audit work carried out by TIAA and management representations that have been received during the period since our last progress report.

PROGRESS AGAINST THE 2016/17 ANNUAL PLAN

2. Our progress against the Annual Plans for 2016/17 is set out in Appendix A. The results of these reviews are summarised at Appendix B.

AUDITS CARRIED OUT SINCE THE PREVIOUS PROGRESS REPORT

3. The table below sets out details of audits carried out since the previous meeting of the Audit Committee.

Review	Evaluation	Draft issued	Key Dates			Number of Recommendations		
			Responses Received	Final issued	1	2	3	OEM
NSC1702 Firearms Licencing	Substantial	24/10/16	25/10/16	02/11/16	0	0	1	3
NSC1706 Recruitment	Limited	14/09/16	08/11/16	10/11/16	0	6	0	2
NSC1707 Duty Management	Limited	24/10/16	18/11/16	18/11/16	0	8	2	0

System	Substantial	26/10/16	01/11/16	04/11/16	0	0	2	0
NSC1717 Budgetary Control	Substantial	26/10/16	01/11/16	04/11/16	0	0	2	0

OEM = Operational Effectiveness Matters

Summaries of the finalised reports are attached at Appendix B, Full reports are available to Audit Committee Members on request. The details for Norfolk only reports will not be included in the Suffolk progress report.

CHANGES TO THE ANNUAL PLAN 2016/17

4. There has been one further change made to the annual plan since the last meeting:

- Estates: Maintenance and Repair has been replaced with Health and Safety, due to the stage of implementation for the service desk and 3i database.

FRAUDS/IRREGULARITIES

5. We have not been advised of any frauds or irregularities in the period since the last summary report was issued. We regularly liaise with PSD regarding any work streams that may be relevant for internal audit.

LIAISON

6. Liaison with external audit: We have liaised with EY during the year and kept them informed of our work and will make available to them all final audit reports. Liaison with the Chief Finance Officers: Regular progress meetings are held with the Chief Finance Officers.

PROGRESS ACTIONING URGENT and NOT APPROVED RECOMMENDATIONS

7. We have made no urgent recommendations (i.e. fundamental control issues on which action should be taken immediately) since the previous Progress Report.

8. We have made no recommendations which have not been approved by management since the previous Progress Report.

RESPONSIBILITY/DISCLAIMER

9. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. The matters raised in this report not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Progress against the Annual Plan for 2016/17

System	Planned Quarter	Planned Days	Actual Days	Current Status	Expected Audit Committee	Comments
Transport Services	1	15	15	Final report issued	September 2016	
Corporate Communications / Network	1	12	18	Final report issued	September 2016	Network aspects covered within Corporate Communications, 4 days moved from ICT Network / Social Media
HR Recruitment	1	12	12	Final report issued	December 2016	
Duty Management System	1	15	15	Final report issued	December 2016	
Fol / DP / Document Security	1	15	15	Final report issued	September 2016	
ICT – Firewall	1	12	12	Final report issued	September 2016	
ICT – Network / Social Media	2	12	-	Complete	n/a	Social Media aspects within Corporate Communications due to areas now within the same management responsibilities
Firearms Management	2	12	12	Final report issued	December 2016	
Estates – Facilities (Catering – Suffolk)	2	6	6	Final report issued	December 2016	
ICT – Disaster Recovery	2	12	12	Final report issued	September 2016	
Purchase Cards	2	12	12	Draft Report	March 2017	
Assurance Framework / Risk Strategy and Policy / Mitigating Controls Verification / Strategic Control and Corporate Governance	2	35	4	Scheduled	March 2017	Combined areas into one audit, audit scheduled for 1/12/16
Overtime, Expenses and Additional Payments	2	16	16	In Progress	March 2017	Expected completion November 2016
Estates – Duty of Care / Cost Allocations	2	12	6	In Progress	March 2017	Expected completion November 2016

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Agenda Item 4a – Internal Audit Plan 2017/18

**AUDIT COMMITTEE
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AGENDA ITEM 4a**

System	Planned Quarter	Planned Days	Actual Days	Current Status	Expected Audit Committee	Comments
Performance Management	3	15		Scheduled	March 2017	Scheduled for December 2016
Budgetary Control	3	12	12	Final report issued	December 2016	
Pensions Administration	3	10	4	In Progress	March 2017	
HR – Strategy & Workforce Planning	3	10	10	Draft Report	March 2016	
Payroll	4	10		Scheduled	March 2017	Scheduled for December 2016
Complaints	4	10		To be scheduled	June 2017	Moved from Q1 due to timing of the change in rules in November 2016. Proposed for February 2017
Collaborations	4	10		To be scheduled	March 2017	Proposed for February 2017
ICT – Exchange 2010 / Email Archiving	4	12		Scheduled	June 2017	Scheduled for February 2017
ICT – ERP Second / Third Line Support	4	12		Scheduled	March 2017	Scheduled for January 2017
Key Financial Controls	4	30		Scheduled	March 2017	Scheduled for January 2017
Estates – Health and Safety	4	12		Scheduled	June 2017	Scheduled for March 2017
Commissioners Grants (Norfolk)	4	10		To be scheduled	June 2017	Proposed for March 2017
Follow Up Work	2 / 4	10	5	Ongoing		Year-end reporting June 2016 / in-year reporting
Contingency	1-4	24		As required		Possibility bring forward Lone Working or Safeguarding from 2018/19
Audit Management	1-4	20	15	Ongoing		
Total Days	-	399	197			

KEY:

	=	To be commenced
	=	Site work commenced

Audit Committee 2 December 2016
Agenda Item 4a – Internal Audit Plan 2017/18

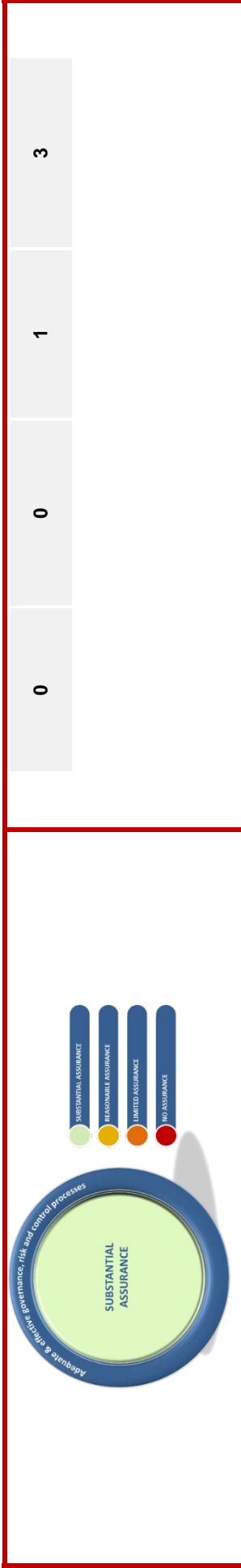
	=	Draft report issued
	=	Final report issued

Summaries of Finalised Audit Reports issued since the last report

Audit Report: NSC1702 Firearms Licencing

Report Issued: 2nd November 2016

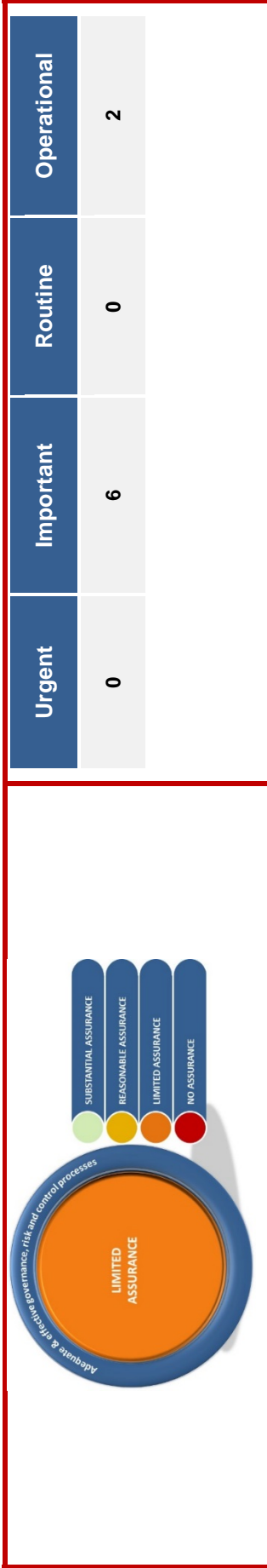
<p>SCOPE</p> <p>The aim of the review was to assess the adequacy and effectiveness of the internal controls in place at the Suffolk and Norfolk Constabularies for managing the firearms certificates function.</p> <p>MATERIALITY</p> <p>For the period 1st January to the 31st July 2016, the Firearms Licensing Unit:</p> <ul style="list-style-type: none"> Granted a total of 327 new firearms certificates and 886 new shotgun certificates. Renewed a total of 1292 firearms certificates and 5230 shotgun certificates. 	<p>KEY FINDINGS</p> <ul style="list-style-type: none"> The Firearms Licensing Team is a joint team managed by the Joint Firearms Licensing Manager. Working practices have been standardised across both offices. Up to date procedural notes are not in place for staff to refer to, these are required to ensure current, standardised working practices and adequate business continuity arrangements. Processes have been established and are being followed for licence applications. 				
<p>OVERALL ASSURANCE ASSESSMENT</p>	<p>ACTION POINTS</p> <table border="1"> <tr> <td style="background-color: #004a7c; color: white;">Urgent</td> <td style="background-color: #004a7c; color: white;">Important</td> <td style="background-color: #004a7c; color: white;">Routine</td> <td style="background-color: #004a7c; color: white;">Operational</td> </tr> </table>	Urgent	Important	Routine	Operational
Urgent	Important	Routine	Operational		



Audit Report: NSC1706 HR Recruitment

Report Issued: 10th November 2016

<p>SCOPE</p> <p>The purpose of the audit was to assess the adequacy and effectiveness of the internal controls in place at the Constabularies for managing the recruitment function for both Constabularies.</p> <p>MATERIALITY</p> <p>There have been 85 new starters at Suffolk Constabulary during the period January to August 2016, of which 40 were officers and 45 staff.</p> <p>There have been 125 new starters at Norfolk Constabulary during the same period, of which 26 were officers and 99 staff.</p>	<p>KEY FINDINGS</p> <ul style="list-style-type: none"> • HR service desks are based in Suffolk and Norfolk and operate as a single service for recruitment across both Constabularies. • The establishment of a formal framework for recruitment is required across the Constabularies, as there are several areas requiring process improvement, such as the need for an internal promotion policy and taking advantage of social media for advertising vacancies. • There is insufficient evidence that recruitment processes are being routinely followed across both forces. • Vetting results are fed back to HR rather than individuals, which can cause delays in the process. • Re-vetting of staff is not being undertaken at the designated timescales.
<p>OVERALL ASSURANCE ASSESSMENT</p>	<p>ACTION POINTS</p>



