AUDIT COMMITTEE

Tuesday 9th January 2018 at 2.00 p.m.
Wroxham Room, Jubilee House, Falconers Chase, Wymondham, Norfolk NR18 0WW

A G E N D A

<u>Note for Members of the Public</u>: 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 last meeting held on 5th September 2017

4. Internal Audit – Reports from Head of Internal Audit (TIAA)
   - 2017/18 Audit Progress Report and follow-up report
   - 2018/19 Draft Internal Audit Plan

5. External Audit – Reports from Director, Ernst and Young LLP
   - 2016/17 Annual Audit Letter
   - 2017/18 Audit Plan

6. Treasury Management Update 2017/18 – Report from Chief Finance Officer

Part 2 – Private Agenda

7. Strategic Risk Register Update – Report from Chief Executive and Chief Constable

8. Forward Work Plan – Report from Chief Finance Officer

9. Date of Next Meeting

Tuesday 17th April 2018 at 2pm in the Wroxham Room.

Enquiries to:

OPCCN
Building 8, Jubilee House,
Falconers Chase, Wymondham, Norfolk, NR18 0WW
Direct Dial: 01953 424455 Email: 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 5 SEPTEMBER 2017 AT 2 PM
IN THE WROXHAM ROOM, JUBILEE HOUSE,
FALCONERS CHASE, WYMONDHAM

Attendance:

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

Also in attendance:

Mr J Hummersone	Chief Finance Officer (CFO)
Mr P Jasper	Head of Joint Finance
Mr C Hewitt	Manager, Ernst & Young
Mr C Harris	Head of Internal Audit, TIAA
Ms F Dodimead	Director of Audit, TIAA

1. Welcome and Apologies

The Chairman welcomed those present. Apologies were received from DCC Nick Dean and Mr Mark Stokes.

2. Declarations of Personal and/or Prejudicial Interests

None reported. The Chairman reminded members of the need to update OPCC with any changes.

3. To confirm the minutes of the meeting held on 18 July 2017

The minutes were **agreed** and signed by the Chairman.

4. Internal Audit 2017/18 Plan update and Follow-Up Report

The Head of Internal Introduced the Reports with further commentary from the Director of Audit.

The Committee noted that 3 audit reports had been finalised since the last meeting, this was less than expected mainly due to the summer holiday period, pressures on auditees and a slow response to draft reports. However, the Committee was pleased to note that the Plan would still be delivered with all audits progressing or booked in.

The Committee also noted that 9 recommendations (30%) had been implemented (30%) since the last meeting and 21 (70%) remained outstanding.

Members raised various questions on purchase ordering and on the use of vehicles. The latter had given rise to 11 recommendations and the Director of Audit explained that was mostly due to inconsistent processes for Norfolk and Suffolk and that the new intranet would improve arrangements for booking pool cars. It was noted that most of the recommendations had already been implemented by the Fleet Manager.

The Committee was pleased to note that a number of audits had been the result of ongoing positive liaison between Internal Audit and Professional Standards Department.

5. Statements of Accounts 2016/17

The CFO introduced the report. The Committee had seen the accounts in draft form and had asked to be updated on any significant changes as a result of the audit. There were a small number of changes none of which affected the Group bottom line.

The Committee noted the final version of the Annual Governance Statement and the CFO agreed to insert a sentence in 4.5.1 regarding the continuous monitoring of outstanding audit recommendations.

The Audit Manager (EY) presented the Audit Results Report [ARR] (on the Accounts for year ended 31 March 2017). EY expected to issue an Unqualified Audit Opinion of the Statements of Accounts (PCC/Group and Chief Constable) subject to the finalisation of some minor matters. As regards the Value for Money conclusion EY had ‘no matters to report’.

Members discussed some of the matters mentioned in the ARR, including asset valuation processes, the financial risk (making the savings required) and the (savings) programme management arrangements.

The Committee was reassured that a ‘wash-up session’ would be held to review how this audit had gone with a view to ensuring that the much tighter timetable for 2017/18 could be achieved.

The Committee noted that the Accounts would be signed by the PCC and Chief Constable on 7 September and appreciation was expressed by the CFO for the excellent work of the finance team in the construction and finalisation of the Statements of Accounts to such a tight timeline and high quality. The Chairman similarly expressed the thanks of the Committee.

6. Appointment of the External Auditor

6.1 The CFO presented the report which summarised the arrangements for the appointment of the External Audit (effective from 2017/18). Both the PCC and Chief Constable had agreed the reappointment of Ernst and Young.

7. Forward Work Plan

A number of changes were discussed and the CFO agreed to recirculate the Plan after update.

Meeting closed at 3:45 pm.

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Mr R Bennett
CHAIRMAN

Internal Audit

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

Audit Progress Report – Norfolk

2017/18

January 2018

FINAL

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 December 2017. 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 2017/18 ANNUAL PLANS

2. Our progress against the Annual Plans for 2017-18 is set out in Appendix A. The results of these reviews are summarised at Appendix B.

AUDITS COMPLETED SINCE THE LAST REPORT TO COMMITTEE

5. The table below sets out details of audits finalised since the previous meeting of the Audit Committee.

		Key Dates			Number of Recommendations			
Review	**Evaluation**	**Draft issued**	**Responses Received**	**Final issued**	**1**	**2**	**3**	**OE**
ICT Mobile Devices	Reasonable	23/08/2017	19/10/2017	23/10/2017	0	4	1	1
Estates Contract Management	Substantial	24/08/2017	06/09/2017	11/09/2017	0	0	3	1
Procurement – CSO Compliance and STA	Reasonable	24/07/2017	31/08/2017	04/09/2017	-	4	1	2
IM - Data Quality	Limited	27/10/2017	10/11/2017	21/11/2017	0	3	1	2
Norfolk OCC PFI	Substantial	13/10/2017	17/10/2017	17/10/2017	0	0	3	4
Norfolk & Suffolk joint PFI	Substantial	03/10/2017	06/10/2017	10/10/2017	0	0	2	0

Copies of the finalised 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 2017/18

6. There has been one change made to the annual plan since the last meeting. The Estates 3i Database audit will no longer be going ahead.

FRAUDS/IRREGULARITIES

7. 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

8. Liaison is undertaken with the following:
    - Liaison with the Chief Finance Officers: Regular progress meetings are held with the Chief Finance Officers.
    - Liaison with PSD: Regular meetings are held with PSD during the year.
    - Liaison with Risk Management: Increased liaison has commenced, to directly link internal audit with risk management.
    - 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.

PROGRESS ACTIONING PRIORITY 1 (URGENT and NOT APPROVED RECOMMENDATIONS)

9. We have made no urgent recommendations (i.e. fundamental control issues) 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

10. 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.

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Appendix A

Progress against the Annual Plan for 2017/18

System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Expected Audit Committee	Assurance	Comments
2017/18 Plan							
NSC1802 ICT Mobile Devices	1	10	10	Final Report	January 2018		
NSC1803 IM Audit Team Assessment	1	8	8	Final Report	September 2017	Substantial	
NSC1805 ill Health Retirement	1	8	8	Draft Report	March 2018		
NSC1806 Transport – Use of Vehicles	1	10	10	Final Report	September 2017	Reasonable	
NSC1808 Estates Contract Management	1	10	10	Final Report	January 2018	Substantial	
NSC1809 Purchase Ordering	1	10	10	Final Report	September 2017	Reasonable	
NSC1810 Temporary Recruitment	1	7	9	Draft Report	March 2018		Two additional days added to extend testing over the procurement arrangements.
NSC1811 CSO Compliance and STA	1	17	17	Final Report	January 2018	Reasonable	
NSC1812 Business Interests	1	8	8	Draft Report	March 2018		
NSC1816 ICT Governance	2	12	9	In progress	March 2018		
NSC1817 IM - Data Quality	2	12	12	Final Report	January 2018	Limited	
NSC1818 MOPI Project	2	10	10	Draft Report	March 2018		
NSC1820 Joint PFI – Police Investigation Centres	2	14	14	Final Report	January 2018		
NSC1821 Norfolk PFI – Norfolk only	2	14	14	Final Report	January 2018		
NSC1823 Overtime, Expenses, Add Payments	2	14	14	Draft Report	March 2018		

System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Expected Audit Committee	Assurance	Comments
NSC1815 ICT Data Assurance	3	12	1	In progress	March 2018		
NSC1819 HR Absence Management	3	12	6	In progress	March 2018		
NSC1824 Purchase Cards	3	10	10	Draft Report	March 2018		
NSC1825 Corporate Policies	3	10	1	Scheduled	July 2018		
NSC1829 Payroll incl ERP	3	10	1	In progress	March 2018		
NSC2830 Accounts Payable	3	10	10	Draft Report	March 2018		
NSC1801 Governance & Ethics	4	12	1	Scheduled	July 2018		
NSC1804 HR Learning and Development	4	12	1	Scheduled	July 2018		Moved from Q1 to Q4, due to department transformation
NSC1807 Estates 3i Property Database	4	4	0	Audit Cancelled			Database not being implemented within current financial year
NSC1814 Risk Management – Mitigating Controls	4	11	1	Scheduled	March 2018		Moved from Q2 to Q4 – Workshop was to be delivered, moved to 2018/19, audit now being scoped instead
NSC1822 Safeguarding and Investigations	4	10	1	Scheduled	July 2018		
NSC1826 ERP / Athena	4	12		Scheduled	March 2018		
NSC1827 Commissioners Grants	4	18		Scheduled	July 2018		Separate reports for Norfolk and Suffolk
NSC1813 Recovered Property	4	10	1	Scheduled	July 2018		
NSC1828 Key Financials	4	30	2	Scheduled	March 2018		
Follow Up Work		12	4	Ongoing			Year-end reporting June / in-year reporting December
Contingency b/fwd	1-4	(62)		As required			
Contingency c/fwd	1-4	15					
Audit Management	1-4	20	15	Ongoing			

System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Expected Audit Committee	Assurance	Comments
Total Days	**-**	**330**	**218**				

KEY:

	=	To be commenced
	=	Site work commenced
	=	Draft report issued
	=	Final report issued

Appendix B

Summaries of Finalised Audit Reports issued since the last report

Audit Report: ICT Mobile Devices (NSC1802)

Report: 23rd October 2017

SCOPE

The scope of the review focussed on the implementation of the devices across both Constabularies, with a further review in 2018/19 to assess how this is operating.

MATERIALITY

Robust management of all relevant mobile devices in scope is critical to ensuring the integrity and security of the data that is processed on the devices.

KEY FINDINGS

- A process for monitoring mobile devices is not in place, to ensure they remain compliant with relevant Security Policies.
- Updates to the Android Operating System installed on the mobile devices are not managed via a formal change control process.
- The process to request a new app to be added to the app whitelist requires enhancement to include a more detailed business case.
- Mobile device procurement and provisioning processes were found to be adequate.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	3	2

Audit Report: Estates – Contract Management (NSC1808)

Report: 11th September 2017

SCOPE

The review focused on the management of Estates contracts, covering service monitoring, contract performance and financial control processes over both Constabularies. The scope of the audit did not include tendering processes.

MATERIALITY

The Estates Contract List as at 3rd July 2017 showed 24 contracts held, with a combined estimated value of up to £15.4m.

KEY FINDINGS

- Governance and accountability arrangements are clearly defined, with the Joint Estates Management Group providing strategy, direction and oversight.
- There is a draft Managing Contractors Policy in place which incorporates standard templates, and is awaiting finalisation.
- Testing of contracts found these to be signed by the Chief Finance Officer and contractor.
- Monthly review meetings with contractors take place, although contractor review reports and audits are awaited for two new contractors.
- Financial controls include Estates checks of contractor application sheets and invoices, as well as budgetary control processes.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	3	1

Audit Report: Procurement – CSO Compliance and STA (NSC1811)

Report: 4th September 2017

SCOPE

The audit focused on single tenders and compliance with contract standing orders within departments across the Constabularies and PCCs

MATERIALITY

The total value of orders raised during 2016/17 for Suffolk was £28.5 million.