Recommendations – Urgent (Priority 1), Important (Priority 2) and Not Approved

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	An independent check is required to be undertaken on recruitment files, to verify that relevant employment checks have been undertaken. Audit testing found that for the sample randomly selected, that there was no evidence that the independent sample check of recruitment files had been completed.	An independent member of the HR team to undertake the necessary check to verify that relevant employment checks and processes have been undertaken and recorded.	2	<i>This recommendation will be actioned.</i>	01/11/16	Head of HR
2	Directed	The Constabularies do not have a recruitment framework, without this there is lack of clarity as to how recruitment will be undertaken.	A recruitment framework to be developed across the Constabularies.	2	<i>There are well established recruitment processes in place and for police officers this follows national guidance. However a code of practice is required to set out clearly the practice and decision making process to be followed across a variety of recruitment situations and the standards required across all roles involved with recruitment. Code of practice and accompanying selection and training, including assessor training to be developed and implemented.</i>	01/04/17	Head of HR Head of Learning and Development

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Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Directed	The Constabularies do not have a promotion policy in place.	A promotion policy be developed and published on the Constabularies' intranet.	2	Police staff and rank above Inspector will be addressed under the code of practice. For police officers at sergeant and Inspector rank, a promotion policy is in place and reflects the National Police Promotions Framework (NPPF).	01/04/17	Head of HR Head of Learning and Development
4	Directed	There is no formal process in place for approving vacancies to be filled, and for notifying the HR service desk of vacancies that require filling.	A standard recruitment to recruit form be completed for all vacancies. The form to be approved by line managers and by finance, to confirm that there is sufficient funding to cover the role.	2	Within the last three months, a new Workforce Planning Group has been set up and therefore new arrangements have been put in place for approval of vacancies. If vacancies are "like for like" then this requires sign off from the Line Manager, Finance Business Partner, HR Business Partner and Head of Resourcing. Further details in relation to the course can be provided upon request.	Complete	Head of HR
5	Directed	Results of vetting are fed back to HR rather than to individual applicants.	The vetting department be required to notify the applicants directly of the results of their vetting application, to enable any issues raised in the vetting to be addressed. The HR service desk to be copied in to replies sent by the vetting team.	2	Vetting will be advised to update their process to reflect this.	01/11/16	Head of HR

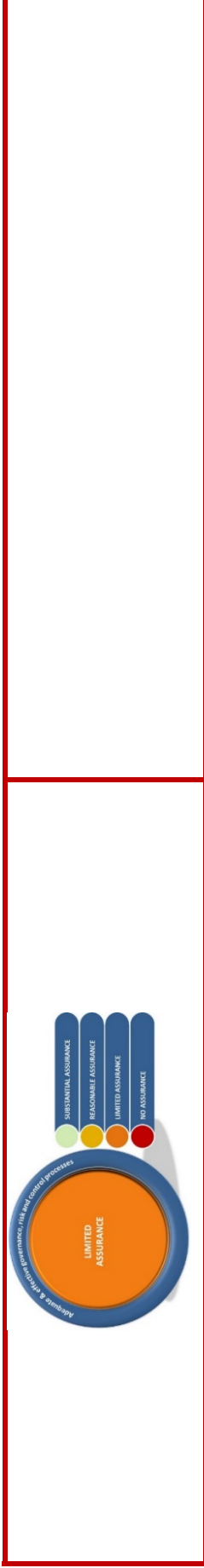
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Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
6	Compliance	Sample testing found that re-vetting of employed staff was not being undertaken at the required timescales.	Re-vetting of employed staff be undertaken at the required timescales.	2	Chief Officer Teams in both Forces are aware of the current vetting backlog (this includes the issue of re-vetting). The OBB process includes a proposal for an increase in staff within the Vetting Unit for a limited period to address the backlog issue. Currently, the Vetting Unit are focusing re-vetting on high risk roles.	30/09/17	T/Detective Chief Inspector Professional Standards Department

Audit Report: NSC1707 Duty Management System

Report Issued: 18th November 2016

<p>SCOPE</p> <p>The purpose of the audit was to assess the adequacy and effectiveness of the internal controls in place at the Constabularies for managing the the Duty Management System.</p> <p>MATERIALITY</p> <p>The Duty Management System has a total of 1,278 users in the My Options application and 57 users for the Open Options and Workforce Scheduling applications.</p>	<p>KEY FINDINGS</p> <ul style="list-style-type: none"> Working practices and processes across the Norfolk and Suffolk offices are not standardised, as not all policies have been harmonised. For areas where there are not joint policies there are clear differences between the Norfolk and Suffolk planners' roles. Custody are using a spreadsheet as well as the Duty Management System (DMS) for recording staff hours. Management have accepted the risk of custody using a spreadsheet and DMS, as the Custody arena is under a great deal of pressure with back filling gaps due to the current shift pattern being worked and the lack of trained staff. There is an increased risk of error in rostering, as both the spreadsheet and the duty management system require updating. Management have accepted the risk of updating both the spreadsheet and DMS. Staff are able to change their own hours that they enter on to DMS, this increases the likelihood of fraudulent errors in staff hours. The full functionality of DMS is not being used. DMS is not used for recording overtime. RMU are aware of what action needs to be taken to enable DMS to be used for recording overtime. 								
<p>OVERALL ASSURANCE ASSESSMENT</p>	<p>ACTION POINTS</p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>8</td> <td>0</td> <td>2</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	8	0	2
Urgent	Important	Routine	Operational						
0	8	0	2						



Recommendations – Urgent (Priority 1), Important (Priority 2) and Not Approved

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
201	Directed	Staff members are not required to undertake training before a staff member is granted administrator access rights on DMS. Only staff that have the appropriate knowledge should be granted administration access rights on DMS to prevent inappropriate and incorrect amendments being made on DMS.	Training to be provided to staff before they are awarded system administrator access rights on DMS.	2	When the system was implemented there were training packages provided to all administrators. The training was in the form of an eLearning package. This package is still available to all to use. Since the RMU introduced the System Support Team and staff member who is now given administrator rights have specific one to one or group training on how to use the system.	Implemented	

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AGENDA ITEM 4a**

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Directed	The notes function on DMS is used by RMU as a means of communicating with staff. There is not an audit trail for the notes section on DMS, there is a risk that the Constabularies are not able to demonstrate that staff have been informed.	A full audit trail for all aspects of DMS to be made functional.	2	<i>It has been raised with Crown the requirement to have an audit on the notes section on DMS, as have other Police Forces. This is with their Research and Development team to be looked at in the relation to future releases.</i>	June 2017	Head Resourcing
3	Directed	There are a high number of exceptions being generated by DMS. With a high number of exceptions being generated, it suggests that the exception rules inbuilt within DMS may be incorrect. There has not been a review of the exception rules within DMS to establish if these are correct.	The exception rules inbuilt within DMS to be investigated to see if these are correct.	2	<i>The RMU are currently working on exceptions and discussing with Crown the feasibility of changing the exception rules.</i>	March 2017	Head Resourcing

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Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
4	Directed	<p>The full functionality of the system is not being utilised. DMS is not being used for recording overtime. With the high number of exceptions on DMS, using DMS for recording overtime is likely to increase exceptions which is likely to result in incorrect overtime payments to staff.</p> <p>For overtime to be calculated correctly and charged to the correct budget there is a need for there to be confidence that overtime is coded correctly by managers and accurately calculated. Whilst undertaking testing, it was found that RMU staff are frequently making changes to the hardcopy overtime claim forms.</p> <p>There is no appropriate workflow within DMS for processing and approving overtime.</p>	DMS to be used for recording overtime, and investigated to establish if approval of overtime can be recorded on DMS.	2	The RMU is working to reduce exceptions before embarking on the issues with overtime. Delivering overtime will require a project to be set up to deliver training and understanding to all line managers and the confidence that claims will be accurately recorded.	January 2018	Head of Resourcing
5	Directed	A reconciliation is not currently being undertaken between payroll and DMS to ensure that overtime paid is in agreement with what has been recorded on DMS.	Monthly reconciliations to be undertaken between DMS and payroll to establish if the value of overtime on DMS agrees with the value of overtime paid by payroll.	2	Not all areas of the business provide information of Overtime to the RMU, and therefore this is challenging to deliver. This would be a Finance task.	June 2017	Head of Transactional Services

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AGENDA ITEM 4a**

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
7	Compliance	Limited training was provided to staff when the DMS was rolled out, but there was no formal training programme in place to ensure that all staff received the required level of training. The high level of exceptions suggests that there is a need for further training to be provided to staff.	A training needs analysis exercise on DMS to be undertaken, and training to be provided to staff on DMS in accordance with identified needs.	2	This will form part of the work currently being carried out in relation to exceptions, which is now being undertaken within the RMU	April 2017	Head Resourcing
8	Compliance	At the time of audit there were over 23,000 exceptions, and thus this highlights that there is not an appropriate process in place for clearing of exceptions.	Resources and time to be allocated to clearing of exceptions.	2	This work is now being undertaken by the RMU	April 2017	Head Resourcing
9	Compliance	There is no target set for the level of exceptions, to check progress against targets, and be formally monitored and reported to SMT monthly for review.	Targets for checking exceptions to be developed and monthly reports to be produced regarding performance against the target.	2	This work is now being undertaken by the RMU	April 2017	Head Resourcing

Audit Report: NSC1717 Budgetary Control

Report Issued: 4th November 2016

<p>SCOPE</p> <p>The audit covered the budgetary control arrangements for each of the Police and Crime Commissioners (PCCs) and the Constabularies. The audit focused on the following areas: budget setting, delegations of responsibility, financial information, variations analysis, management information and reporting.</p> <p>MATERIALITY</p> <p>The Corporate Monitoring Report at 31st August 2016 for the Norfolk Group shows a total budget of £148,927,990. The Suffolk Group report shows a total budget of £113,096,060.</p>	<p>KEY FINDINGS</p> <ul style="list-style-type: none"> • 2016/17 year-end forecasts as at September 2016 predict a Norfolk overspend of £876,314 (0.6% of budget) and a Suffolk underspend of £115,074. • Many processes are documented, although the Budgetary Control Policy and procedures are currently out-of-date and under review. • A formal budget setting process is in place using challenge panels. Testing found scrutiny packs were fully completed for 2016/17 budgets. • Monthly reports are discussed with budget holders who can also review information on the Enterprise Resource Planning (ERP) system. • A monthly portfolio variance report is discussed in the Finance Department. 								
<p>OVERALL ASSURANCE ASSESSMENT</p>  <p>The diagram shows a central green circle labeled 'SUBSTANTIAL ASSURANCE' surrounded by a blue ring labeled 'Adequate & effective performance, risk and control processes'. To the right are four vertical bars representing assurance levels: 'SUBSTANTIAL ASSURANCE' (green), 'REASONABLE ASSURANCE' (yellow), 'LIMITED ASSURANCE' (orange), and 'NO ASSURANCE' (red).</p>	<p>ACTION POINTS</p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> <td>2</td> <td>0</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	0	2	0
Urgent	Important	Routine	Operational						
0	0	2	0						



Police and Crime Commissioner for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies

Follow Up Review

2016/17

December 2016

Follow Up Review

Executive Summary

INTRODUCTION

- This follow up review by TIAA established the management action that has been taken in respect of the priority 1 and 2 recommendations arising from the internal audit reviews listed below. The review was carried out during September - November 2016 and will be undertaken as a continuous review.

Figure 1 – Reviews followed up

Review	Year	Date Presented to Audit Committee	Current Status	Awaiting Update	O'standing / In Progress	Revised Date	Complete	No Longer Applicable
NSC1703 Transport	2016/17	September 2016	Updated				2	
NSC1708 Freedom of Information	2016/17	September 2016	Implemented				4	
NSC1710 Catering	2016/17	June 2016	Updated			9		
NSC1712 Disaster Recovery	2016/17	September 2016	Awaiting Management Update	2				
NSC1603 Police Stations	2015/16	March 2016	Change in responsibility	1			2	3
NSC1604 Proceeds of Crime	2015/16	March 2016	Awaiting Management Update	5				
NSC1605 Estates Management	2015/16	January 2016	Updated		1			
NSC1607 Governance – Ethical Standards	2015/16	March 2016	Change in responsibility	2				
NSC1611 Payroll	2015/16	June 2016	Awaiting Management Update	1				

Review	Year	Date Presented to Audit Committee	Current Status	Awaiting Update	O'standing / In Progress	Revised Date	Complete	No Longer Applicable
NSC1614 Purchase Ordering	2015/16	June 2016	Updated		1		4	
NSC1616 General Ledger	2015/16	March 2016	Updated				1	
NSC1618 Capital Expenditure	2015/16	June 2016	Awaiting Management Update	1				
NSC1619 Absence Management	2015/16	June 2016	Change of responsibility	1				
NSC1622 Commissioners Grants	2015/16	June 2016	Awaiting Management Update	1				
NSC1623 Cyber Security	2015/16	March 2016	Awaiting Management Update	1				
NSC1625 T-Police	2015/16	June 2016	Awaiting Management Update	1				
NSC1626 ITIL	2015/16	June 2016	Awaiting Management Update	3				
Special Constabulary	2014/15	September 2014	Updated		1			
Contract Management	2014/15	September 2014	Updated		1			
HR Training	2014/15	September 2014	Updated		9			
Total				19	13	9	13	3

KEY FINDINGS

- The follow up review considered whether the management action taken addresses the control issues that gave rise to the recommendations. The implementation of these recommendations can only provide reasonable and not absolute assurance against misstatement or loss. From the work carried out the following evaluations of the progress of the management actions taken to date have been identified.

Figure 2 - Summary of the action taken on Recommendations made

Evaluation	Number of Recommendations
Implemented	13
In Progress / Outstanding	13
Awaiting Management Update	19
Revised Target Date	9
No Longer Applicable	3

3. The change in approach to follow up has increased in-year follow up to be undertaken, which was previously only at year end. As such, where a response has not been received, Internal Audit will identify where this is felt to be an issue to escalate to the Audit Committee.
 - 7 of the 19 recommendations awaiting management update relate to ICT
 - 5 of the 19 recommendations awaiting management update and 9 of the 13 recommendations outstanding/in progress relate to changes in responsibility and management advising of actions they are taking to enable meaningful responses (Transport and HR)
 - 7 of the 19 recommendations relate to areas recently contacted and further contact will be made.

SCOPE AND LIMITATIONS OF THE REVIEW

4. The review considers the progress made in implementing the recommendations made in the previous internal audit reports and to establish the extent to which management has taken the necessary actions to address the control issues that gave rise to the internal audit recommendations.
5. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
6. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff, accounting records and transactions and to ensure the authenticity of these documents.

RELEASE OF REPORT

7. The table below sets out the history of this report.

Figure 3 - Report History

Date report issued:
22 nd November 2016

Detailed Report

I

FOLLOW UP

8. Management representations were obtained on the action taken to address the recommendations. Only limited testing has been carried out to confirm these management representations. The following matters were identified in considering the recommendations that are considered Awaiting Management Update and In Progress / Outstanding:

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1712 Disaster Recovery	Equipment rooms that are locked using keypad codes should have their codes changed periodically and always after staff with knowledge of the codes have left. Appropriate recordkeeping to log the changes, dates, and signatures should be kept.	2	To be implemented in conjunction with Facilities Dept.	30/09/2016	Head of ICT Infrastructure	Awaiting Management Update
NSC1712 Disaster Recovery	IT Management to work with relevant estates colleagues to understand and resolve the service status of the manual fire extinguisher located in Equipment Room 1 at Dereham Police Station.	2	This has been highlighted to the Head of Estates and will be addressed as soon as possible.	31/08/2016	Head of ICT Infrastructure	Awaiting Management Update

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1603 Police Stations	Staff identification and 'salto' cards to be returned from staff on the day they leave the Constabulary. These are to be sent to the reception at Suffolk Police Headquarters for the 'salto' cards to be cleared and their identification destroyed.	2	HR will not be amending the joiners, leavers and movers policy for the Constabularies, an updated procedure will be developed and placed on the new intranet once installed.	30/09/2016	Information Security Advisor / HR	Change in responsibility within HR.
NSC1604 Proceeds of Crime	A revised SLA to be agreed and signed by all relevant parties. The SLA includes requirements on all parties, and how performance by ERSOU will be measured.	2	A revised SLA has been completed and is before Heads of Crime for each county to be signed for a consistent approach.	15/01/2016	DCI Power	Awaiting Management Update.
NSC1604 Proceeds of Crime	Key performance indicators to be agreed between each party, which are formally monitored and reported.	2	RECU performance monthly and daily performance are now available and emailed to the head of Cyber and Serious Crime	15/01/2016	DCI Power	Awaiting Management Update.
NSC1604 Proceeds of Crime	An appropriate committee to be assigned with responsibility for monitoring performance against key performance indicators agreed in the SLAs.	2	Head of Cyber and Serious Crime to include RECU, regarding performance for Suffolk and Norfolk within the PSC performance briefing.	15/01/2016	DS Mattin	Awaiting Management Update.
NSC1604 Proceeds of Crime	Monthly performance reports to be prepared at set intervals and distributed to appropriate personnel.	2	Agreed performance reports in place and to be provided.	15/01/2016	DCI Power	Awaiting Management Update.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1604 Proceeds of Crime Awaiting Management Update.	An annual report to be prepared on the effectiveness of ERSOU. The report to include performance against key performance indicators.	2	This is in place and is completed Suffolk and Norfolk will now be included within the circulation list.	15/01/2016	DCI Power	Awaiting Management Update.
NSC1605 Estates Management	Formal reporting on performance against key performance indicators to be submitted for evaluation by the Estates and Facilities Management Board.	2	Agreed, a new template sheet for performance summary against key performance indicators to be prepared and reported to the Estates and Facilities Management Board.	30/09/2016	Estates Manager	Outstanding / In Progress
NSC1607 Governance – Ethical Standards	A designated procedure to be produced on the process to be followed for reporting breaches of the Code of Ethics.	2	Whilst there is no specific process for a Code of Ethics breach, there are existing processes in place, such as the confidential reporting line, reports of concerns to line managers and the Fairness at Work process. A document to be drawn up outlining what officers and staff to do in the event of a Code of Ethics breach and ensure that this is included as part of the training.	30/04/2016	Director of HR	Change in management responsibility, recommendations being considered by new responsible officer.

**AUDIT COMMITTEE
2 DECEMBER 2016
AGENDA ITEM 4b**

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1607 Governance – Ethical Standards	A designated section within the Code of Ethics meeting to be established, to report back lessons learnt in relation to the Code of Ethics.	2	A standing agenda item at the Ethics Committee will be established, to report back lessons learnt in relation to the Code of Ethics.	31/03/2016	Director of HR	Change in management responsibility, recommendations being considered by new responsible officer.
NSC1611 Payroll	Staff that are not included in the 'FPS Reconciliation Report' to be investigated, to enable correct payments to be made to HMRC.	1	We are aware of this issue and this is being addressed. The Full Payment Submission (FPS) file has been an issue and we are in contact with CapGemini to seek an urgent resolution to this. A call has been raised with our supplier to assist with the resolution of this issue.	30/06/2016	Head of Transactional Services (with CapGemini)	Awaiting Management Response
NSC1614 Purchase Ordering	Evidence of compliance with the Constabularies 'Purchasing Rules' to be uploaded on to procurement	2	This will require a change to the Contract Standing Orders, Section 3.9, which currently states that quotes should be retained locally, rather than centrally or accessible to procurement. There is a facility to attach quotes to requisitions.	30/09/2016	Chief Finance Officers	Outstanding / In Progress. Issued to managers, waiting to go into the system.
NSC1618 Capital Expenditure	Fixed assets to be capitalised.	2	The delay is down to the implementation of ERP and the restructure of the Finance Department.	30/09/2016	Ivan Fearn	Awaiting Management Response