The total value of orders raised during 2016/17 for Norfolk was £32.6 million.

KEY FINDINGS

- Authority rules within Iprocurement are not in line with the Constabularies Financial Regulations. Currently on Iprocurement where the budget-holder is the requisitioner they are able to raise an order up to the value of their delegated authority without the need to obtain independent authorisation.
- Transport orders are not processed on Iprocurement, and are processed through Tranman. Tranman does not interface with ERP, as such invoices are manually entered onto ERP, which is very labour intensive.
- Access rights on Tranman have not been restricted, all staff that have access to Tranman can raise orders on Tranman.
- Tranman does not require orders to be approved electronically. Tranman to be investigated so that authority levels are in line with the Constabularies joint standing orders.
- Testing identified a small number of exceptions, where orders have not been placed in line with Joint Contract Standing orders.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	4	1	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)
1	Compliance	Tranman does not require orders to be authorised electronically.	Orders on Tranman to be authorised electronically, and authority limits on Tranman to be set so that they are in line with the Constabularies joint contract standing orders.	2	*A review of the present and potential automation of Tranman will be carried out with a view to cost effectively maximising the ability of the system where appropriate.* *Transport service will adopt the organisations purchasing activity limits.*	*31/03/18*	*Head of Finance* *Head of Transport Services*
3	Compliance	Tranman does not interface with ERP.	Tranman to be investigated to see if it can interface with ERP.	2	*A review of the present and potential automation of Tranman will be carried out with a view to cost effectively maximising the ability of the system where appropriate.*	*31/03/18*	*Head of Finance*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
4	Directed	If the requisitoning officer is the budget-holder for the cost centre for which the order is being raised, they are able to authorise orders without the need for independent authorisation. There is a risk of inappropriate or incorrect orders being placed, as there is no segregation between the requisition and approval of an order.	The Constabularies Financial Regulations and rules within Iprocurement to be aligned.	2	*This will be reviewed with the aim of lining up the system set up and regulations.*	*31/03/18*	*Head of Finance*
5	Compliance	Joint contract standing orders have not been followed for procurement of all goods and services. Instances outside of the central procurement function were identified of non-compliance with procurement requirements for each threshold, along with instances where purchases were split to avoid the threshold requirements.	Procurement of goods and services outside the central procurement function to be undertaken in line with the Constabularies joint contract standing orders.	2	*The Supplies and Accounts Payable teams are to continue to remind budget holders of their responsibilities and challenge bad practice when observed.* *This is ongoing, with a review date of 31st March 2018 to assess.*	*31/03/18*	*Head of Procurement and Supplies* *Head of Finance*

Audit Report: IM - Data Quality – Athena (NSC1817)

Report: 21st November 2017

SCOPE

The purpose of the review was to assess the adequacy and effectiveness of the internal controls in place within the Constabularies for managing data quality on Athena. The audit focused on the following key areas:

- to establish if duplicates on Athena are identified and addressed appropriately.
- to establish if there are appropriate controls to ensure the accuracy of data entered on Athena.
- to establish the adequacy of the escalation process to address issues in relation to the inaccuracy of data entered on Athena.

MATERIALITY

Athena is able to display a maximum of 500 possible duplicates. The number of possible duplicates is greater than 500, and thus it is not possible to establish how many potential duplicates there are on Athena.

KEY FINDINGS

The assurance rating is derived from the extent of duplicates arising and the following areas:

- There are a high number of duplicates on Athena which require investigation.
- Two dashboards are maintained for the same data, dashboard two reports cumulative potential errors, dashboard one reports daily potential errors, which are not being cleared, then appear in dashboard two.
- Departments are not provided with regular reports for their area to enable them to investigate data quality issues on Athena.
- Procedural notes for staff on Athena have not been produced.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	3	1	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)
2	Directed	Two dashboards are maintained, dashboard one and dashboard two. Dashboard two monitors the accumulated potential errors. Dashboard one is run daily and tracks the overall trend, but as the number of potential errors are so high it is not possible to investigate the errors daily. As such dashboard one and two both contain the same data.	A review of the two dashboards be undertaken and a decision made as to whether both dashboard reports continue to be run, and in their current format.	2	*The Dashboards were designed by Essex Police and agreed for use by all Athena Forces. Any changes require other Athena Force DQ Leads, the Information Management User Group (IMG) and to be ratified by the Athena Business Design Authority.* *Work is taking place by the (regional) Athena Data Quality Sub Group to review the reporting mechanisms.* *Norfolk/Suffolk DQ & Audit Officer requested the criteria for the dashboard be reviewed at the IMG DQ Sub group, as the findings are to large for business areas to tackle (e.g. 22,269 hits on one test for investigation). There is also contest as to whether the tests actually find errors or not. Norfolk/Suffolk have no local control over the dashboards and consider that unless resource is available to attack DQ risk areas on a daily / weekly basis then Dashboard 1 seems to be an unnecessary task. Dashboard 2 (run monthly) would give an overview of data trends.*	*1 April 2018*	*Information Compliance Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Directed	Reports had been provided by the Auditing and Data Quality Officer to individual departments on their potential data errors, but these had not been produced regularly. Reports were produced in November 2016, but as the number of errors were so high there was limited use in the reports being produced as all departments are aware that they have high number of data errors. There is a need to review the process that is being followed so that departments can address potential errors on Athena.	Regular reports be provided to departments on potential data errors so that departments can target specific areas.	2	*The level of errors is still high due to a number of errors within the early stages of Athena. As time has passed, changes have been made to reduce the errors. The Data Quality team are not yet in a position to look further into the variance of issues outside the match& merge queues but the vision is to do so based on the improved reporting mechanisms from the AMO. The missing data tend to relate to areas such as intelligence where it is expected there will be a level of missing data due to the nature of the work. Revised reports are being developed by the AMO. Also an Athena DQ Comms strategy is being written by the Information Compliance Manager. A sound performance report relies on valuable data to present i.e. the Dashboards. At present the Dashboards do not produce data that can be taken to business areas.*	*1 April 2018*	*Information Compliance Manager / Records Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
4	Directed	Duplicates on Athena can be in relation to people, vehicles, locations and communication. Athena is capable of recording a maximum of 500 records for each category of duplicates, where there are more than 500 potential duplicates only the first 500 are displayed on Athena. At the time of audit the number of duplicates on Athena was increasing, and was above 500.	A resolution be sought on the outstanding and growing duplicate Athena records across each of the categories.	2	*The 500 limited is a technical limitation set by the AMO. A current change notice is being proposed to remove cases which have been reviewed but that cannot be merged, from the match & merge list. There is a cost element to this change which has to be agreed and prioritised by the BDA and AMO. A number of issues remain unresolved within Athena which has a direct impact of the level of duplicates in the system, in particular locations. Words of advice are provided to officers where appropriate. Updates to Athena have helped reduce some of the duplication though a number remain in the system due to the previous issues and need to be cleared. Further training is being rolled out to supervisors on the use of Athena which includes DQ input. The lists are above 500 due to staff overturn in the DQ team. The team is now fully resourced, though the level of DQ resource available is acknowledged. It has been identified that improved training on DQ at the front end of Athena is crucial to success.*	*1 April 2018*	*Head of Information Management / D/Supt Joint Justice Command – Athena Lead*

Audit Report: PFI Norfolk OCC (NSC1821)

Report: 17th October 2017

SCOPE

The audit reviewed the Norfolk OCC PFI. The audit focused on the following areas;

- Contract management
- Budget monitoring
- Recharges
- Performance monitoring

MATERIALITY

1. The total value of payments made to Wymondham Ltd since January 2017 is £4 million.

KEY FINDINGS

- There are performance management arrangements in place, although it is hard to impose financial penalties on the contractor as KPIs are considered collectively and thus requires a number of KPIs to fail to result in financial penalties for the contractor.
- The monitoring officer undertakes regular spot checks of the Norfolk OCC, but does not have a formalised work plan to follow.
- Jobs reported to the help-desk are closed down by the help-desk there is an incentive for the help-desk to close down jobs before completion to avoid financial penalty.
- The UPS switch over project has been delayed as IT have not been able to support the planned implementation date.
- Limited data is provided by the contractor to the constabulary.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	3	4

Audit Report: PFI Police Investigation Centres (NSC1820)

Report: 17th October 2017

SCOPE

The audit focused on the Norfolk and Suffolk Police Investigation Centres PFIs. The audit focused on the following areas across each PFI:

- Contract management
- Budget monitoring
- Recharges
- Performance monitoring

MATERIALITY

The value of the payments for the Police Investigation Centres since February 2017 is £6.5 million.

KEY FINDINGS

The effective contract management process has generated efficiencies for Norfolk and Suffolk Constabularies. Further savings are to be realised ad the PFI financers are re-financing the Police Investigation Centres (PICs)

- The PICs budget is monitored.
- There is a process for processing of the PIC invoices.
- Recharges for the PICs are recharged accordingly at designated timescales.
- There are arrangements for monitoring the performance of the PFI contractor, including standard monthly performance reports received from the PFI contractor.
- The monitoring officer undertakes regular spot checks of the PICs, but does not have a formalised work plan to follow.
- Jobs reported to the help-desk are closed down by the help-desk, as such there is an incentive for the help-desk to close down jobs before completion to avoid financial penalty.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	2	0

Internal Audit

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

Follow Up Review – Norfolk Only

2017/18

January 2018

Executive Summary

INTRODUCTION

1. The follow up of internal audit recommendations undertaken by TIAA is undertaken throughout the year and reported to the Audit Committee during the year at each meeting.

2. The summary tables show the number of raised and brought forward priority 1 (P1 - Urgent) and priority 2 (P2 - Important) recommendations implemented since being reported to the September 2018 Audit Committee meeting and those outstanding past their implementation dates. A breakdown of this summary is attached as Figure 2.

Figure 1 - Summary of the action taken on Recommendations made

Evaluation	P1 - Urgent Recommendations		P2 - Important Recommendations		P 1 & 2 Recommendations
	Number	%	Number	%	Total
Implemented Since Last Meeting	1	100%	9	32%	10 (35%)
Outstanding (incl. deadlines extended*)	0	0%	19 (15*)	68%	19 (65%)

				Completed since last Audit Committee		Outstanding with Extended Period Agreed/Not Reached		Outstanding Past Deadline - Previously reported as outstanding		New since last Audit Committee		Total Outstanding	Not Yet Due for implementation	
				P1	P2	P1	P2	P1	P2	P1	P2		P1	P2
Audit Ref	**Audit Area**	**Date Presented to Audit Committee**	**Assurance Level**											
2015/16 Internal Audit Reviews														
NSC1605	Estates Management	Jun-16	Reasonable		1		1					1		
NSC1626	ITIL	Jun-16	Reasonable				1					1		
2016/17 Internal Audit Reviews														
NSC1703	Transport	Sep-16	Reasonable				3					3		
NSC1704	Corporate Communications	Sep-16	Reasonable				2				1	3		
NSC1706	HR Recruitment	Dec-16	Limited				2					2		
NSC1707	Duty Management	Dec-16	Limited		1		3					3		
NSC1712	Disaster Recovery	Sep-16	Reasonable				1					1		
NSC1714	Overtime, Expenses (Draft)	Mar-17	Reasonable		2		1					1		
NSC1715	Performance Management	Jun-17	Reasonable									0		1
NSC1716	Pensions	Mar-17	Reasonable				1					1		
NSC1718	HR Strategy	Mar-17	Limited	1					1			2		

NSC1721	Collaborations	Jun-17	Reasonable		2								0		
NSC1723	ICT ERP	Jun-17	Reasonable										0		1
NSC1725	Health and Safety	Jun-17	Reasonable										0		2
2017/18 Internal Audit Reviews															
NSC1802	ICT Mobile Device Mgt	Sep-17	Reasonable									1	1		3
NSC1806	Use of Vehicles	Sep-17	Reasonable		2			1					1		0
NSC1809	Purchase Ordering	Sep-17	Reasonable		1										0
NSC1811	Procurement	Sep-17	Reasonable										0		4
NSC1817	Data Quality - Athena	Nov-17	Limited										0		3
TOTALS				**1**	**9**		**0**	**16**	**0**	**1**	**0**	**2**	**19**	**0**	**14**

The breakdown of the actions on recommendations key:

- The direction of travel for implementing recommendations is shown from right to left.
- The audit will remain on the table until all P1 and P2 recommendations relating to that audit are complete and reported as such to Audit Committee, including those previously reported. Once an audit is reported as complete (highlighted in grey), the audit will be removed from the table.
- Outstanding with extended period agreed – outstanding past original deadline and an extension has been agreed with management.
- Outstanding and previously reported as such to Audit Committee – outstanding past agreed deadline and no extension has been agreed.
- New since the last Audit Committee meeting – deadline has recently passed and the recommendation is outstanding.
- Total outstanding – includes; extended period agreed, previously reported as outstanding and new outstanding.
- Not yet due for implementation – the agreed implementation deadline has not been reached.

KEY FINDINGS

3. There are no urgent recommendations outstanding.
4. Several recommendations are awaiting upgrade to ERP, implementation of the intranet, support from IT systems or from external sources to enable implementation.
5. Over the last couple of months eight outstanding recommendations have been implemented and action is being taken to implement further recommendations, with changes to responsible officer requiring time for those officers to implement.
6. The ITIL (NSP1626) recommendation requires a management decision as to whether the risk is accepted and the recommendation closed down.

SCOPE AND LIMITATIONS OF THE REVIEW

7. 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. The implementation of these recommendations can only provide reasonable and not absolute assurance against misstatement or loss.

8. 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.

9. 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

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

Date draft report issued:	N/A
Date management responses recd:	N/A
Date final report issued:	15th December 2017

Detailed Report

FOLLOW UP

11. Management representations were obtained on the action taken to address the recommendations. Only limited testing has been carried out to confirm these management representations.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSP1605 Estates Management – Maintenance and Repair	Procedure notes be devised in relation to carrying out operational aspects of Estates management, including; maintenance of the Estates spreadsheet records, management of payments to contractors, and the decision making process / flowchart where work is issued externally to contractors, as opposed to premises operatives.	2	Following Tranche 13 of the business support review, a number of standard operation procedures are proposed to be implemented for the new Estates helpdesk/service desk; including dealing with Estates defects and Estates ordering and invoices. These will be completed following implementation of a new database (3i) in October 2016.	Sara Stafford, Senior Facilities Officer	28/02/2017	31/12/2017	Standing operating procedures have been prepared for the main tasks of the Estates service centre. The full implementation will be updated and guided by the introduction of the new corporate internet, as this will provide the link and forms for proposed self-service elements. For example requesting a new car park permit, reporting reactive repairs, accommodation change and furniture.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSP1626 Information Technology Infrastructure Library (ITIL) framework Gap Analysis	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 for implementation the 4 remaining best practices currently not implemented.	ICT Service Desk Manager	31/10/2016	30/09/2017	A decision is to be made on the risk of not implementing this recommendation by management.
NSC1703 Transport Services	The Joint Transport Policy be subject to document control and approval process and current operating procedures should be updated and maintained.	2	Joint Transport Policy Force Policy Officer, Corporate Development and Change to be consulted regarding document control and approval process. It should be noted this is a Transport Services only Policy as it was determined the Policy was more aligned to a standard operating procedure. The standard operating procedures are in the process of being updated to reflect T13 restructure and process changes.	Head of Transport	31/10/2016	31/12/2017	The Joint Transport Policy is under a full review to reflect the new SOPs and the requirement for these to be integrated into the policy. The existing Transport Policy could become an overarching SOP, dependent upon policy advice and the consultation process. Revised implementation date to include taking through to final approved version. Awaiting further update from the Head of Transport.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1703 Transport Services	The weekly vehicle check form be standardised across both counties.	2	Within Norfolk weekly check sheets fall under the remit of the Driver of Police Vehicles Force Policy Document, with the Policy owner being Specialist Operations. Within Suffolk the remit is with the County Policing Command. Norfolk and Suffolk Constabularies are aligning their equipment levels and types. This will then allow the use of one form across both Counties. This is already in progress and will be managed through the Transport Strategic Group.	Head of Transport	31/12/2016	31/12/2017	Progress is being made to implement the recommendation, with a revised deadline of 31st December 2017.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1703 Transport Services	The system for recording and monitoring the completion of the weekly vehicle checks be standardised and a system for central oversight of the results of the checks be implemented.	2	There is scope for the central reporting hub to be Transport services. This will be progressed through the Transport Strategic Group.	Head of Transport	31/12/2016	31/12/2017	Work has taken place to both rationalise and agree a single level of equipment and reporting form for both Norfolk and Suffolk. Additional equipment has been procured for Suffolk NRT/Response vehicles i.e. telescopic brooms and shovels. Sequential blue flashing blue lights for use at road incidents have been procured for both Norfolk and Suffolk NRT/Response vehicles. All Police equipment will be provided from Transport Services Stores, Wymondham to ensure consistency. Suffolk CPC budgets will be transferred to Transport Services. As agreed by Suffolk CPC Commander. Transport services already provide police equipment for Norfolk vehicles. There are still some equipment differences across both counties, such as throwing lines, plastic body sheets and buoyancy aids that need to be addressed.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1704 Corporate Communications	A corporate communications strategy be developed and embedded, aligned with the visions of the Norfolk and Suffolk Constabularies.	2	A communications strategy will emerge over the next six months. Revised Police and Crime Plans for both forces are awaited: these will form a central element of an effective strategy.	Head of Corporate Communications	31/03/2017	31/03/2018	A social media policy is now published. The communications strategy is awaiting the new communications manager in Suffolk. An overarching communication will then be developed between Norfolk and Suffolk, taking into consideration joint and not joint areas and how each force will now deliver. This will be delivered in Spring 2018.
NSC1704 Corporate Communications	Corporate communications policies be developed and embedded. Appropriate review periods be set for each policy.	2	Formal policies on specific areas (for example Social Media) are being developed on an ad hoc basis. This will be ongoing, with a date of 31/03/17 set for review.	Head of Corporate Communications	31/03/2017	31/03/2018	A social media policy is now published. The medial liaison policy is being reviewed again in light of new processes and will be delivered in winter 2017.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1704 Corporate Communications	Written protocols be prepared to cover the roles within the Corporate Communications teams, with appropriate references to College of Policing guidance, media law and best practice.	2	A series of communications protocols are being developed covering the core areas of the department's activities.	Head of Corporate Communications, Communications Managers	31/03/2017	31/03/2018	Due to the removal of a Head of Corporate Communications and Business Changes, new protocols will need to be written, once the new communications manager is in post in Suffolk. An agreement between both managers in Norfolk and Suffolk and digital will be devised.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1706 2015/2016 HR - Recruitment	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.	T/Detective Chief Inspector - Professional Standards Department	30/09/2017	31/03/2018	The current position is far more positive than was previously in place. The department recruited 1 x senior vetting assistant and 2 x vetting assistants for 2 years and 1 vetting assistant for 12 months in order to clear the backlog. 10 months into the process and of the 8000+ renewals outstanding and recorded on Core-vet, this has been reduced down to 796, which are due in the next 60 days. The vetting unit have so far identified 91 staff who do not have a current up to date vetting record and 390 staff and officers who require renewal vetting on the establishment list of 5833. This equates to 8% of the establishment.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1706 2015/2016 HR - Recruitment	A recruitment framework to be developed across the Constabularies.	2	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.	Head of HR - Head of Learning and Development	01/04/2017	31/03/2018	There is still a need for a code of practice across all areas of recruitment. This work has been delayed by the absence of a Senior Recruitment and Workforce Planning Manager and Recruitment Manager who would lead on this work. Recruitment processes for the senior post have been completed, and therefore will be a priority for them upon their start date which has yet to be confirmed.
NSC1707 Duty Management System	A full audit trail for all aspects of DMS to be made functional.	2	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.	Head of Resourcing	30/06/2017	31/03/2018	Completion is subject to third party actions through Crown Constabulary, seeking an update from Crown on whether this will be possible and if so in what timeframe.
NSC1707 Duty Management System	The exception rules inbuilt within DMS to be investigated to see if these are correct.	2	The RMU are currently working on exceptions and discussing with Crown the feasibility of changing the exception rules.	Head of Resourcing	31/03/2017	31/03/2018	Completion is subject to third party actions through Crown Constabulary, seeing an update from Crown on whether this will be possible and if so in what timeframe.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1707 Duty Management System	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.	Head of Transactional Services	30/06/2017	31/03/2018	The DMS system requires exceptions to be cleared prior to progress on reconciliation being made, actions are being taken by the ERP Project Group, lead by the CFO for Norfolk.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1712 ICT – Disaster Recovery	Documents making up the IT Disaster Recovery response all require review to ensure that they are all aligned and that review dates match where required. Review also required to take account of a recent major restructure within the IT department and include 3rd party vendor contact details and key SLA requirements for each. The framework of documents also overlap in terms of content. Hence the review should also attempt to rationalise the number of documents. Once the review is completed, ensure that all offline copies are updated. For example, copies issued to senior managers and the hard copies contained within the red folders at both ends of the IT department.	2	Documentation to be reviewed, rationalised and re worked to address the recommendations.	Process and Policy Manager	30/11/2016	31/03/2017	The current documentation has been revised and is out for review. This incorporates the changes due to Tranche 13 and the restructure of ICT, as well as personal / vehicle details. Awaiting further update from management.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1714 Overtime, Expenses and Additional Payments	Joint expenses policies for Norfolk and Suffolk Constabularies for police officers and police staff to be developed. The updated expenses policies to be placed on the intranet.	2	New Conditions of Service for Police Staff are to be introduced from April 2017 (this was expected to be implemented in October 2016 but was delayed nationally). As a result we will take this opportunity to revise once the new Conditions have been agreed and implemented.	Head of Transactional Services	30/06/2017	31/12/2017	The recommendation was initially assigned to the Director of HR, it has since been discussed through a meeting with HR and finance that it would be more appropriate for the recommendation to be assigned to finance.
NSC1716 Pensions Administration	The payroll system to be investigated to establish if a report can be run to calculate pensionable pay for staff.	2	The pension contributions are set at system level and the appropriate contribution is deducted from the employee in accordance with their pensionable pay each month. I accept that we cannot check this at a global level, however I am confident that the deductions made are correct at an employee level and the necessity for a pensionable pay figure is not considered as a significant issue. However when reporting for ERP is reviewed then this will be considered as part of the requirements.	N/A	01/03/2017	31/03/2018	No further update, awaiting update of ERP.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1718 HR - Strategy	A standard form to be created for requesting new and/or amendments to posts for the OPCCs. The form to record the required post name, record against which cost centre the job is to be coded to and be approved by an appropriate authorising officer, certifying that there is sufficient funds available to fund the post.	2	Governance arrangements are in place for the creation, deletion or amendment of any posts within the Constabulary structures. This involves completion of a form with rational and approval through HR Business Partners, Finance Business Partners, Corporate Development and Change and the Workforce Planning Group. These arrangements will be implemented for the OPCC as well.	Head of Resourcing	30/04/2017		The new process has been discussed within the Workforce Planning Group and a proposed new approach has been established. Dialogue with the OPCC has been delayed, owing to the wish to ensure that the Constabulary workforce planning processes are fully established.
NSC1802 ICT Mobile Device Management (body worn video)	Management to implement formal change control processes to manage the deployment of relevant Android Operating System updates. A Standard Change may be the most appropriate way forward.	2	Customer Contact Team to raise change forms in line with the existing ICT change process.	Joint ICT Change & Configuration Manager	31/10/2017		Further update being sought from management.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Latest Response
NSC1806 Transport Services – Use of Vehicles	The Suffolk pool car booking system be investigated to prevent users from being able to block book pool cars for more than one week.	2	A new joint pool car booking system is scheduled for development November 2017. This is part of the joint intranet project. Additional functionality such as the inability to block book vehicles will be built into the system. ICT will not make changes to the current booking system due to the pending new one. Spot checks will be carried out prior to the new system becoming available, by 01/09/17.	Head of Transport	01/09/2017	31/12/2017	There has been a delay in implementation of the recommendation, as the new pool car booking system is yet to be implemented.