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1619 Absence Management	Line Managers to be reminded of the need to undertake ASMs within the required timescales, to enable staff with inappropriate sickness levels to be identified and plans put in place to address the sickness level.	2	New enact process will re-assign managers the forms when ASM is booked in. Manager guides to be more readily available on intranet - review due to be implemented end of April.	31/05/2016	Head of HR	Change in management responsibility, recommendations being considered by new responsible officer.
NSC1622 Commissioners Grants	Independent data integrity checks to be undertaken to ensure that data submitted is accurate.	2	The Constabulary has a dedicated team (Compliance Data Quality Team) who are responsible for addressing the DQ issues in ATHENA. The OPCCN will continue to monitor Constabulary progress through the Gold Group and regular communication with the Chief Officer Team.	30/09/2016	Director of Performance and Scrutiny	Awaiting management update.
NSC1623 Cyber Security	Management to draft and agree an appropriate cyber exercise plan. All exercises to be formally documented and reported appropriately to relevant senior management and appropriate continuous improvement processes used to update relevant cyber readiness plans.	2	This should probably form part of the business continuity plans for the two organisations. Perhaps this could be picked up by the Joint Business Continuity Lead and a table top exercise held to test the BC plans currently in place.	31/07/2016	Simon Manthorpe	Awaiting management update.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1625 T-Police	Organisational Change to be considered an integral part of all projects where significant business process change is planned and/or where there is a strategic organisational change process planned or under way.	2	Agreed.	30/09/2016	Head of Corporate Development and Change	Awaiting management update. Meeting scheduled for 23/11/16
NSC1626 ITIL	IT Management to review the 46 Problem Management best practice areas not currently being implemented and to implement those areas considered to be appropriate for the organisation. The self-assessment questionnaires to be used to guide this process.	1	The recommendation to consider the area of ITIL Problem Management will be reviewed by the "Policy and Process Manager". This Role has been recruited to and the successful candidate is awaiting Vetting outcome and start date.	31/10/2016	Policy Process Manager	Awaiting management update.
NSC1626 ITIL	IT Management to review the 25 Change Management best practice areas not verified/not currently being implemented and to implement those areas considered to be appropriate for the organisation. The self-assessment questionnaires to be used to guide this process.	2	ICT Change Manager (Currently Vacant and out for recruitment) alongside the Policy and Process Manager to review the current 31 controls to ensure continued compliance and assess the remainder, if appropriate to the organisation them implement accordingly.	31/10/2016	ICT Change Manager	Awaiting management update.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
NSC1626 ITIL	IT Management to review the four Service Desk best practice areas not verified/not currently being implemented and to implement those areas considered to be appropriate for the organisation. The self-assessment questionnaires to be used to guide this process.	2	ICT Service Desk Manager alongside the Policy and Process Manager to review and consider the 4 implementation the remaining best practices currently not implemented.	31/10/2016	ICT Service Desk Manager	Awaiting management update.
Special Constabulary	All Special Officers should complete the required evening sessions for phase 2 of the induction training. This will enable them to qualify for independent patrol. As per the revised procedure for Special Constables (currently in draft) the aim is for phase 1 and 2 of the induction training to be completed within 18 months.	2	ERP will be used for monitoring specials that have not undertaken all of their training. Currently ERP is not able to fulfil this role at present, so this is monitored by the Specials Manager and the Administrative Officers working in the Specials Office Support team.		ICT Service Desk Manager	ERP is to be used for this, but it continues to be monitored by the Administrative Manager working in the Specials Office Team in the interim.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
Contract Management	<p>Once the contract management guidelines are in place it is recommended that;</p> <ul style="list-style-type: none"> • The document is circulated to all relevant staff to ensure that they are aware of their responsibilities; • The document is retained in a central point accessible by all relevant staff; • The document is reviewed at least annually with the review date shown on the document; • Contract management plans are developed for all contracts, including new contracts and those already in place, on a risk basis, as per guidelines. <p>All relevant staff receive training on their responsibilities as described in this document.</p>	1	<p>From review of the 'Contract Management Guidelines' it was confirmed that key staff responsibilities are clearly defined in the document.</p> <p>The 'Contract Management Guidelines' are not placed on the intranet. There has been a staffing shortage which has prevented the guidelines from being updated on the intranet. A revamped joint intranet is currently being developed.</p> <p>This has not yet been implemented, due to ongoing re-organisation, tranche 12 and job evaluation. From a commercial team all bar one member of staff is part or fully CIPS qualified. The commercial team work with the departments and certainly have dialogue regarding the high value / high risk contracts.</p>	2016	Head of Procurement	Outstanding / In Progress Contract Management Guidelines are still to be placed on the intranet. The Contract Management Guidelines will be placed on the intranet once it has been revamped and the joint intranet site is in place.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
HR Training	<p>In line with action A5028 a consistent approach should be reached with regards to monitoring of attendance to ensure that no staff/officers 'slip through the net'.</p> <p>Specifically for First Aid training, a member of Learning and Development staff needs to be made responsible for monitoring of non-attendance at Suffolk. Consideration could be given to whether period reports can be run to highlight any gaps.</p>	1	<p>Norfolk Constabulary are using a spreadsheet to monitor take-up rates of first-aid training, this is not used by Suffolk as going forward ERP will be used to monitor training.</p> <p>The ERP system at the time of follow-up was not able to produce reports to monitor first aid training, and as ERP will be used, to avoid duplication a spreadsheet for monitoring first-aid training has not been developed.</p>	2016	Director of HR	<p>Change in management responsibility. Previous management response: ERP is to be used for this, but reporting from ERP is still being developed.</p>
HR Training	<p>The Learning and Development policy, before it is finalised, should be reviewed to ascertain whether Staff, Officer and Line Manager/Supervisor responsibilities should be written into the policy to make it clear that they are responsible for keeping up with the training they are required to undertake and that their staff are completing training within expected timescales.</p>	1	<p>The Learning and Development Policy is still as interim rather than a final approved policy. The Learning and Development Team has undergone a restructure, and with the introduction of ERP this has resulted in delays in finalising the Learning and Development Policy.</p>	2016	Director of HR	<p>Change in management responsibility. Previous management response: Introduction of the ERP system has resulted in delays in approving the final policy.</p>

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
HR Training	<p>The Learning and Development policy should be approved as soon as is practicable but prior to this consideration should also be given to any additions in line with action A5023.</p> <p>When finalised, the policy must be communicated with all Norfolk and Suffolk staff and officers.</p>	2	<p>The Learning and Development Policy is still as interim rather than a final approved policy. The Learning and Development Team has undergone a restructure, and with the introduction of ERP this has resulted in delays in finalising the Learning and Development Policy.</p>	2016	Director of HR	Introduction of the ERP system has resulted in delays in approving the final policy.
HR Training	<p>Action plans could be followed up with sponsors to document what action has been taken to improve the course.</p>	2	<p>This is something that is being addressed, the restructure of Learning and Development has delayed this</p>	2016	Director of HR	The restructure of the Learning and Development has delayed this
HR Training	<p>In line with the approved procedures, L&D internal audits and trainer evaluations should be undertaken to continually monitor the adequacy of training being delivered.</p>	2	<p>Norfolk and Suffolk Constabulary Trainers have completed some, with the others being timetabled. Where quality assurance audits have not yet achieved will reassess after Learning and Department has been restructured</p>	2016	Director of HR	The restructure of the Learning and Development has delayed this

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
HR Training	Although each approach taken by administrative staff appears to work in its own right, for continuity purposes consideration should be given to designing a single template that all staff should use to monitor non-attendance.	2	A member of the QA team has been running non-attendance reports that are followed up by the admin team, however these reports currently unavailable due to system changes. Once ERP embedded will be possible for Norfolk & Suffolk to use the same process.	2016	Director of HR	Problems with ERP have resulted in delays.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
HR Training	Suffolk should mirror Norfolk's example of ensuring that staff complete mandatory e-learning and ensure appropriate reminders are being issued to make sure that staff and officers undertake necessary training	1	E-learning is being used in both forces but NCALTs prioritisation is decided by Senior Officers depending on force priorities so roll outs/release dates of programmes often differ. Due to recent restructure e-learning completion is not being monitored by L&D as no reporting function or resource currently available. 'The number of e-learning packages now mandatory for new starters too many to complete in first week and stay sane, has to be prioritised. 'Dashboard' report was working well for priority/mandatory new e-learning, but currently unavailable due to ERP system implementation. Norfolk have resources to chase non completion-Suffolk do not. Has to be Line manager accountability and will be included in Policy updates.	2016	Director of HR	Problems with ERP resulted in delays.

Audit	Recommendation	Priority	Management Response	Implementation Date	Responsible Officer	Current Status
HR Training	A consistent approach across both forces needs to be reached as to how induction training should be recorded with the implementation of new ERP system in April 2015.	1	There is not a consistent approach for recording training, Norfolk are still using a spreadsheet for monitoring take up of training, but as ERP is going to be used for monitoring training there is little use in dedicating resources to developing a spreadsheet to use in the interim.	2016	Director of HR	Problems with ERP have resulted in delays.
HR Training	The system currently in place is inconsistent; the correct process needs to be communicated with all relevant staff in Suffolk and when the new system is in place, it needs to be ensured that this control carries on into that system.	1	The ERP system was implemented at the start of the financial year but there have been delays in the ERP implementing. ERP will be used to monitor take-up rates of training, but this is not currently possible.	2016	Director of HR	Problems with ERP have resulted in delays.



Norfolk and Suffolk Police and Crime Commissioners and Chief Constables

Draft 3 Year Strategic Internal Audit Plan 2017/18 to 2019/20 and Annual Internal Audit Plan 2017/18

December 2016

Three Year Strategic Internal Audit Plan 2017/18 to 2019/20 and Annual Internal Audit Plan 2017/18

INTRODUCTION

This Three Year Strategic Internal Audit Plan is drawn up in accordance with the Terms of Reference of TIAA and the requirements of the Public Sector Internal Audit Standards (PSIAS).

AUDIT STRATEGY

The internal audit programme of work, outlined in the Three Year Strategic Internal Audit Plan, is designed to determine the extent to which Norfolk and Suffolk Police's network of risk management, control and governance processes are adequate and operating in the designed manner.

Assessing the audit risk attached to each system

In order to obtain the best use of the internal audit resource it is necessary to assess the risk to Norfolk and Suffolk Police of a failure of the internal controls or absence of appropriate internal controls in each system. This is achieved by a risk analysis model, drawn up by TIAA, which has been used to determine the risk category for each system. The model considers the:

Norfolk and Suffolk Police identified major risks - The Norfolk and Suffolk Police's risk registers lists the business significant risks. Many of these risks relate to external factors where internal audit could have very limited impact. Major risks, which relate to internal factors, have been considered as part of the production of the Three Year Strategic Internal Audit Plan.

Audit risks - This element considers the control risks associated with the operation of an activity. The risk assessments make allowance for previous internal audit reviews carried out, though the extent of the allowance reduces as the elapsed time increases. The risk analysis model also makes

allowance for assurances from other external reports e.g. financial statements auditor. The highest risk areas identified are included in the Three Year Strategic Internal Audit Plan.

Public relations risks - The risk is not just the immediate financial loss that may arise but also the impact of the adverse publicity that may occur from a control failure. In the medium to longer term it is likely that the latter will have the greater adverse impact for Norfolk and Suffolk Police.

Determining the period over which all systems will be audited

The internal audit work to be planned over a three year cycle. A cyclical approach to audit work can be used if a system has been subject to an internal audit review, which has indicated that there are effective controls, as it is then not necessary to undertake detailed assurance reviews on that system in each year.