Internal Audit

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

Audit Strategic Plan and Annual Plan

2018/19

December 2017

DRAFT

Three Year Internal Audit Strategy 2018/19 – 2020/21 and Internal Audit Annual Plan 2018/19

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 METHODOLOGY

We adopt a risk based approach to determining your audit needs each year which includes reviewing your risk register and risk management framework, previous internal audit work for the PCCs and Constabularies, the Regulatory Framework, HMIC workplan and assessment of the PCCs and Constabularies, external audit recommendations together with key corporate documentation such as your business and corporate plan, standing orders, and financial regulations. The Strategy will be based predominantly on our understanding of the inherent risks facing the PCCs and Constabularies and those within the sector and has been developed with senior management and the Audit Committees.

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 2018/19 TO 2020/21 AND ANNUAL INTERNAL AUDIT PLAN 2018/19

Annex A sets out the overall template for the rolling review of Norfolk and Suffolk Police's systems of internal control and forward planning 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.

REPORTING

Assignment Reports: A separate report will be prepared for each review, with separate reports for each PCC and Constabulary where a different opinion is given. 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 Public Sector Internal Audit Standards (PSIAS). The Annual Report will include our opinion of the overall adequacy and effectiveness of the PCCs and Constabularies governance, risk management and operational control processes.

LIAISON WITH THE EXTERNAL AUDITOR, INTERNAL RISK MANAGEMENT AND PSD

We will liaise with the PCCs and Constabularies External Auditor, along with the risk manager and PSD. Any matters in the areas included in the Annual Plan that are identified by the External Auditor in their audit management letters will be included in the scope of the appropriate review.

ASSURANCE MAPPING

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 the PCCs and Constabularies and defines the scope of internal audit activities and ensures compliance with the PSIAS.

CONFLICT OF INTEREST

We are not aware of any conflicts of interest and should any arise we will manage them in line with PSIAS requirements, the PCCs and Constabularies requirements and TIAA's internal policies.

PERFORMANCE

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Area	Performance Measure	Target
Achievement of the plan	Completion of planned audits.	100%
	Audits completed within time allocation.	100%
	Draft report issued within 10 working days of exit meeting.	95%
	Final report issued within 10 working days of receipt of responses.	95%
	Compliance with Public Sector Internal Audit Standards.	100%

KEY CONTACT INFORMATION

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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 overriding 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.

RELEASE OF REPORT

The table below sets out the history of this plan.

Date plan issued:	December 2017

Annex A

Rolling Strategic Plan

	Audits Delivered							Days Required		
Review Area	**review**	**2015/16**	**2016/17**	**2017/18**	**2017/18**	**2017/18**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
				Days	**Report Issued**	**Assurance Level**	**P1/P2 Rec's Outstanding**			
Governance										
Strategic Control, Corporate Governance and Ethics	Assurance	12		12						10
Performance Management	Assurance		15						15	
Transformation and Strategic Planning / Change	Assurance							**12**		10
Risk Management										
Strategy / Policy OPCC Suffolk	Assurance		9							
Strategy / Policy OPCC Norfolk	Assurance		9							
Mitigating Controls	Assurance							**10**		
Embedding / Development	Assurance	12		11				**12**		15
Business Continuity	Assurance								10	
RAID log	Assurance	15								
Corporate										
Complaints	Assurance		10							10
Communications	Assurance		18						10	
Collaborations	Assurance		10						10	
Corporate Health and Safety	Assurance								10	
Corporate Policies	Assurance			10						10
Commissioners Grants – (9) Norfolk only / 18 Both	Assurance	9	1	18				**9**	18	9
ICT										
Areas to be agreed	Assurance							**12**	25	50
Cyber Security	Assurance	10								

	Audits Delivered							Days Required		
Review Area	**review**	**2015/16**	**2016/17**	**2017/18**	**2017/18**	**2017/18**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
				Days	**Report Issued**	**Assurance Level**	**P1/P2 Rec's Outstanding**			
ITIL	Assurance	10								
Network Security	Assurance									
t-Police	Assurance	12								
ERP / Athena	Assurance			12						
Exchange 2010/email Archiving	Assurance		12							
Data Assurance (scope to be determined)	Assurance			12					12	
Website Content and CAD grazing	Assurance							**15**		
Mobile Device Management (body worn video)	Assurance	15		10						
Firewalls	Assurance		12							
IT Governance	Assurance			12						
Disaster Recovery	Assurance		12						12	
Business Continuity	Assurance							**12**		
ERP Second/third line support	Assurance		12							
Software Licensing	Assurance							**10**		
Finance										
Key Financial Controls (2018/19 – Payroll, Accounts Payable, General Ledger, Budgetary Control, Treasury Management, Pensions)	Assurance		30	30				**30**	30	30
Payroll, including ERP Reporting	Assurance	10	10	10					10	
Accounts Payable	Assurance	10		10						10
Accounts Receivable	Assurance	10						**8**		
General Ledger	Assurance	10								
Treasury Management	Assurance	10								8
Capital Programme	Assurance	10						**10**		10
Budgetary Control	Assurance		12						12	

	Audits Delivered							Days Required		
Review Area	review	2015/16	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
				Days	Report Issued	Assurance Level	P1/P2 Rec's Outstanding			
Fixed Assets	Assurance							**10**		
Pensions Administration	Assurance		10							
Overtime, Expenses and Additional Payments	Assurance		16	14						14
Allowances	Compliance							**14**		
Information Management										
Audit Team Assessment	Assurance			8						
Data Quality	Assurance			12					12	12
Specified Information Order	Assurance								10	
Records Management	Assurance	4						**12**		
Freedom of Information / Data Protection / Document Security Management	Assurance		15						15	
MOPI Project Implementation	Assurance			10						
Human Resource										
HR Strategy	Assurance		10							10
Establishment & Recruitment	Assurance		12					**14**		
Absence Management	Assurance	10		12						
Duty Management System	Assurance		15					**14**	12	
Learning and Development	Assurance			12						12
Vetting	Compliance							**12**		
HR - ill Health Retirement	Assurance			8						
Transport										
Transport Strategy	Assurance							**8**		
Transport Procurement	Assurance							**9**		
Transport Management – Maintenance, Repair, Disposal and Fuel Usage	Assurance		15						15	

	Audits Delivered							Days Required		
Review Area	**review**	**2015/16**	**2016/17**	**2017/18**	**2017/18**	**2017/18**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
				Days	**Report Issued**	**Assurance Level**	**P1/P2 Rec's Outstanding**			
Transport – Use of vehicles	Assurance			10						10
Estates Management										
Strategy	Assurance							**8**		
Estates Maintenance	Assurance	8							15	
Estates Health and Safety	Assurance		12							
Estates 3i Property Database	Assurance			4						
Facilities / Catering	Assurance		6 (Suffolk)							12
Stations incl. Building Access and Vehicle Security	Assurance	7						**16**		
Estates Contract management	Assurance			10						10
Suffolk & Norfolk PFI	Assurance			14						
Norfolk OPCC PFI	Assurance			14						
Procurement										
Purchase Ordering	Assurance	12		10						10
Purchase Cards	Assurance	10	12	10					10	
Contracts	Assurance	12							12	
Compliance with contract standing orders within departments Single Tender Actions	Assurance			17						14
Temporary recruitment	Assurance			9						12
Operational										
Crime Recording	Compliance									
Control Room Norfolk	Compliance							**15**		
Control Room Suffolk	Compliance							**15**		
Custody Administration	Compliance							**14**		
Firearms Management / Certificates	Compliance		12					**10**		

		Audits Delivered						Days Required		
Review Area	**review**	**2015/16**	**2016/17**	**2017/18**	**2017/18**	**2017/18**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
				Days	**Report Issued**	**Assurance Level**	**P1/P2 Rec's Outstanding**			
Proceeds of Crime	Compliance	15							13	
Recovered Property	Compliance			10						
Business Interests	Assurance			8					10	
Safeguarding and Investigations	Assurance			10						
Lone Working	Assurance									10
Other										
Follow Up		8	10	12				**12**	12	12
Audit Management (to include: audit planning, client liaison, external audit, annual report, Audit Committee)		20	20	20				**20**	20	20
Days used/allocated in year		**261**	**337**	**381**				**341**	**330**	**340**
Contingency b/fwd		-	(69)	(62)				**(11)**	(2)	-
Contingency c/fwd		69	62	11				**-**	-	-
Annual Plan Days		**330**	**330**	**330**				**330**	**330**	**330**

Annex B

Internal Audit Annual Plan – 2018/19

Quarter	Audit	Type	Days	Scope
Q2	Transformation and Strategic Planning / Change	Assurance	12	Scope The audit will focus on transformation programmes, strategic planning and change. Rationale This is a key area of risk for the organisations. Lead Officers TBC
Q3	Risk Management – Mitigating Controls	Assurance	10	Scope The audit will focus on how controls stated within the risk registers mitigate the risk. Rationale This is a key area of risk for the organisations. Lead Officers Risk Manager
Q1	Risk Management – Embedding / Development	Assurance	12	Scope The audit will focus on how the risk management framework is developing and being embedded across the organisations. Rationale This is a key area of risk for the organisations. A new risk manager was appointed in 2016/17, with systems and processes being embedded. Lead Officers Risk Manager
Q4	Commissioners Grants (Norfolk)	Assurance	9	Scope The review will consider the arrangements for the assessing, awarding and compliance monitoring process for the grants issued by the Commissioners. Rationale An important area requiring high levels of governance and probity. Lead Officers

Quarter	Audit	Type	Days	Scope
				OPCC
Q2	ICT – Area to be determined	Assurance	12	Scope The focus of the review will be determined through discussion with the Director of ICT. Rationale Electronic data contains sensitive data and prone to inappropriate use. Lead Officers Director of ICT for Norfolk & Suffolk
Q1	Website Content and CAD Grazing	Assurance	15	Scope The focus of the review will be around website content monitoring and CAD grazing, to assess how compliance with police policies are being controlled. Rationale Electronic data contains sensitive data and prone to inappropriate use. Lead Officers Director of ICT for Norfolk & Suffolk
Q3	Business Continuity	Assurance	12	Scope The scope of the review will focus on business continuity plan. Rationale Business continuity is crucial to providing front line services. Lead Officers Director of ICT for Norfolk & Suffolk
Q2	Software Licensing	Assurance	10	Scope The audit will focus on software licensing across the organisations. Rationale A key area of risk. Lead Officers Director of ICT for Norfolk & Suffolk

Quarter	Audit	Type	Days	Scope
Q4	Key Financial Controls (Payroll, Accounts Payable, General Ledger, Budgetary Control, Treasury Management, Pensions)	Assurance	30	Scope The review considers the arrangements for key controls operating within the following systems; Payroll, Accounts Payable, General Ledger, Treasury Management, Capital Expenditure, Budgetary Control and Pensions. Rationale The full audits for the financial systems will be undertaken on a systematic basis. Lead Officers Head of Transactional Services
Q3	Accounts Receivable	Assurance	8	Scope The review considers the raising of debtor accounts, collection of income, receipting, storage and banking of income received by the organisation. The scope of the review does not include identification of the activities giving rise to income for the organisation, the basis of calculating the rates to be charged or that all income receivable has been identified. Rationale Key Audit risk area. Lead Officers Head of Transactional Services
Q3	Capital Expenditure	Assurance	10	Scope The review considers the arrangements for accounting for the capital programme. The scope of the review does not include consideration of the funding arrangements or the specification of the projects Rationale Key Audit risk area. Lead Officers Head of Finance
Q3	Fixed Assets	Assurance	10	Scope The scope of the review will focus on maintenance of the asset register, acquisitions, disposals and valuations. Rationale Key Audit risk area.