THREE YEAR STRATEGIC INTERNAL AUDIT PLAN 2017/18 TO 2018/19 AND ANNUAL INTERNAL AUDIT PLAN 2017/18

Annex A sets out the overall template for the rolling review of Norfolk and Suffolk Police's systems of internal control over a three-year cycle. This Three Year Strategic Internal Audit Plan assumes that there is no significant change in the risk assessments or in the operations of Norfolk and Suffolk Police. It also assumes that no significant control weaknesses will be identified by the internal audit reviews. As a consequence TIAA will prepare an Annual Internal Audit Plan in each of the financial years which will modify the Three Year Strategic Internal Audit Plan to take into consideration all known changes.

An Annual Internal Audit Plan will be prepared prior to the start of each financial year (Annex B). The programme of work within the Annual Internal

Audit Plan will be in accordance with the Three Year Strategic Internal Audit Plan and any variations will be agreed with the senior staff at Norfolk and Suffolk Police and will be reported to the Audit Committees.

LIAISON WITH THE EXTERNAL AUDITOR

We will liaise with the External Auditor for Norfolk and Suffolk Police. Any matters in the areas included in an Annual Internal Audit Plan that are identified by the External Auditor in their audit management letters will be included in the scope of the appropriate review.

LIMITATIONS AND RESPONSIBILITY

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overruling of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

REPORTING

Assignment Reports: A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of the Public Sector Internal Audit Standards (PSIAS).

Progress Reports: Progress reports will be prepared for each Audit Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

Annual Report: An Annual Report will be prepared for each year in accordance with the requirements set out in the PSIAS. The Annual Report will include our opinion of the overall adequacy and effectiveness of Norfolk and Suffolk Police's risk management, control and governance processes.

ASSESSMENT OF THE KEY RISK CONTROL OBJECTIVES

For each assurance review an assessment of the combined effectiveness of the controls in mitigating the key control risks will be provided. The assurance mapping process is set out in Annex C.

AUDIT REMIT

The Audit Remit (Annex D) formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within Norfolk and Suffolk Police and defines the scope of internal audit activities.

COUNTER FRAUD

Due consideration is given to the risk of fraud and a number of audits include pro-active counter fraud work. E.g. proceeds of crime, reviewing changes to bank accounts as part of the accounts payable audit, expenses audit. Therefore a specific allocation of time has not been included within the plan.

RELEASE OF REPORT

The table below sets out the history of this plan.

Date plan issued:	December 2016
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Annex A

Internal Audit Strategic Plan – 2017/18 – 2019/20

System	Type of	Notes	2016/17	2017/18	2018/19	2019/20
Strategic	review					
Governance – Strategic Control, Corporate Governance and Ethics	Assurance			12		10
Governance – Performance Management	Assurance		15		15	
Governance – Transformation and Strategic Planning	Assurance				10	
Governance – Assurance Framework	Assurance		10			
Risk						
Risk Management – Strategy / Policy OPCCs	Assurance		10			
Risk Management – Mitigating Controls	Assurance		15		10	
Risk Management – Business Continuity	Assurance					10
Risk Management – RAID log	Assurance					
ICT						
ICT – Cyber Security	Assurance					12
ICT – ERP / Athena	Assurance			12		
ICT – Exchange 2010/email Archiving	Assurance		12			
ICT – Data Assurance (scope to be determined)	Assurance				12	12
ICT – Website Content	Assurance			12		
ICT – Mobile Device Management (body worn video)	Assurance			12		
ICT – Firewall	Assurance		12			12
ICT – IT Governance	Assurance			12		

ICT – Disaster Recovery	Assurance	Notes	12			12
System	Type of review	Notes	2016/17	2017/18	2018/19	2019/20
ICT – Business Continuity	Assurance				12	
ICT - ERP Second/third line support	Assurance		12			
ICT – Software Licensing	Assurance				12	
Finance						
Key Financial Controls (2017/18 - Accounts Receivable, General Ledger, Budgetary Control, Treasury Management, Pensions, Fixed Assets)	Assurance	Financial systems combined for key control testing	30	30	30	30
Payroll, including ERP Reporting	Assurance		10	10		10
Accounts Payable	Assurance			10		10
Accounts Receivable	Assurance				10	
Purchase Ordering	Assurance			10		
Purchase Cards	Assurance		12	10		
General Ledger	Assurance					
Treasury Management	Assurance					
Capital Expenditure	Assurance				10	10
Budgetary Control	Assurance		12			10
Fixed Assets	Assurance				10	
Pensions Administration	Assurance		10			
Overtime, Expenses and Additional Payments	Assurance		16	16		
Operational						
Estates Management - Strategy	Assurance				12	
Estates Management – Duty of Care / Cost Allocations	Assurance		12			
Estates Management – Health and Safety	Assurance		12			12

Estates Management – 3i Property Database	Assurance		4		
Estates Management – Facilities / (Catering Suffolk only)	Assurance	6 (Suffolk)		12	

System	Type of review	Notes	2016/17	2017/18	2018/19	2019/20
Estates Management – Building Access and Vehicle Security	Assurance				12	
Estates – Contract management	Assurance			10		
Transport Management - Strategy	Assurance				10	
Transport Management - Procurement	Assurance				10	
Transport Management – Maintenance, Repair, Disposal and Fuel Usage	Assurance		15			15
Transport Management – Use of vehicles	Assurance			8		
HR – Absence Management	Assurance			12		10
HR - Strategy	Assurance		10			
HR – Recruitment	Assurance		12		12	
HR – Learning and Development	Assurance			12		12
HR - ill Health Retirement	Assurance			8		
IM – Audit Team Assessment	Assurance			8		
IM - Data Quality	Assurance			12	12	12
IM - Specified Information Order	Assurance					10
IM - Records Management	Assurance				10	
IM - Freedom of Information / Data Protection / Document Security Management	Assurance		15			12
IM – MOPI Project Implementation	Assurance			10		
Procurement – Single Tender Actions and temporary recruitment	Assurance			10		
Procurement – Compliance with contract standing orders within departments	Assurance			14		12
Complaints	Assurance		10			10
Duty Management System	Assurance		15	8		12
Custody Administration	Assurance			14		
Corporate Communications	Assurance		12			10
Business Interests	Assurance			8		

Collaborations	Assurance		10			10
Firearms Management / Certificates	Assurance		12		12	
	Type of	Notes	2016/17	2017/18	2018/19	
System	review					
Commissioners Grants – (10) Norfolk only / 18 Both	Assurance		10	18	10	10
Proceeds of Crime	Assurance				12	
Safeguarding and investigations	Assurance			10		
Police Stations	Assurance					12
Lone Working	Assurance			10		
Other						
Contingency c/fwd / (b/fwd)	C/fwd	(69)	30	(22)	14	(17)
Follow Up			10	10	10	10
Audit Management (to include: audit planning, client liaison, external audit, annual report, Audit Committee)			20	20	20	20
Totals			399	330	330	330

Annex B

Internal Audit Annual Plan – 2017/18

Quarter	Audit	Type	Days	Scope
Q1	Governance – Corporate Governance and Ethics	Assurance	12	<p><u>Scope</u> The review will focus on compliance with CIPFAs new code of corporate governance, issued during 2016/17. Incorporating delivering good governance and embedding governance across the organisations.</p> <p><u>Rationale</u> The PCCs and Constabulary's are required to comply with new code of corporate governance.</p> <p><u>Lead Officers</u> PCCs and Chief Constables</p>
Q2	ICT ERP / Athena	Assurance	12	<p><u>Scope</u> The focus of the review will be confirmed as the plan develops. This will include process improvements affecting the systems. Possible review of project implementation, key stages and lessons learnt.</p> <p><u>Rationale</u> Key risk area across the organisations.</p> <p><u>Lead Officers</u> Head of ICT</p>
Q1	ICT Website Content	Assurance	12	<p><u>Scope</u> The focus of this review will be confirmed as the plan develops.</p> <p><u>Rationale</u> Key area of risk.</p> <p><u>Lead Officers</u></p>

Quarter	Audit	Type	Days	Scope
				PCC and Head of ICT
Q1	ICT Mobile Device Management (body worn video)	Assurance	12	<p><u>Scope</u> The scope of the review will be confirmed as the plan develops.</p> <p><u>Rationale</u> Key area of risk for the business.</p> <p><u>Lead Officers</u> Head of ICT</p>
Q1	ICT Governance	Assurance	12	<p><u>Scope</u> The scope of the review will be confirmed as the plan develops.</p> <p><u>Rationale</u> Key area of risk for the business.</p> <p><u>Lead Officers</u> Head of ICT</p>
Q4	Key Financial Controls (Accounts Receivable, General Ledger, Budgetary Control, Treasury Management, Pensions, Fixed Assets)	Assurance	30	<p><u>Scope</u> The review considers the arrangements for key controls operating within the following systems; Accounts Receivable, General Ledger, Treasury Management, Budgetary Control, Fixed Assets and Pensions.</p> <p><u>Rationale</u> The full audits for the financial systems will be undertaken on a systematic basis.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>

Quarter	Audit	Type	Days	Scope
Q3	Payroll, including ERP Reporting	Assurance	10	<p><u>Scope</u> The review will focus on providing assurance around the payroll system, including data input for starters, leavers, changes and ERP reporting.</p> <p><u>Rationale</u> Payroll is a key risk area, with reporting and data assurance being of high risk.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q3	Accounts Payable	Assurance	10	<p><u>Scope</u> The audit will focus on processing and payment of invoices.</p> <p><u>Rationale</u> This is a key area of risk for the organisations.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q2	Purchase Ordering	Assurance	10	<p><u>Scope</u> The review will focus on open orders, closing down issues, partially completed orders and legacy orders. To verify that internal controls are in place and working to manage the purchase ordering procedures</p> <p><u>Rationale</u> Purchasing can be a vulnerable area prone to risk</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q3	Purchase Cards	Assurance	10	<p><u>Scope</u> To examine a number of orders placed to confirm compliance with the Constabularies Purchasing card procedures when goods and/or services are procured.</p> <p>Ensure compliance with operating procedures for Purchasing.</p> <p><u>Rationale</u></p>

Quarter	Audit	Type	Days	Scope
				A vulnerable area for the Constabulary. Agreed with the CFOs <u>Lead Officers</u> Chief Finance Officers
Q2	Overtime, Expenses and Additional Payments	Assurance	16	<u>Scope</u> The review considers the arrangements for overtime, expenses and additional payment transactions through CAPITA, DMS, links with ERP, for compliance with policy and procedures. These will include overtime, mileage, car parking, meals, train travel and accommodation. <u>Rationale</u> Key Audit risk area. <u>Lead Officers</u> Chief Finance Officers
Q1	Estates – 3i Property Database	Assurance	4	<u>Scope</u> The audit will focus on the implementation of the 3i database. This will incorporate information management. <u>Rationale</u> The new property database is currently being implemented, with information transfer and retention being considered. <u>Lead Officers</u> Head of Estates
Q1	Estates – Contract Management	Assurance	10	<u>Scope</u> The review will focus on the management of estates contracts, including utilities bureau service and bill validation services. <u>Rationale</u> Changes within the estates department increase the risk of continuity in managing contracts. <u>Lead Officers</u>