Quarter	Audit	Type	Days	Scope
				Lead Officers Head of Finance
Q1	Allowances	Assurance	14	Scope The review will focus on the validity of allowances claimed, including overnight, mutual aid, meal allowances. Compliance with policy and clarification of claiming allowances. Rationale Key Audit risk area. Lead Officers Head of Transactional Services
Q2	Records Management	Assurance	12	Scope The review will focus on records management, with further specified areas to be determined at the time of audit. Rationale Key audit risk area. Lead Officers Head of Information
Q2	Establishment and Recruitment	Assurance	14	Scope The review will consider the establishment, changes to recruitment criteria, around the arrangements for advertising, shortlisting, interviewing and appointing staff/officers. Rationale Key audit risk area, with increased drive to recruit front line officers. Lead Officers Director of HR
Q3/4	Duty Management System	Assurance	14	Scope The review will appraise the effectiveness of the duty resource management system. Rationale Key audit risk area.

Quarter	Audit	Type	Days	Scope
				<u>Lead Officers</u> Director of HR
Q2	Vetting	Assurance	12	<u>Scope</u> The review will focus on the systems and processes for vetting new and existing staff, officers and contractors. <u>Rationale</u> Key audit risk area, new systems being introduced. <u>Lead Officers</u> TBC
Q1	Transport Services – Strategy	Assurance	8	<u>Scope</u> The audit will appraise the strategy for managing transport services. <u>Rationale</u> The strategy may not align with corporate strategies. <u>Lead Officers</u> Head of Transport
Q1	Transport - Procurement	Assurance	9	<u>Scope</u> The review will focus on policy and compliance for purchasing vehicle for current and future requirements. <u>Rationale</u> Key audit risk area. <u>Lead Officers</u> Head of Transport
Q2	Estates – Strategy	Assurance	8	<u>Scope</u> The audit will appraise the strategy for managing the estates for current and future requirements. <u>Rationale</u> Key area of risk.

Quarter	Audit	Type	Days	Scope
				Lead Officers Head of Estates
Q1	Stations, including building access and vehicle security.	Assurance	16	Scope The review will visit stations to audit building access, vehicle security, management and running of stations. Rationale A key risk area Lead Officers Information management and officers in charge
Q2	Control Room - Norfolk	Compliance	15	Scope The review will select aspects relating to compliance with policy and procedures within the control room. Rationale A key risk area Lead Officers TBC
Q2	Control Room - Suffolk	Assurance	15	Scope The review will aspects relating to compliance with policy and procedures within the control room. Rationale A key risk area Lead Officers TBC
Q2	Custody Administration	Assurance	14	Scope The audit will focus on the processes, coding and systems in operation to manage custody in accordance with protocols. Rationale A key area of risk. Lead Officers

Quarter	Audit	Type	Days	Scope
				TBA
Q1	Firearms Management	Assurance	10	Scope The review will focus on the management of firearms, handling and recording in accordance with policy and procedure. Rationale A key area of risk. Lead Officers TBC
Q4	Commissioners Grants – Norfolk and Suffolk	Assurance	9	Scope The review will consider the arrangements for the assessing, awarding and compliance monitoring process for the grants issued by the Commissioners. Rationale An important area requiring high levels of governance and probity. Lead Officers Chief Executives (OPCC)
	Contingency(b/fwd) / c/fwd		(11) 2	Only to be used with the express permission of the Chief Finance Officers
Q2 / Q4	Follow up work		12	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 2018/19	**330**	

Annex C

Assurance Mapping

Corporate assurance risks

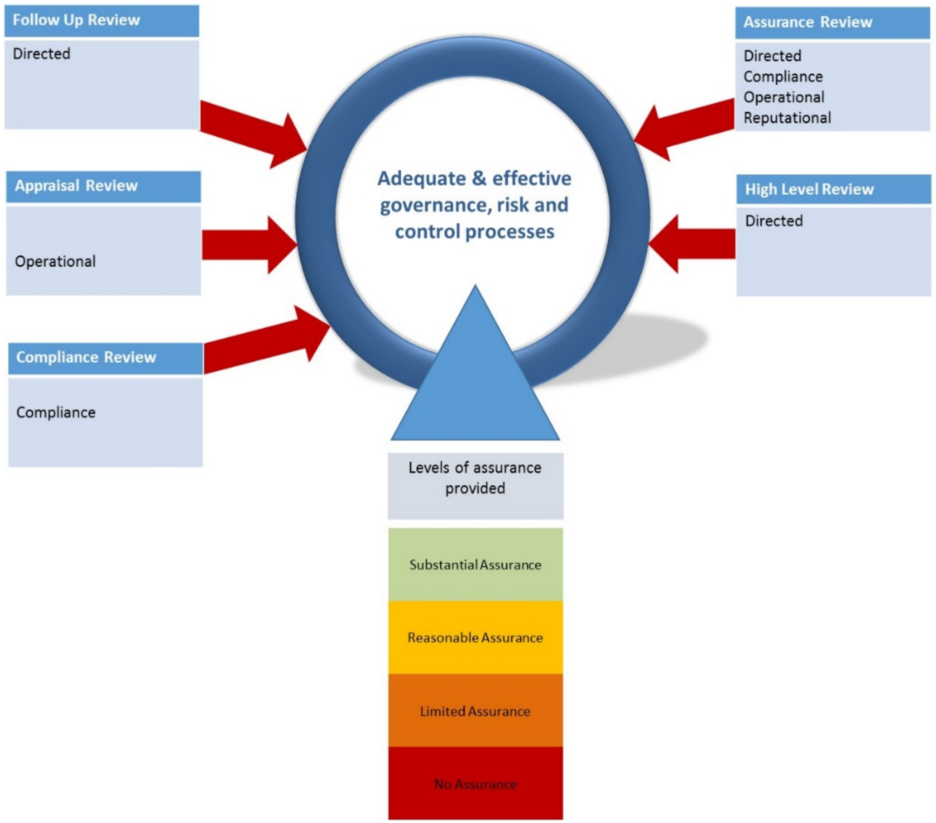
We consider four corporate assurance risks; directed; compliance; operational and reputational. The outcomes of our work on these corporate assurance risks informs both the individual assignment assurance assessment and also the annual assurance opinion statement. Detailed explanations of these assurance 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.

Annex D

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

Ernst & Young LLP

Annual Audit Letter for the year ended 31 March 2017

October 2017

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) has issued a ‘‘Statement of responsibilities of auditors and audited bodies”. 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 (updated 23 February 2017)” 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 2017.

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

Area of Work	Conclusion
Opinion on the PCC's and CC's: ► Financial statements	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 2017, and of the expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
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
Reports by exception: ► Consistency of Governance Statement	The Annual Governance Statement for the PCC and CC was consistent with our understanding of the PCC and CC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the PCC and CC which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance being the PCC and CC communicating significant findings resulting from our audit.	We issued our Audit Results Report on 1 September 2017 and discussed with the Audit Committee on 5 September 2017
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.	We issued our certificate on 8 September 2017

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

Associate Partner
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 2016/17 Audit Results Report to the 5 September 2017 Audit Committee and to the PCC and CC as Those Charged with Governance. 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the 14 March 2017 Audit Committee and 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 2016/17 financial statements, including the Police Pension Fund; 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 is 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 thy 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 your 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 (AGS). 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 and Police Pension Fund 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 8 September 2017.

Our detailed findings were reported to the 5 September 2017 Audit Committee.

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

Significant Risk	Conclusion
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.	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

Significant Risk	Conclusion
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 or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end. 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.	Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition. 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. We did not find errors from testing cut-off processes. Our testing did not identify any expenditure which had been inappropriately capitalised.

Other Key Findings	Conclusion
Presentation of the financial statements	
The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year required changes in the presentation of the financial statements. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). They also include a new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The new Code also required that the service analysis is based on the organisational structure under which the organisation operates.	Our testing did not identify any material misstatements in the 2016/17 statement of accounts. We identified that within the CIES for the PCC Group both the restated gross expenditure and gross income differed from the 2015/16 financial statements. The £1.690 million difference related mainly to the treatment of recharges arising from collaborative costs with Suffolk Constabulary as a result of preparing the new Expenditure and Funding Analysis note. The PCC and CC added an enhanced note to explain the prior period adjustment at Note 36. The issue does not have an impact on the surplus/deficit on the CIES or the general fund. No other issues were identified during our work performed in this area. The change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. Together with investigation of the £1.690 million difference, this meant that we incurred extra costs in performing our audit.

Other Key Findings	Conclusion
Property, plant and equipment valuations Property, Plant and Equipment (PPE) represents a material item on the PCC's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis. This is carried out by an expert valuer and is based on a number of complex assumptions. Annually the valuer assesses assets to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	We assessed and were satisfied with the competency and objectivity of the PCC valuers. We undertook appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the PCC property, focusing in particular on specialist assets which are valued on a depreciated replacement costs basis. We did not identify any issues that we needed to report to the PCC and CC.
Pensions valuations and disclosures The Local Authority Accounting Code of Practice and IAS19 require the PCC and CC to make extensive disclosures within their financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The PCC's and CC's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the PCC's and CC's Balance Sheet. The information disclosed is based on the IAS19 report issued to the PCC and CC by the actuaries to the Norfolk Pension Fund. As part of their actuarial review, PCCs and CCs are being asked to make additional payments to the pensions scheme to fund deficits.	We have assessed and are satisfied with the competency and objectivity of the PCC and CC actuaries. EY pension's team considered the work of PwC (the Consulting Actuary to the NAO) who reviewed the work of the actuaries. Neither EY Pension's team nor the NAO reported any significant issues for follow up by local auditors. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Other Key Findings	Conclusion
Corrected Material Errors During the audit, management corrected the financial statements for two material errors.	Neither amendment impacted on the financial position of the Group, PCC or CC.
Management identified that they had incorrectly allocated the Protective Security Grant of £4.461 million within the Comprehensive Income and Expenditure Statements (CIES). Management had recorded the Grant within Income for the PCC Single Entity Accounts. Management re-allocated the sum to the CC Single Entity Accounts because the expenditure associated with the grant is specific to the CC.	Management corrected the CIES within financial statements for the Group, PCC Single Entity and CC Single Entity for this error. Management has also corrected Notes 8 Government Grants (PCC accounts) and 14 Grant income (CC accounts) and updated accounting policies to reflect those grants whose expenditure lies with the CC.
In addition, management incorrectly recorded a payment of £2.5 million to pensioners within the Police Pension Fund as Cash and Cash Equivalents in the Balance Sheet. The PCC had paid the sum relating to April 2017 on 31 March 2017.	Management re–classified the sum as a prepayment within Short-Term Debtors and Prepayments. The amendment also affected the Cash Flow Statement.
Narrative Report We reviewed the information presented in the Narrative Report for consistency with our knowledge of the PCC and CC.	Management amended the Narrative Report for inconsistencies between figures within the Report and the financial statements. We recommended that for 2017/18, in order to comply with the Code of Practice, the PCC and CC enhance the reporting of non-financial performance information in the Narrative Report to include the indicators in the PCC's Police and Crime Plan and comparative data for all indicators and to provide a commentary
Publication of the Financial Statements Paragraph 10 of the Accounts and Audit regulations 2015 require the PCC and CC to publish the financial statements. Narrative Report and Annual Governance Statement by 30 September on their respective websites.	The CC published both the PCC and CC financial statements and Narrative Report on the website on 29 September 2017 but with the draft Annual Governance Statement. The PCC failed to comply with the regulations, publishing the required documents on the website on Monday 2 October 2017.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be: · £4.8 million for the Group (2015/16 £4.9 million) based on 2% of gross revenue expenditure, pension interest cost and interest payable of £239 million; · £2.4 million for the PCC (2015/16 £2.4 million) based on 2% gross assets of £120 million; · £4.4 million for the CC (2015/16 £4.5 million) based on 2% of gross revenue expenditure, pension interest cost and interest payable of £221 million; and · £0.9 million for the Police Pension Fund (2015/16: £0.9 million) based on 2% of gross revenue expenditure on Pension Benefits Payable of £44 million. We consider the separate materiality bases to be the principal considerations for stakeholders in assessing the financial performance of the PCC Group, PCC Single Entity, CC Single Entity and Police Pension Fund.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of: · £238,000 (2015/16 £251,000) for the PCC Group; · £119,000 (2015/16 £123,000) for the PCC single entity; · £221,000 (2015/16 £228,000)for the CC single entity; and · £44,000 (2015/16 £43,000) for the Police Pension Fund.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Our audit strategy was to check the disclosures and bandings reported in the PCC and CC financial statements, test the completeness of the disclosure and ensure that the disclosures were compliant with the Code of Audit Practice. We sample checked transactions back to the payroll system and supporting documentation. Management updated the Officers' Remuneration note for figures for Benefits in Kind, which were not available at the time of issuing the draft financial statements on 30 June 2017; and

- Related party transactions: Our audit strategy was to obtain and review declarations from the PCC, CC, Audit Committee Members and senior officers for any material disclosures and to ensure the PCC and CC disclosures were compliant with the Code. We carried out a sample check of Companies House searches to identify whether any key decision-makers in the PCC and CC had any interests in any companies undertaking work for the PCC and CC to test the completeness of the disclosure. We had nothing to report from our audit work.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

There were no uncorrected errors to report.

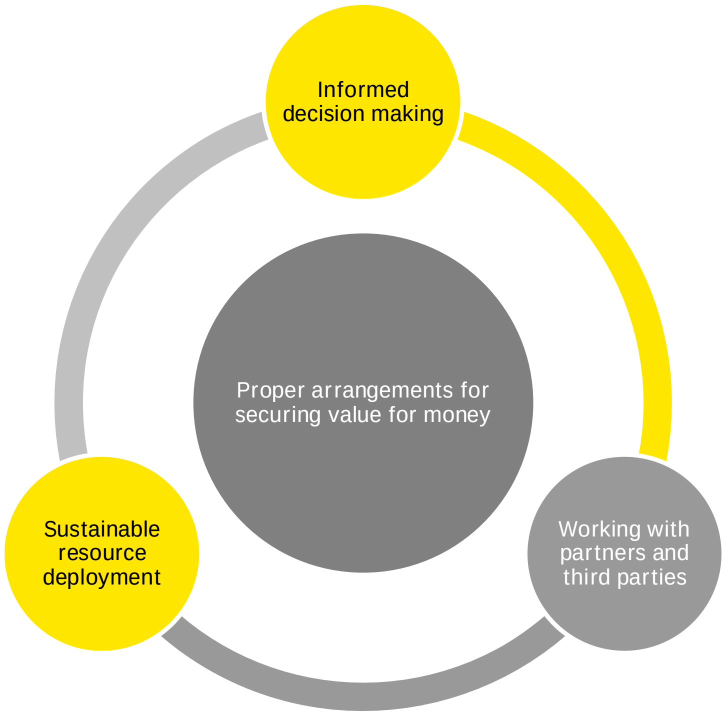
Value for Money

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 on its 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 identified one significant risk in relation to our value for money conclusion.

The risk related to sustainable resource deployment, and the need for the PCC and CC to achieve their savings plans and address their budget gap to deliver the Medium Term Financial Plan (MTFP). We have performed the procedures outlined in our Audit Plan, including reviewing Her Majesty's Inspectorate of Constabulary's (HMIC) 2016/17 Peel Report to address this risk. Our work did not identify any significant weaknesses in relation to the PCC's and CC's arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore concluded that the PCC and CC had adequate arrangements in place.

We therefore issued an unqualified value for money conclusion on 8 September 2017.

The table below presents the findings of our work in response to this risk.

Significant Risk	Conclusion
Sustainable resource deployment: Financial resilience – achievement of savings needed over the medium term The PCC and CC continue to face significant financial challenges over the next three years, with a forecasted underlying budget gap of £2.962 million by 2020-21, based on a council tax increase of 1.986%. The gap depends upon the cumulative delivery of £7 million savings and the planned use of reserves of £14 million to leave £6 million available by 31 March 2021. Given the level of the savings required and the reserves being used, this presents a risk to the PCC's and CC's finances over the medium term.	HMIC's 2016 review classified the CC as good for effectiveness, efficiency and legitimacy and concluded that the CC has sound financial and organisational plans. The process for setting the PCC's and CC's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2017/18 budget. Management use scenario planning effectively to provide guidance to the PCC on the level of precept. The MTFP forecasts a budget gap of £3 million of savings still to be identified through to 31 March 2021. The gap of £3 million is dependent on the: · Delivery of cumulative savings plans of £6.6 million to 31 March 2021; and · Planned use of £14 million reserves to support the budget and capital financing. The PCC and CC have a record of achieving savings plans. We concluded that the PCC and CC have arrangements to identify the savings needed and a timetable for their delivery. The CC is developing business plans to deliver the Change Programme and is taking action to address slippage. However, this needs some urgency as 68% (£1.3 million) of the total savings planned of £1.9 million are due to be achieved by 31 March 2019. The MTFP forecasts that the planned use of reserves will reduce earmarked reserves from £24.5 million in 2016/17 to £6.2 million at 31 March 2021 with General Reserves remaining constant at £4.475 million. The use of reserves beyond this level to support the budget is not sustainable. The PCC and CC need to continue to identify and deliver savings to replenish reserves especially should austerity continue.

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 statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and identified a small number of areas where further disclosure was required. The PCC and CC amended the annual governance statement to include a section on financial resilience and the action being taken to improve the IT system which supports operational policing. Management decided, however, not to include an action plan as required by the Code of Audit Practice.

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 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 2016/17 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

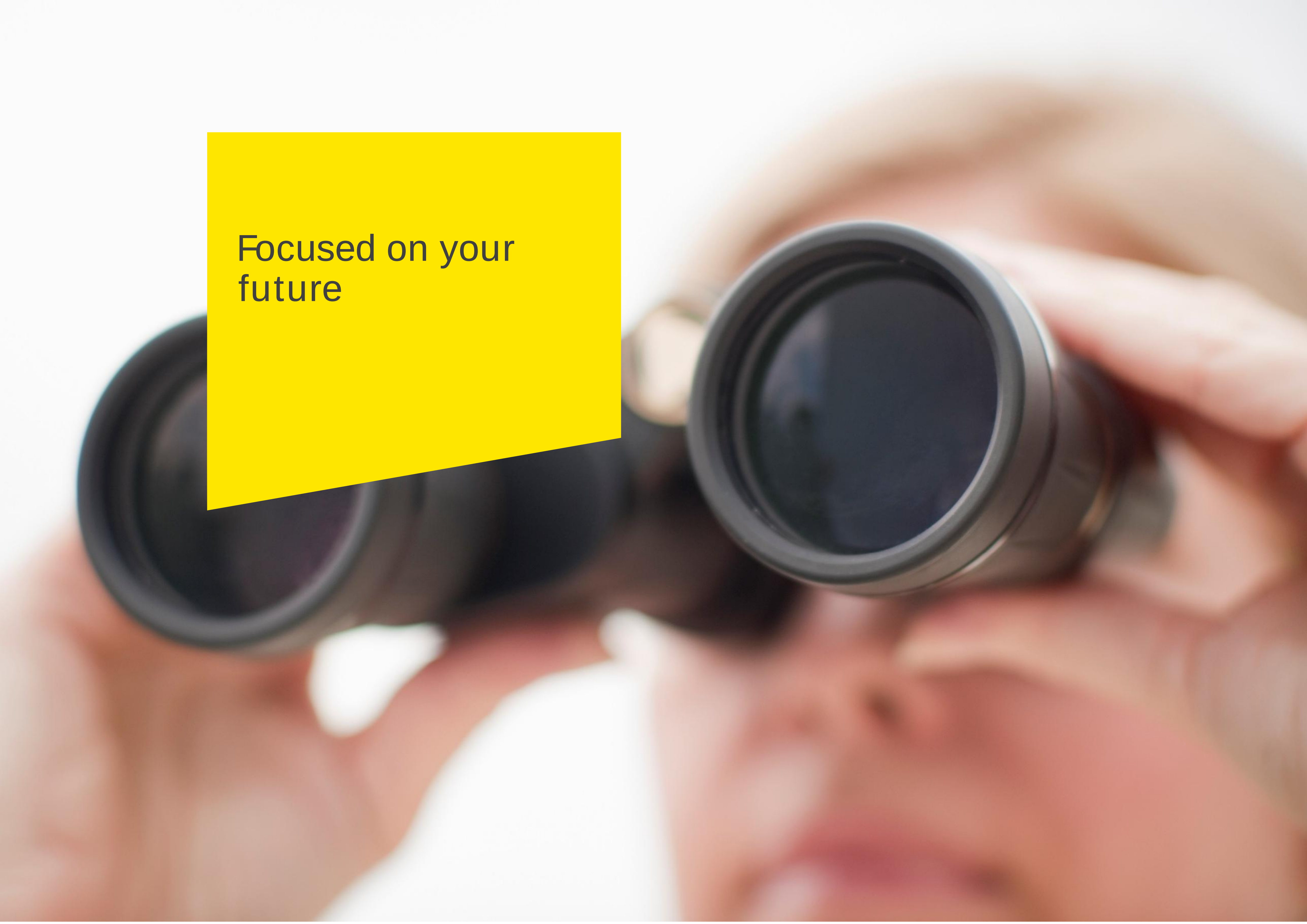
We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 5 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



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Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the PCC and CC has reviewed and amended the closedown process over the last year. Through working together, we agreed areas for early work in the 2016/17 audit which included testing of major income and expenditure streams based on information available in December 2016 to reduce testing at the final accounts audit in the Summer. We met with the PCC and CC Finance Team on 26 September to reflect on the closure process for the 2016/17 financial statements. We both identified a number of areas where the closedown and audit processes can be further improved going forward. For 2017/18 we are planning for extensive testing across a number of areas based on November 2017 information, earlier completion of valuation and contract work and also the Value for Money conclusion by 31 March 2018.
Forthcoming changes to accounting standards: *IFRS 9 Financial Instruments* *IFRS 15 Revenue from Contracts with Customers* *IFRS 16 Leases*	Revised accounting standards are expected to be applicable for local authority accounts from the 2018/19 (IFRS 9 (financial Instruments) and IFRS15 (revenue) and 2019/20 financial year IFRS 16 (leases). Transitional arrangements are included within the accounting standards. However as the 2018/19 and 2019/20 Accounting Code of Practice for Local Authorities have yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	CIPFA issued some initial thoughts on the approach to adopting IFRS 9 and IFRS 15, but until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. For IFRS 16, it is clear is that the PCC and CC will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented The PCC and CC are awaiting clarification of the exact requirements before investing time in the above work.

Appendix A

Audit Fees

Appendix A Audit Fees

Our March 2017 Audit Plan recorded planned fees for 2016/17 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee PCC – Code work	To Be Confirmed	£33,825	£33,825	£34,777
Total Audit Fee CC – Code work	To Be Confirmed	£15,000	£15,000	£15,709
Total PCC Group	To Be Confirmed	£48,825	£48,825	£50,586

We have undertaken extra work as a result of:

- The findings from changes to Comprehensive Income and Expenditure Statement required by the CIPFA Code of Practice on Local Authority Accounting for 2016-17; and
- Delayed responses to our requests for documentation regarding valuation information, the financial position and the IT system which supports operational policing.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Chief Finance Officer. We will update the PCC, CC and the Audit Committee on our proposed fee variation when this process has concluded. Any variation to the 2016/17 scale fee is subject to approval by Public Sector Audit Appointments Limited (PSAA).