Quarter	Audit	Type	Days	Scope
				Head of Estates
Q1	Transport Services – Use of Vehicles	Assurance	8	<p><u>Scope</u> The audit will appraise compliance with policy on the use of vehicles. This will include policy, processes for communicating policy and monitoring compliance.</p> <p><u>Rationale</u> Vehicles may not be used in accordance with policy.</p> <p><u>Lead Officers</u> Head of Transport</p>
Q2	HR – Sickness and Absence Management	Assurance	12	<p><u>Scope</u> The review will appraise the management of sickness and absence across the organisations.</p> <p><u>Rationale</u> This is a key risk area.</p> <p><u>Lead Officers</u> Head of HR</p>
Q1	HR – Learning and Development	Assurance	12	<p><u>Scope</u> The review will focus on learning and development across the organisations. This will include planning, development, record keeping, training, specialist training.</p> <p><u>Rationale</u> This is a key risk area.</p> <p><u>Lead Officers</u> Head of HR</p>

Quarter	Audit	Type	Days	Scope
Q1	HR – ill Health Retirement	Assurance	8	<p><u>Scope</u> The audit will appraise the systems in place for managing and processing ill health retirement cases. This will include policy, processes, responsibilities, payments and approvals.</p> <p><u>Rationale</u> There has been an increase in ill health retirement.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q1	Information Management – Audit Team Assessment	Assurance	8	<p><u>Scope</u> The review will appraise the policy and processes in place for the information management audit team. This will include planning, documenting, assessment, review, reporting and implementation of improvements.</p> <p><u>Rationale</u> The audit team has been in operation and would benefit from a peer review of systems and controls.</p> <p><u>Lead Officers</u> Head of Information</p>
Q2	Information Management – Data Quality	Assurance	12	<p><u>Scope</u> The review will focus on the quality of data across areas of the organisations. This will include data recording and retention on central systems and stand-alone systems, quality of input, focusing initially on data quality for priority reporting systems.</p> <p><u>Rationale</u> Data quality is a key area of risk, with new IT systems introduced and numerous data entry points.</p> <p><u>Lead Officers</u> Head of Information</p>

Quarter	Audit	Type	Days	Scope
Q1	Information Management – MOPI Project Implementation	Assurance	10	<p><u>Scope</u> The audit will assess the MOPI project implementation.</p> <p><u>Rationale</u> Key area for risk</p> <p><u>Lead Officers</u> Head of Information</p>
Q1	Procurement – Single Tender Actions and Temporary Recruitment	Assurance	10	<p><u>Scope</u> The audit will focus on single tender actions and temporary recruitment, including use of specialists, in accordance with contract standing orders.</p> <p><u>Rationale</u> Key area for risk</p> <p><u>Lead Officers</u> Head of Procurement</p>
Q2	Procurement – Compliance with CSO within departments	Assurance	14	<p><u>Scope</u> The review will assess the procurement processes within departments, compliance with contract standing orders.</p> <p><u>Rationale</u> Key area of risk.</p> <p><u>Lead Officers</u> Head of Procurement</p>
Q1	Duty Management System	Assurance	8	<p><u>Scope</u> The review will follow up on the previous audit, with detailed testing to appraise the effectiveness of the duty resource management system.</p> <p><u>Rationale</u> An important system for the Constabularies</p> <p><u>Lead Officers</u> Director of HR</p>

Quarter	Audit	Type	Days	Scope
Q1	Custody Administration	Assurance	14	<p><u>Scope</u> The audit will focus on the processes, coding and systems in operation to manage custody in accordance with protocols.</p> <p><u>Rationale</u> A key area of risk.</p> <p><u>Lead Officers</u> TBA</p>
Q2	Business Interests	Assurance	8	<p><u>Scope</u> The review will assess the policy and processes in place for managing conflicting business interests.</p> <p><u>Rationale</u> Conflicts may arise that impact on service delivery for the constabularies.</p> <p><u>Lead Officers</u> PSD / Chief Finance Officers</p>
Q2	Safeguarding and Investigations	Assurance	9	<p><u>Scope</u> The audit will assess the policy, procedures and processes operating.</p> <p><u>Rationale</u> Key area of reputational risk.</p> <p><u>Lead Officer</u> TBA</p>
Q2	Lone Working	Assurance	9	<p><u>Scope</u> The review will assess the policy, procedures and processes operating.</p> <p><u>Rationale</u> Key area of reputational risk.</p> <p><u>Lead Officers</u> TBA</p>

Quarter	Audit	Type	Days	Scope
Q4	Commissioners Grants – Norfolk and Suffolk	Assurance	18	<p><u>Scope</u> The review will consider the arrangements for the assessing, awarding and compliance monitoring process for the grants issued by the Commissioners.</p> <p><u>Rationale</u> An important area requiring high levels of governance and probity.</p> <p><u>Lead Officers</u> Chief Executives (OPCC)</p>
	Contingency b/fwd		(30)	Only to be used with the express permission of the Chief Finance Officers
Q2 / Q4	Follow up work		10	The review ascertains whether management action has been taken to address the Priority 1 and 2 recommendations arising from internal audit work carried out in the financial year.
1-4	Audit Management		20	This time includes planning, annual report, attendance at Audit Committee meetings, client meetings and overall contract management.
		Total days 2017/18	330	

Assurance Mapping

Corporate assurance risks

We consider four corporate assurance risks; directed; compliance; operational and reputational. The outcomes of our work on these corporate assurance risks informs both the individual assignment assurance assessment and also the annual assurance opinion statement. Detailed explanations of these assurance assessments are set out in full in each audit report.

Assurance assessment gradings

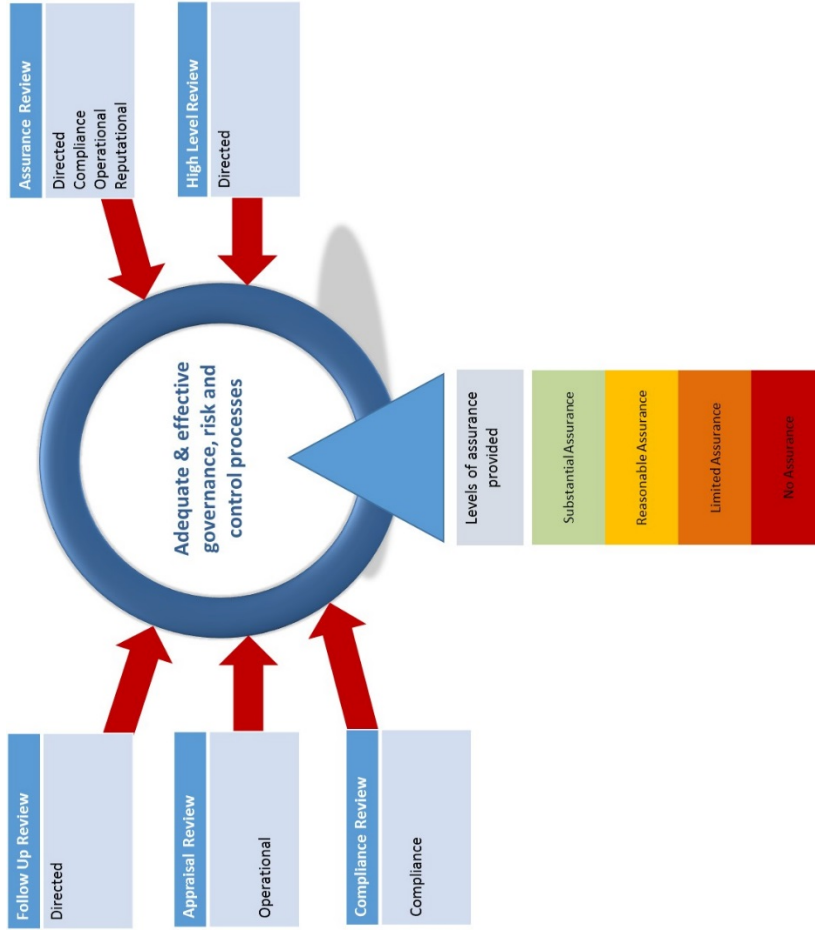
We use four levels of assurance assessment: substantial; reasonable; limited and no. Detailed explanations of these assurance assessments are set out in full in each audit report.

Types of audit review

The Annual Internal Audit Plan includes a range of types of audit review. The different types of review focus on a one or more of the corporate assurance risks. This approach enables more in-depth work to be carried out in the individual assignments than would be possible if all four assurance risks were considered in every review. The suite of audit reviews and how they individually and collectively enable us to inform our overall opinion on the adequacy and effectiveness of the governance, risk and control arrangements is set out in the assurance mapping diagram.

Directed Risk: Failure to direct the process through approved policy & procedures.

Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.



Operational Risk: Failure to identify opportunities to operate more efficiently or to be prepared for forthcoming changes.

Reputational Risk: Failure to deliver in a manner that meets the expectations of the organisation.

Audit Remit

Role

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Norfolk and Suffolk Police's framework of governance, risk management and control. TIAA is responsible for giving assurance to Norfolk and Suffolk Police's Audit Committees on the adequacy and effectiveness of Norfolk and Suffolk Police's risk management, control and governance processes.

Scope

All Norfolk and Suffolk Police's activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that Norfolk and Suffolk Police's management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions. However, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by senior management, audit committee or the nominated officer (being the post responsible for the day to day liaison with the TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS.

Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of Norfolk and Suffolk Police and is authorised to obtain such information and explanations as they consider necessary to form their opinion.

Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day to day administrative purposes only, TIAA reports to a nominated officer within Norfolk and Suffolk Police and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the Audit Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with Norfolk and Suffolk Police's management.

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to. The objective of any consultancy work is to add value and improve governance, risk management and control processes. Internal audit will never take or assume management responsibility.