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

ED None

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

Ernst & Young LLP

Year ending 31 March 2018

Audit Plan
December 2017

Building a better working world

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Lorne Green
The Police & Crime Commissioner for Norfolk

15 December 2017

Simon Bailey
The Chief Constable of Norfolk Constabulary

Jubilee House
Falconers Chase
Wymondham
Norfolk
NR18 0WW

Dear Lorne and Simon,

Audit Plan

We are pleased to attach our Audit Plan for the Police and Crime Commissioner for Norfolk (the PCC) and the Chief Constable of Norfolk Constabulary (the CC).

The Plan sets out how we intend to carry out our responsibilities as your auditor.

Its purpose is to provide the PCC and CC with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the PCC's and CC's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the PCC and CC, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this Audit Plan with you at the Audit Committee on Tuesday 9 January 2018 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson
Associate Partner
For and behalf of Ernst & Young LLP Appointed Auditor
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies '. 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 (updated February 2017) 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 report is made solely to the Audit Committee and management of The Police and Crime Commissioner for Norfolk and chief Constable of Norfolk Constabulary in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and The Police and Crime Commissioner for Norfolk and chief Constable of Norfolk Constabulary for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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.

1. Overview

Background

The Police Reform and Social Responsibility Act created two corporations sole, the:

- Police & Crime Commissioner for Norfolk (the PCC); and
- Chief Constable of Norfolk Constabulary (the CC).

We recognise the manner in which these two bodies are inter-linked and operate, based on the governance documents and schemes of governance, and consent that have been adopted.

Therefore, whilst each is a separate audit engagement, we have drafted one joint audit plan to set out our approach to the two engagements, recognising that the audit risks inherent in both engagements and the programme of work required have much in common.

Where relevant, we set out separately any risks which are solely pertinent to one of the bodies.

The PCC is responsible for preparing and publishing the Group's financial statements. The Group comprises the accounts of both the single entity PCC and the single entity CC. The CC is responsible for preparing and publishing the CC's single entity financial statements.

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Group, the PCC and the CC give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC's and the CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Group's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;

- Developments in financial reporting and auditing standards;

- The quality of systems and processes;

- Changes in the business and regulatory environment; and,

- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and the CC.

We will provide an update to the PCC, CC and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2018.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Group, the PCC and the CC, identified through our knowledge of the Group's, the PCC's and the CC's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having assessed the key income and expenditure streams of the PCC and CC, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.	We will: ► Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Management override	
As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
Valuation of Land and Buildings	
The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group and PCC single entity accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: ► Consider the work performed by the PCC's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ► Sample test key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metres); ► Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ► Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated. ► Consider changes to useful economic lives as a result of the most recent valuation; and ► Test accounting entries have been correctly processed in the financial statements.
Pension Liability valuation	
The Local Authority Accounting Code of Practice and IAS19 require the PCC and CC to make extensive disclosures within their financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council. The PCC and CC must also do similar in respect of the Police Pension Fund. The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. At 31 March 2017 this totalled £1 million and £1.720 million respectively. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to Norfolk County Council and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Our approach will focus on: ► Liaise with the auditors of Norfolk County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the PCC for Norfolk and the CC of Norfolk Constabulary; ► Assess the work of the LGPS Pension Fund actuary (Hymans Robertson) and the Police Pension actuary (Government Actuary Department) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ► Review and test the accounting entries and disclosures made within the PCC and CC's financial statements in relation to IAS19.

What is the risk/area of focus?	Our audit approach
Private Finance Initiatives (PFIs)	
The PCC and CC discloses two PFI contracts within their financial statements for: ► The use of Jubilee House, Operations and Communications Centre at Wymondham from 2001 until 2037. At the 31 March 2017 the PFI Liability associated with the OCC amounted to £25.9m; and ► The use of six Police Investigation Centres shared with the Police and Crime Commissioner for Suffolk from 2011 until 2041. The arrangements also includes payments by the Police and Crime Commissioner for Cambridgeshire. At 31 March 2017, the PCC for Norfolk's share of the PFI liability was £36.4million. The liability and payments for services are dependent upon assumptions within the accounting models underpinning both PFI schemes. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.	Our approach will focus on: ► Enquiring whether there have been any significant changes within the model since our review and assessing the impact of any change in assumptions upon the model; and ► Agreeing the models to the disclosures within the financial statements.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ► Identifying fraud risks during the planning stages;
- ► Enquiry of management about risks of fraud and the controls to address those risks;
- ► Understanding the oversight given by those charged with governance of management's processes over fraud;
- ► Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ► Determining an appropriate strategy to address any identified risks of fraud, and,
- ► Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the PCC and the CC has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. For 2017/18 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as the annual governance statement for both the PCC and the CC.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
Sustainable Resource Deployment: Achievement of savings required over the Medium Term	
The PCC and CC continue to face significant financial challenges over the next three years, with a forecasted underlying budget gap of £2.96 million by 2020/21, after taking into account proposed Council Tax increases of 1.986% per annum. The budget gap is reliant upon the cumulative delivery of £7.0 million savings and the planned use of reserves of £14.0 million. This would reduce the underlying reserve balance to £6.0 million as at the 31 March 2021. Given the level of the savings required and the reserves being used, this presents a risk to the PCC’s and CC’s finances over the medium term.	Our approach will focus on reviewing: ► The key assumptions made within the 2018/19 annual budget; ► The updated Medium Term Financial Plan, and the underlying assumptions within it, and an assessment of the sensitivity of those assumptions and; ► The detailed plans being developed to deliver the £7.0 million of required savings. We will take into account the work of Her Majesty’s Inspectorate of Constabulary (HMIC) on its PEEL assessment.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Group's, the PCC's and the CC's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of the PCC's and the CC's governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- Give a separate opinion on the part of the Group and CC's financial statements that relates to the accounts of the pension fund.

2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the PCC and the CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources.

4.2 Audit process overview

The same audit team will be responsible for auditing the Group financial statements and the PCC and the CC components.

Our audit involves:

- Walking through the key internal controls in place and testing the operation of these controls;
- Reviewing internal audit plans and the results of work undertaken;
- Considering the work of Her Majesty's Inspectorate of Constabulary (HMIC); and
- Reliance on the work of experts in relation to areas such as pensions and valuations.

Processes

Our initial assessment of the key processes across the PCC and CC has identified the following systems which we will document and walkthrough the key controls.

- General ledger
- Accounts receivable;
- Accounts payable;
- Payroll;
- Pensions; and
- Property, plant and equipment;

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ► Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ► Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

Our intention is to carry out a fully substantive audit in 2017/18 rather than rely on the operation of controls as we believe this is the most efficient approach. As part of our working protocol with TIAA (internal audit) we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit results report, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	EY pensions team and PwC review of actuary deployed by Norfolk County Council CC actuary, Hymans Robertson LLP PCC actuary, Hymans Robertson LLP Government Actuaries Department (GAD)
Property, Plant & Equipment	EY Estates PCC valuer, Carter Jonas.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC's and the CC's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source date is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published within both the Group's (including the PCC) and the CC's financial statements, including the Annual Governance Statement for the PCC and the CC;
- Reviewing and reporting on the Group's Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements for the Group and the CC is £4.8 million and £4.4 million respectively based on 2% of 2016/17 gross revenue expenditure.

Overall materiality for the PCC is £2.4 million based on 2% of 2016/17 gross assets. Overall materiality for the Police Pension Fund is £0.9 million based on 2% of 2016/17 benefits payable.

We will communicate uncorrected audit misstatements to you greater than of £239,000 (for the PCC Group), £221,000 (for the CC single entity), £120,000 (for the PCC single entity) and £44,000 (for the Police Pension Fund).

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of PCC is £33,825 and for the audit of the CC is £15,000.

4.6 Your audit team

The engagement team is led by Mark Hodgson, Associate Partner, who has significant experience within the police sector. Mark is supported by Chris Hewitt who is responsible for the day-to-day direction of audit work and is the key point of contact for the PCC and the CC lead on the production of their accounts.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the PCC and the CC through the Audit Committee's cycle in 2017/18. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

Matters may arise that require immediate communication with the PCC and CC and we will discuss them with the PCC and CC and Chair of the Audit Committee as appropriate.

Following the conclusion of our audit we will prepare Annual Audit Letter's to communicate the key issues arising from our work to the PCC and the CC and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2017	June 2017	Audit Fee Letter
Risk assessment and setting of scopes	December 2017	January 2018	Audit Plan
Testing routine processes and controls	January 2018	April 2018	Progress Report (if appropriate)
Year-end audit and completion of audit	May to July 2018	July 2018	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and, overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	August 2018	October 2018	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in June 2016, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the PCC and the CC.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the PCC and the CC have approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, the PCC and the CC have not commissioned any non-audit services from EY for 2017/18. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the PCC and the CC. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

The table below sets out the other threats that exist as the date of this report.

Description	Related independence threat	Period provided / duration	Safeguards adopted and reasons considered to be effective
We have identified one threat of familiarity. Norfolk Constabulary has employed a former member of EY as a Financial Accountant from February 2016. The employee's role includes preparing working papers for the financial statements audit for the PCC for Norfolk and the CC of Norfolk Constabulary.	The Financial Accountant had previously worked with EY.	From February 2016	The audit team, below manager level, consists of staff who had not previously worked with the Financial Accountant at EY.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, the audit engagement Associate partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2017/18 £'s	Scale fee 2017/18 £'s	Outturn fee 2016/17 £'s
The PCC for Norfolk opinion Audit and VFM Conclusion	*33,825	33,825	37,233
The CC of Norfolk Police opinion Audit and VFM Conclusion	*15,000	15,000	16,546
Total Audit Fee – Code work	**48,825**	**48,825**	**53,779**

All fees exclude VAT.

Notes
* The planned fees for 2017/18 will be subject to a scale fee variation. This is due to the scale and nature of errors found in the 2016/17 audit, concerning the allocation of grant income between the PCC and CC and the incorrect classification of a prepayment of sums due to Police Pension Fund Pensioners. As a consequence of these errors, we will need to increase our sample sizes to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality.

The planned fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality and timeliness of documentation is provided by the PCC and the CC; and
- The PCC and the CC has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Chief Finance Officer in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the PCC and CC. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	► Audit Results Report
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Audit Results Report
Fraud ► Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Audit Results Report
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Audit Results Report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of	► Audit Results Report

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	► Audit Plan ► Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	► Audit Results Report
Significant deficiencies in internal controls identified during the audit	► Audit Results Report
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Audit Results Report Annual Audit Letter if considered necessary
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ► Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ► Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	► Audit Plan ► Audit Results Report

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

NORFOLK CONSTABULARY
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Mid Year Treasury Management Monitoring Report 2017/18

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 2017 to 30th September 2017.

The Brexit vote in June 2016 pointed to an impending sharp slowdown in the economy, however, subsequent surveys show a recovery in confidence although growth continues to be weak; the Bank of England addressed this by a cut in Base Rate from 0.50% to 0.25% in August 2016, which was subsequently reversed in November 2017. To avoid the 'cost of carrying' debt the PCC has historically deferred borrowing for capital purposes, however the planned use of reserves for revenue and capital purposes in 2017-18 will mean that the PCC will need to borrow in the near future to fund the capital programme.

At the 30th September 2017, the PCC's external debt was £14.761m (including a £2m short term loan) and its investments totalled £23.519m.

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 (2017/18) was approved by the PCC in January 2017 and endorsed by the Audit Committee on 14th March 2017.

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 Link Asset Services (the PCC's external treasury consultants) and details treasury activities for the period 1st April 2017 to 30th September 2017 including; cash balances and cash flow management, investment performance, counterparty management and long term borrowing/debt management.