Irregularities, Including Fraud and Corruption

TIAA will without delay report any, serious weaknesses, significant fraud, major

accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2003 to the nominated officer.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that he or she can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

The Police and Crime Commissioner for Norfolk and the Chief Constable of Norfolk Constabulary

Annual Audit Letter for the year ended 31 March
2016

October 2016

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner for Norfolk (PCC) and the Chief Constable (CC) of Norfolk Constabulary following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<p>Opinion on the PCC's and CC's:</p> <ul style="list-style-type: none"> ▶ Financial statements 	<p>Unqualified – the financial statements give a true and fair view of the financial position of the PCC Group, the PCC Single Entity, the CC Single Entity and the Police Pension Fund as at 31 March 2016, and of the expenditure and income for the year then ended</p>
<ul style="list-style-type: none"> ▶ Consistency of other information published with the financial statements 	<p>Other information published with the financial statements was consistent with the Annual Accounts.</p>

Concluding on the PCC's and CC's arrangements for securing economy, efficiency and effectiveness We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<p>Reports by exception:</p> <ul style="list-style-type: none"> ▶ Consistency of Governance Statement ▶ Public interest report ▶ Written recommendations to the PCC and CC, which should be copied to the Secretary of State ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 	<p>The Annual Governance Statement for the PCC and CC was consistent with our understanding of the PCC and CC.</p> <p>We had no matters to report in the public interest.</p> <p>We had no matters to report.</p> <p>We had no matters to report.</p>

Area of Work	Conclusion
<p>Reporting to the National Audit Office (NAO) on our review of the PCC Group's Whole of Government Accounts return</p>	<p>The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.</p>

(WGA).

As a result of the above we have also:

Area of Work	Conclusion
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Issued a report to the PCC and CC as those charged with governance communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 September 2016 and discussed with the Audit Committee on 27 September 2016.
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Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016.
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We would like to take this opportunity to thank the Office of the PCC and CC staff for their assistance during the course of our work.

Kevin Suter

Executive Director
Luton
For and on behalf of Ernst & Young LLP, Appointed Auditor

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and CC.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27 September 2016 Audit Committee. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PCC and CC.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we presented to the 10 March 2016 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PCC and CC have to secure economy, efficiency and effectiveness in their use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement for the PCC and CC are misleading or not consistent with our understanding of the PCC and CC;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the PCC and CC, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing the statements of accounts accompanied by an Annual Governance Statement. In the AGS, the PCC and CC reports publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The PCC's and CC's Statements of Accounts are an important tool for the PCC and CC to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 September 2016.

Our detailed findings were reported to the 27 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk

Management override of controls

A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.

Conclusion

We did not identify any evidence of material management override.

We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We had no matters to report.

Our review of accounting estimates did not identify any evidence of management bias. We did not identify any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the PCC and CC's normal course of business

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

<p>or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities, including Police bodies, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p> <p>New Enterprise Resource Planning System</p> <p>Suffolk and Norfolk Constabularies have implemented the new Enterprise Resource Planning (ERP) system to support Human Resources, Duties, Finance, Procurement and Payroll. The ERP system aims to assist joint working and improve the efficiency of support departments to enable savings to be realised. The system was implemented in April 2015.</p> <p>We are aware that there were problems on inception and as this will be the first year that the financial statements are produced using the new ERP system there is a risk that the statements may be materially misstated.</p>	<p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the PCC's and CC's financial position.</p> <p>We did not find errors from testing cut-off processes.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Other Key Findings</p> <p>The PCC and CC published the relevant documents on their respective websites in time for the public inspection period beginning 1 July 2016. However, the PCC and CC did not publish the Annual Governance Statement on the same date.</p>	<p>Our review of the transfer of financial information and payroll data indicated that management had appropriate governance and control procedures in place to highlight and address errors arising from the transfer of data.</p> <ul style="list-style-type: none"> • We did not identify any significant control deficiencies from our walk-through of key processes and controls; • Our mapping of the trial balance did not identify any coding anomalies; • Our review of balance sheet opening balances did not highlight any balances that had not migrated correctly from the previous system; • We did not find any issues of misclassification from our expenditure testing; and • Our testing of journal entries recorded in the general ledger and other adjustments have not identified incorrectly classified significant balances.

Conclusion

We did not consider any further formal reporting was required as the PCC and CC corrected the omission by mid July 2016. We judged this would give the public sufficient time to consider all documents fully.

The PCC and CC produced a good set of accounts, especially considering the work involved following the change in the financial system from 1 April 2015.

Management prepared working papers for the first week of the audit visit of 25 July but best practice is to do this for the signing of the financial statements by the Section 151 Officer. As the timetable moves to 31

May in 2017/18, management needs to bring forward its preparations to meet this date. A specific area of focus is that management had difficulty in obtaining payroll reports to support our analytics data, which delayed our audit in this area.

The financial statements for the PCC Group and PCC Single Entity contain prior period adjustments for the material PFI grant of £3.3 million and Home Office grant of £16.6 million for 2014/15. Management identified the adjustments following the harmonisation of financial processes between Norfolk and Suffolk Constabularies. In previous years the PCC and Group has shown:

- The PFI grant within taxation and non-specific grant income. The restatement includes the grant within the net cost of services; and
- The Home Office grant in the Comprehensive Income and Expenditure Statement (CIES) within other operating expenditure. The restatement involves debiting the grant to the General Fund balance in the Movement in Reserves Statement.

Following our audit, management amended Note 37 in the PCC accounts and Note 22 in the CC accounts to provide further disclosure of the prior period adjustments as regards to the individual Notes that the PCC and CC have restated.

As a result, our work has incurred an extra fee.

In future years we would welcome earlier notification and discussion regarding proposed prior period adjustments before the preparation of the financial statements, which will assist in mitigating any fee impact.

The financial statements record that the adjustment is presentational in the CIES, but having no impact on the Balance Sheet and the financial position of the Group PC, Single entity PCC and single Entity CC.



Value for Money

Value for Money

We are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified one significant risk in relation to our value for money conclusion. This related to sustainable resource deployment, and the need for the PCC and CC to achieve their savings plans and their budget gap to deliver the Medium Term Financial Plan (MTFP). We have performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the PCC's and CC's arrangements. We therefore concluded that the PCC and CC had adequate arrangements in place.

As part of our work we made the following observations.

Key Findings

Consideration of arrangements for deployment of resources to achieve planned and sustainable outcomes

We consider the PCC's and CC's arrangements for deploying resources in a sustainable manner, to be a risk to the Value for Money Conclusion. To assess this risk we have reviewed the PCC's and CC's revised MTFP as of 10 February 2016 to review:

- The key assumptions made within the 2016/17 annual budget;
- The development of the savings plans; and
- The work of Her Majesty's Inspectorate of Constabulary (HMIC) on its PEEL assessment.

The key assumptions made within the 2016/17 annual budget

The process for setting the PCC's and CC's budget is sound. The precept setting process details the assumptions used which management checks against known practice with other constabularies. Management use scenario planning effectively to provide guidance to the PCC in determining options for budget setting and the level of precept.

We concluded that The MTFP identifies the key assumptions expected to underpin the 2016/17 budget. Assumptions include:

- Reductions in future levels of Government Grant;
- Pay inflation, inflation for other costs;
- Council tax increases, using sensitivity analysis to project the impact of decisions for freezing or increasing council tax by nearly 2%; and
- The £2.1 million impact from the Government's intention to introduce a reformed State Pension of £144 per week from April 2017.

The development of the savings plans

During 2015, the PCC and CC had based the MTFP on expectations of a 25% reduction in police funding. The Government's December 2015 Police Grant Report noted a reduction of 0.6%. As a result PCC and CC reduced its January 2015 forecast budget gap of £3.2 million to £1.756 million as of 31 March 2020, based on annual 2% council tax increases.

The gap of £1.756 million is dependent on the delivery of the cumulative savings plans of £6.123 million to 31 March 2020.

However, the PC and CC have a record of achieving savings plans, with the MTFP recording £20.8 million saved from collaboration with Suffolk Constabulary and Norfolk only schemes from 2010/11 to 2015/16. Previous internal and external audit work has found governance arrangements in the Programme Management Office to be sound. This provides a good platform for the PCC and CC to achieve the required savings through the revised Scrutiny and Challenge process (using the new outcome based budgeting tools), Norfolk Local Policing Review and regional collaboration as outlined in the MTFP.

The MTFP forecasts usable reserves to fall from £24.5 million as at 31 March 2016 to £16.2 million by 31 March 2020. This is as a result in part of reducing the Budget Support Reserve from £21.4 million to £6.6 million to fund an extensive capital programme in 2016/17. The PCC and CC have identified and are on course to deliver the required £5.431 savings for 2016/17 but will need to keep the level of reserves under review if austerity continues or savings programmes slip.

The work of HMIC on its PEEL assessment.

The HMIC found that Norfolk Constabulary is exceptionally well-placed to face its future financial challenges. The HMIC awarded an outstanding rating in its Autumn 2015 review of how efficient Norfolk Constabulary is at keeping people safe and reducing crime. HMIC rated Norfolk Constabulary as:

- Outstanding in its use of resources to meet demand;
- Good in its sustainability and affordability of its workforce model; and
- Outstanding for the sustainable the Constabulary's financial position is in the short and long term.

We have concluded that the PCC and CC is responding well to the financial challenges it is facing. However, achieving savings plans and the budget gap still represent a challenge over the medium term. The PCC and CC need to develop robust plans and deliver savings from its initiatives, consider carefully the impact of any decisions to freeze council tax and continue to review the levels of reserves to support the PCC's and CC's finances.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC's and CC's annual governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

Management amended the annual government statement for the PCC and CC to record the results of HMIC inspections during 2015/16.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC and CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC and CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the 10 March 2016 and 27 September 2016 Audit Committees. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.



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Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
<p>New Legislation which infers new powers and responsibilities on the Police and Crime Commissioner (PCC):</p>	<p>The previous Home Secretary, now Prime Minister, was keen on expanding and developing the role of the Police and Crime Commissioner.</p>	<p>If these proposed changes are enacted in legislation this could impact on the governance of the PCC as well as the resources required to meet the new role and responsibilities. Some of the proposed changes include the PCC taking on responsibility for other blue light services in the area such as Fire and Rescue. This was introduced via the Policing and Crime Bill. Another key area of change introduced in the Bill was in relation to the police complaints system. Currently the Chief Constable is responsible for overseeing at a local level the complaints system. However recent discussions at a governmental level have suggested that this role could transfer across to the PCC with the PCC becoming in effect the appellate body for those appeals currently heard by the Chief Constable. This would require additional resource in the Office of the PCC to meet these additional responsibilities.</p>
Faster close	<p>From the 2017/18 financial year, the deadline for preparing the financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the PCC and CC to adjust their timetables for preparing the accounts, as well as the budget setting process and the timing of committee meetings. It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of</p>

Area	Issue	Impact
Appointment of auditors	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the PCC and CC can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint their own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p> <p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The PCC and CC have already agreed to opt into the appointed person scheme to appoint auditors from 2018/19.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our March 2016 Audit Plan recorded planned fees for 2015/16 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee PCC – Code work	To be confirmed*	33,825	33,825
Total Audit Fee CC – Code work	To be confirmed*	15,000	15,000
Total PCC Group	To be confirmed*	48,825	48,825

*As reported in the Audit Results Report to those charged with governance, We have also undertaken extra work as a result of:

- The review of the Prior Period Adjustments undertaken by the PCC in relation to the PFI Grant and Home Office Top Up Grant (the latter impacting on the CC Single entity financial statements); and
- Later than planned responses to our request for documentation regarding the Enterprise Resource Planning system.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Chief Finance Officer. Any extra fee is subject to approval by PSAA Ltd.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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Mid Year Treasury Management Monitoring Report 2016/17

Report by Chief Finance Officer

Executive Summary

The regulatory framework for treasury management requires the Police and Crime Commissioner (PCC) to receive a mid year monitoring report on treasury activities.