2. Link Asset Services Economic Overview - October 2017

2.1 <u>Economic performance year to date</u>

<u>UK</u>

2.1.1 After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only

+0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012.. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

2.1.2 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

2.1.3 It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

U.S.

2.1.4 Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Eurozone

2.1.5 Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

Other Key Trading Areas

2.1.6 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2.2 Link Asset Services Interest Rate Forecast

2.2.1 The PCCs treasury advisor, Link Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Link Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

2.2.2 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- 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.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.

- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

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 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 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 the capital programme. The average level of cash balances year to date totals £25.856m

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 seven bank accounts. Cash balances across all seven 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 £121.3m, while payments total £115.1m, resulting in an overall increase in cash balances of £6.2m.

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 PCC's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC'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 2017, the PCC held £23.519m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid	Up to 3 Months	Up to 6 Months	Up to 9 Months	Up to 12 Months
	£m	£m	£m	£m	£m
Part Nationalised Banks	-	-	-	-	-
UK Banks	3.5	-	-	2.0	-
Non-UK Banks	-	-	4.0	4.0	2.0
Building Societies	-	-	5.0	2.0	1.0
Other*	-	-	-	-	-
Total	3.5	-	9.0	8.0	3.0

*Includes: Other Local Authorities

4.3 A more detailed investment profile at 30th September 2017 is shown at Appendix 1.

4.4 The average interest rate earned for the year to date is 0.64% compared with the estimated average 3 month day London Interbank Bid Rate (LIBID) of 0.30%.

4.5 Gross interest earned for the period 1st April 2017 to 30th September 2017 is £0.075m.

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 2017/18. 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 2017 to 30th September 2017 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 2017/18 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 2017, the PCC's external borrowing (debt outstanding) totaled £14.761m (£12.761m PWLB plus £2m short term funding)

6.4 The PCC's overall capital financing requirement (excluding PFI) at 31.3.17 was £24.1m. The projected capital financing requirement at 31.3.18 is approximately £29.93m. This represents unfunded capital expenditure for which approved borrowing can be 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. Current circumstances do not suggest that refinancing existing PWLB debt would be economically prudent due to the significant repayment penalties. However prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.

7. Other

7.1 The Chartered Institute of Public Finance and Accountancy, (CIPFA) has recently consulted local authorities (and PCCs) on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA will publish the revised codes shortly.

7.2 A particular focus of this exercise has been local authority (and PCC) investments which are not treasury type investments e.g. by investing in property in order to generate income at a much higher level than could be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. A further report will be prepared for the Audit Committee if there is any impact on the PCC of the new Codes.

7.3 MiFID II (Markets in Financial Instruments Directive).
The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MiFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities (and PCCs) from that date. This will have little effect on the PCC apart from having to fill in forms sent by each institution dealing with the PCC and for each type of investment instrument in use but excluding cash deposits with banks and building societies.

8 Conclusion

8.1 The Mid-Year Treasury Management Monitoring Report 2017/18 provides information on the Treasury Management activities of the PCC for the period 1st April 2017 to 30th September 2017.

9 Recommendation

9.1 It is recommended that Audit Committee endorses the Mid-Year Treasury Management Monitoring Report 2017/18.

Appendix 1

Outstanding Deposit Profile @ 30th September 2017				
Counterparty	**Deal Date**	**Maturity Date**	**Rate**	**Principal(£m)**
Skipton BS	06/07/2017	03/11/2017	0.27%	4.0
Goldman Sachs Intl	07/06/2017	07/12/2017	0.67%	2.0
Skipton BS	07/06/2017	07/12/2017	0.51%	1.0
Goldman Sachs Intl	05/01/2017	04/01/2018	0.83%	2.0
Goldman Sachs Intl	06/07/2017	08/01/2018	0.66%	1.0
Coventry BS	06/07/2017	08/01/2018	0.35%	1.0
Nationwide BS	07/06/2017	22/01/2018	0.40%	1.0
Goldman Sachs Intl	31/05/2017	28/02/2018	0.74%	3.0
Close Brothers	08/05/2017	09/04/2018	0.80%	2.0
Nationwide BS	25/07/2017	24/07/2018	0.45%	1.0
Goldman Sachs Intl	16/02/2017	185 day notice	0.90%	2.0
Lloyds Bank	19/09/2017	Instant Access	0.15%	2.5
Barclays Bank	27/09/2017	Instant Access	0.15%	0.5
Barclays Bank (Current A/C)				0.5
Total				23.5

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

ORIGINATOR: Chief Finance Officer

REASON FOR SUBMISSION: To review and endorse.

SUBJECT: Annual Investment and Treasury Strategy for 2017/18

SUMMARY:

Government regulations require the Police and Crime Commissioner (PCC) to approve an Annual Investment Strategy prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy. The Strategy, attached to this report, will be included in the budget and precept report presented by the PCC to the Police and Crime Panel (PCP) on 6 February 2018.

There are no significant changes in the 2018/19 Strategy compared to the prior year.

RECOMMENDATION:

The Committee is asked to review and endorse the Strategy for inclusion in the PCC's precept report for 2018/19.

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2018/19

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The PCC is required to comply with the Code through regulations issued under the Local Government Act 2003 and has adopted specific clauses and policy statements from the Code as part of its Financial Regulations.

1.2 Complementary to the CIPFA Code is the Department for Communities and Local Government's (DCLG's) Investment Guidance, which requires local authorities and PCCs to produce an Annual Investment Strategy. This report combines the reporting requirements of both the CIPFA Code and DCLG's Investment Guidance.

1.3 The primary objectives of the PCC's Investment Strategy are to safeguard the timely repayment of principal and interest, whilst ensuring adequate liquidity for cash flow and the generation of investment yield. A flexible approach to borrowing for capital purposes will be maintained which avoids the 'cost of carrying debt' in the short term. This strategy is prudent while investment returns are low and counterparty risk (the other party involved in a financial transaction, typically a bank or building society) remains relatively high.

2. The Treasury Management Function

2.1 The CIPFA Code defines treasury management activities as "the management of the PCC'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."

The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

The PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.2 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.

2.3 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.

2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions is undertaken by Specialist Accountants based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

2.5 External treasury management services continue to be provided by Link Asset Services in a joint contract with the PCC for Suffolk. Link Asset Services provides a range of services which include:

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of long term borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service for the three main credit rating agencies (Fitch, Moody’s and Standard & Poors).

2.6 Whilst Link Asset Services provide support to the treasury function, under market rules and in accordance with the CIPFA Code of Practice, the final decision on treasury matters remains with the PCC.

2.7 Performance will continue to be monitored and reported to the PCC as part of the budget monitoring report.

3. Link Asset Services Economic Forecast

Economic Overview

3.1 **UK.** After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the contradiction within the Bank of England between action in 2016 and in 2017 by two of its committees. After the shock result of the EU referendum, the Monetary Policy Committee (MPC) voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was because the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the Financial Policy Committee (FPC) of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

3.2 **Brexit Timetable / Process:**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two-year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two-year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.

- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies

3.3 **EZ.** Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

3.4 **USA**. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

3.5 **CHINA**. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

3.6 **JAPAN**. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

3.7 The following table gives Capita Asset Services central view of UK Base Rate and Public Works Loan Board (PWLB) borrowing rates:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

4. Investment Strategy 2018/19

4.1 The Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

4.2 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Financial Year	**Budgeted Interest Earnings**
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%

4.3 There are 3 key considerations to the treasury management investment process. CLG's Investment Guidance ranks these in the following order of importance:

- security of principal invested,
- liquidity for cash flow, and
- investment return (yield).

Each deposit is considered in the context of these 3 factors, in that order.

4.4 CLG's Investment Guidance requires local authorities and PCCs to invest prudently and give priority to security and liquidity before yield, as described above. In order to facilitate this objective, the Guidance requires the PCC to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.

4.5 The key requirements of both the Code and the Investment Guidance are to produce an Annual Investment and Treasury Strategy covering the following:

- Guidelines for choosing and placing investments – Counterparty Criteria and identification of the maximum period for which funds can be committed – Counterparty Monetary and Time Limits (Section 5).
- Details of Specified and Non-Specified investment types (Section 6).

5. Investment Strategy 2018/19 - Counterparty Criteria

5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.

5.2 The criteria for providing a pool of high quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below

(i) **UK Banks** which have the following minimum ratings from at least one of the three credit rating agencies:

UK Banks	Fitch	Standard & Poors	Moody's
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

(ii) **Non-UK Banks** domiciled in a country which has a minimum sovereign rating of AA+ and have the following minimum ratings from at least one of the credit rating agencies:

Non-UK Banks	Fitch	Standard & Poors	Moody's
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Banks –** Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.

- **The PCC's Corporate Banker –** If the credit ratings of the PCC's corporate banker (currently Barclays Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.

- **Building Societies –** The PCC will use Building Societies which meet the ratings for UK Banks outlined above.

- **Money Market Funds (MMFs) –** which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.

- **UK Government –** including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

- **Local Authorities, Parish Councils etc. –** Includes those in England and Wales (as defined in Section 23 of the Local Government Act 2003) or a similar body in Scotland or Northern Ireland.

5.3 All cash invested by the PCC in 2018/19 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.

5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.

5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2018/19 to reflect the level of cash balances and to avoid large deposits with the DMO.

5.6 In addition to individual institutional lending limits, “Group Limits” will be used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group lending limit of £10m.

5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.

5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2018/19 – Specified and Non-Specified Investments

6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year. Institutions of “high” credit quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 364 days or less:

- Banks: UK and Non-UK;
- Part Nationalised UK Banks;
- The PCC’s Corporate Banker (Barclays Bank plc)
- Building Societies (which meet the minimum ratings criteria for Banks);
- Money Market Funds;

- UK Government;
- Local Authorities, Parish Councils etc.

6.2 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:

- Any investment greater than 364 days.

6.3 The categorisation of 'Non-Specified' does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government's guidance.

6.4 The PCC's proposed Strategy for 2018/19 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2017/18

7.1 Capital expenditure can be funded immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will add to the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financial Requirement, which simply represents the total outstanding capital expenditure, which has not yet been funded from either capital or revenue resources.

7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 364 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.

7.3 The main source of long term loans is the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years.

7.4 External borrowing currently stands at £12.76m (excluding PFI). At 31 March 2017 there was a £24.1m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £29.9m at 31 March 2018, £34.0m at 31 March 2019 and £39.4m at 31 March 2020. Additional long term borrowing is estimated at £3.5m for 2017/18, £8.8m for 2018/19 and £8.2m for 2019/20. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI.

7.5 The challenging and uncertain economic outlook outlined by Link Asset Services in Section 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, 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 Link Asset Services economic overview (Section 3).

7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Link Asset Services will monitor prevailing rates for any opportunities during the year. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

7.7 The PCC has flexibility to borrow funds in the current year for use in future years, but will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds

7.8 PWLB borrowing has become less attractive in recent years, due to its policy decision to increase the margin payable over interest rates (Gilts). In response, the Local Government Association is currently in the process of setting up a “Municipal Bond Agency” which will be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

7.9 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 There are four treasury related Prudential Indicators. The purpose of the indicators is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:

- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the PCC set an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sums.

- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the PCC set an upper limit on its fixed interest rate exposures for 2017/18, 2018-2019 and 2019-2020 of 100% of its net outstanding principal sums.

- **Maturity Structures of Borrowing** – These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the PCC sets the following limits for the maturity structures of its borrowing at 31.3.18:

	Actual*	**Lower Limit**	**Upper Limit**
Under 12 months	0%	0%	15%
12 months and within 24 months	0%	0%	15%
24 months and within 5 years	7.8%	0%	45%
5 years and within 10 years	45.4%	0%	75%
10 years and above	46.8%	0%	100%

* Actual is based on existing balances at 31.12.17

- **Total Principal Funds Invested for Greater than 365 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2018/19, the maximum level of PCC funds invested for periods greater than 364 days will be no more than £10m.

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