This report provides information on the treasury management activities of the PCC for the period 1st April 2016 to 30th September 2016.

The Brexit vote in June pointed to an impending sharp slowdown in the economy, however, subsequent surveys show a recovery in confidence although growth will continue to be weak; the Bank of England addressed this by a cut in Base Rate from 0.50% to 0.25% in August. To avoid the 'cost of carrying' debt the PCC continues to defer borrowing for capital purposes.

At the 30th September 2016, the PCC's external debt was £16.761m (including a £4m short term loan) and its investments totalled £35.627m.

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector (the Code), requires that the PCC receives a mid-year review of treasury activities in addition to the forward looking annual investment and treasury strategy and backward looking annual treasury report. The Annual Investment and Treasury Strategy for the current year (2016/17) was approved by the PCC in January 2016 and endorsed by the Audit Committee on 29th January 2016.
- 1.2 The PCC operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury

management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

- 1.3 The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to the PCC's risk or cost objectives.
- 1.4 As a consequence treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.5 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC's Chief Finance Officer. Day to day execution and administration of investment and borrowing decisions are undertaken by the Constabulary.
- 1.6 The PCC recognises the importance of monitoring treasury management activities, with regular reports being presented to the Audit Committee throughout the year.
- 1.7 This mid-year review provides commentary on economic conditions produced by Capita (the PCC's external treasury consultants) and details treasury activities for the period 1st April 2016 to 30th September 2016 including; cash balances and cash flow management, investment performance, counterparty management and long term borrowing/debt management.

2. Capita's Economic Overview - October 2016

2.1 Economic performance year to date

UK

- 2.1.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing

austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

- 2.1.2 The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.
- 2.1.3 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

U.S.

- 2.1.4 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone

2.1.5 In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

2.2 Capita Interest Rate Forecast

2.2.1 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50
3 month LIBID	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.30	0.40	0.50	0.60
6 month LIBID	0.30	0.30	0.30	0.40	0.40	0.50	0.50	0.50	0.60	0.60	0.70
12 month LIBID	0.50	0.50	0.60	0.60	0.70	0.70	0.70	0.80	0.80	0.80	0.90
5 yr PWLB	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.30
10 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80
25 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40

2.2.2 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012

2.2.3 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

2.2.4 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields

3. Cash Balances and Cash Flow Management

3.1 The PCC's cash balances comprise of revenue and capital resources, such as general balances, provisions and earmarked reserves and the timing differences between the receipt and payment of monies required to meet the cost of PCC services and its capital programme. The average level of cash balances year to date totals £36.442m.

3.2 Cash balances are managed internally and have been invested in accordance with the PCC's approved Authorised Lending List.

3.3 A key objective of cash flow management is to minimise balances held in the PCC's bank accounts in order to ensure that the maximum interest is earned.

3.4 The PCC operates nine bank accounts. Cash balances across all nine accounts are aggregated and surplus cash balances are invested on a daily basis.

3.5 Year to date (excluding investments and repayments), income received amounts to £120m, while payments total £112m, resulting in an overall increase in cash balances of £8m.

- 3.6 By continuing to delay borrowing for capital purposes (Section 6) while at the same time actively managing levels of liquid cash, the PCC on occasions has required to borrow short-term from the money markets to cover daily liquidity.

4. Investment Performance

- 4.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.
- 4.2 At the 30th September 2016, the PCC held £35.627m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid £m	Up to 3 Months £m	Up to 6 Months £m	Up to 9 Months £m	Up to 12 Months £m
Part Nationalised Banks	0	0	0	5.0	0
UK Banks	0.627	0	0	0	0
Non-UK Banks	0	0	13.0	7.0	0
Building Societies	0	3.0	3.0	3.0	1.0
Other*	0	0	0	0	0
Total	0.627	3.0	16.0	15.0	1.0

*Includes: Other Local Authorities

- 4.3 A more detailed investment profile at 30th September 2016 is shown at Appendix 1.
- 4.4 The average interest rate earned for the year to date is 0.73% compared with the average 3 month day London Interbank Bid Rate (LIBID) of 0.33%.
- 4.6 Gross interest earned for the period 1st April 2016 to 30th September 2016 is £0.132m.

5. Counterparty Maintenance

- 5.1 The PCC CFO is responsible for maintaining an Approved Counterparty List in accordance with the criteria as set out in the approved Annual Investment and Treasury Strategy 2016-17. Credit rating information is supplied by our treasury consultants on all active counterparties. Any rating changes, rating

watches (notification of a likely change) and rating outlooks (notification of a possible longer term change) are provided by our treasury consultants immediately they occur. A wide range of market information such as Credit Default Swap prices and share price is also taken into account. The Approved Counterparty List is therefore actively managed on a day-to-day basis and when an institution no longer meets the PCC approved counterparty criteria, it is immediately removed.

- 5.2 There have been no credit rating downgrades during the period 1st April 2016 to 30th September 2016 that have resulted in counterparties being removed from the authorised counterparty list.

6. Long Term Borrowing/Debt Management

- 6.1 The PCC undertakes capital expenditure on long-term assets. This activity gives rise to the need to borrow. Part of the PCC's treasury management activity is to address this borrowing need, either through long term borrowing from external bodies (PWLB or commercial banks) or utilising temporary cash resources within the PCC pending long term borrowing.
- 6.2 In accordance with the approved 2016-17 Investment and Treasury Strategy, the PCC continues to delay new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the PCC's exposure to investment counterparty risk.
- 6.3 At the 30th September 2016, the PCC's external borrowing (debt outstanding) totaled £16.761m (£12.761m PWLB plus £4m short term funding)
- 6.4 The PCC's overall borrowing requirement in 2016/17 is approx. £27.54m. This represents past capital expenditure for which the approved borrowing has not yet been drawn down. The PCC's CFO, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in the economic forecast (Section 2).
- 6.5 The Public Works Loans Board (PWLB) provides a facility to restructure debt, including early repayment of loans and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. Prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.

7. Conclusion

- 7.1 The Mid-Year Treasury Management Monitoring Report 2016/17 provides information on the Treasury Management activities of the PCC for the period 1st April 2016 to 30th September 2016.

8. Recommendations

- 8.1 It is recommended that Audit Committee endorses the Mid-Year Treasury Management Monitoring Report 2016/17.

**AUDIT COMMITTEE
2 DECEMBER 2016
AGENDA ITEM 6**

Outstanding Deposit Profile @ 30th September 2016				Appendix 1
Counterparty	Deal Date	Maturity Date	Rate	Principal(£m)
Barclays Bank	Instant Liquidity		0.30%	-0.627
Comm. Bank of Australia	05/07/2016	05/01/2017	0.52%	-3.0
Comm. Bank of Australia	17/06/2016	17/03/2017	0.77%	-2.0
Comm. Bank of Australia	01/06/2016	31/05/2017	0.98%	-2.0
Coventry BS	15/07/2016	16/01/2017	0.50%	-1.0
DBS Bank Ltd	15/07/2016	16/01/2017	0.46%	-3.0
Goldman Sachs Intl	05/07/2016	05/01/2017	0.525%	-2.0
Goldman Sachs Intl	07/06/2016	07/02/2017	0.82%	-3.0
Goldman Sachs Intl	01/06/2016	31/05/2017	1.07%	-5.0
Leeds BS	23/05/2016	23/11/2016	0.67%	-1.0
Lloyds Bank	07/06/2016	06/06/2017	1.05%	-5.0
Nationwide BS	18/05/2016	18/11/2016	0.71%	-2.0
Nationwide BS	05/07/2016	05/01/2017	0.55%	-2.0
Nationwide BS	13/07/2016	13/04/2017	0.60%	-1.0
Nationwide BS	15/07/2016	18/04/2017	0.60%	-2.0
Nationwide BS	26/07/2016	25/07/2017	0.72%	-1.0
				-35.627



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**Audit Committee
Forward Work Plan**

14 March 2017

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting 2 December 2016	
Treasury Management Strategy 2017/18	Report from CFO
Internal Audit 2016/17 Plan update 2017/18 Internal Audit Plan (Final)	Report from Head of Internal Audit
External Audit Plan 2017/18	Report from Director, E&Y
Strategic Risk Register update	Report from CExec and CC
Forward Work Plan	Report from CFO

7 June 2017

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting xx March 2017	
Internal Audit 2017/18 Plan update 2016/17 Head of Internal Audit Annual Report Follow Up – Previous Audit Reports	Report from Head of Internal Audit (TIAA) Report from Head of Internal Audit (TIAA) Report from Head of Internal Audit (TIAA)
Final Accounts 2016/17 – Accounting Policies	Report from CFO
Strategic Risk Register update	Report from CExec and CC
Forward Work Plan	Report from CFO

18 July 2017

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting xx June 2017	
Draft Annual Governance Statement for 2016/17	Report from CFO
Draft Statements of Accounts 2016/17 <ul style="list-style-type: none">- Chief Constable- PCC/Group	From CFO

5 September 2017

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting xx July 2017	
Internal Audit 2017/18 Plan update and follow-up report	Report from Head of Internal Audit
Final Accounts 2016/17 Approval including External Auditor's Audit Results Report	Report from CFO and Director, E&Y
Strategic Risk Register update	Report from CExec and CC
Forward Work Plan	Report from CFO

9 January 2018

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting xx September 2017	
Internal Audit 2017/18 Plan update 2018/19 Internal Audit Plan (draft)	Reports from Head of Internal Audit
External Audit 2016/17 Accounts Annual Audit Letter	Report from Director, E&Y
Treasury Management Update 2016/17	Report from CFO
Strategic Risk Register Update	Report from CExec and CC
Forward Work Plan	Report from CFO

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