AUDIT COMMITTEE

Tuesday 15 January 2019 at 2.00 p.m.
Filby Room, Jubilee House, Falconers Chase, Wymondham, Norfolk NR18 0WW

A G E N D A

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

Part 1 – Public Agenda

1. Welcome and Apologies

2. Declarations of Personal and/or Prejudicial Interests

3. To approve the minutes of the meeting held on 23 October 2018

4. Audit Committee Terms of Reference – Report from Chief Finance Officer

5. Audit of the 2018/19 Statements of Accounts Action Plan – Report from Chief Finance Officer

6. External Audit Plan 2018/19 – Report from Associate Partner (Ernst and Young LLP)

7. Internal Audit – Reports from Head of Internal Audit (TIAA)
   A. 2018/19 Plan Update
   B. 2018/19 Internal Audit Follow Up Recommendations

8. Treasury Management – Reports from Chief Finance Officer
   A. 2018/19 Half Year Update
   B. 2019/20 Strategy

9. Forward Work Plan – Report from Chief Finance Officer

Part 2 – Private Agenda

10. Duty Management System – update report – Report from Chief Finance Officer

11. Management of Police Information – update report – Report from Chief Finance Officer

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

13. Date of Next Meeting

Tuesday 16 April 2019 at 2pm – 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

如果您希望把这份资料翻译为国语，请致电 01953 424455 或发电子邮件至：opccn@norfolk.pnn.police.uk 联系诺福克警察和犯罪事务专员办公室。

Если вы хотите получить данный документ на русском языке, пожалуйста, обратитесь в Управление полиции и комиссии по рассмотрению правонарушений в графстве Норфолк по тел. 01953 424455 или по электронной почте: opccn@norfolk.pnn.police.uk

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

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

Jeśli chcieliby Państwo otrzymać kopię niniejszego dokumentu w języku polskim, prosimy skontaktować się z władzami policji hrabstwa Norfolk (Office of the Police and Crime Commissioner for Norfolk) pod numerem 01953 424455 lub pisać na: opccn@norfolk.pnn.police.uk

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

NORFOLK CONSTABULARY
Our Priority is You

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON MONDAY 23 OCTOBER 2018 AT 2.00 PM JUBILEE HOUSE, FALCONERS CHASE, WYMONDHAM

Members in attendance:

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

Also in attendance:

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

Part 1 - Public Agenda

1. Welcome and Apologies

The Chairman welcomed members to the meeting and apologies were noted from DCC P Sanford and Mr M Stokes (OPCC).

2. Declarations of Personal and/or Prejudicial Interests

No interests relevant to the agenda were noted.

3. To confirm the minutes of the meeting held on 24 August 2018

3.1 **The minutes were approved** as a correct record. The CFO reported that the further clarification on 'impact' scores (risk register) remained outstanding.

3.2 With reference to Minute 4 (Statements of Accounts 2017/18) the Committee was pleased to note that the external auditor's opinion on the accounts was received before the end of August. The CFO advised that he had spoken to PSAA Ltd (Public Sector Audit Appointments) regarding the reasons for the delay in the sign off of the accounts. As this was the first year with tighter deadlines the PSAA was extending some flexibility to all local authorities. The CFO reported that a meeting was to be held with EY on 1 November 2018 to discuss the problems with the 2017/18 audit with a view to ensuring that the sign off deadline was not missed for 2018/19. **The action plan would be reported to the Committee**.

3.3 Mr Hewitt (EY) presented the Annual Audit Letter and **the Committee noted** that it had already been published on the websites.

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

4.1 The Director of Audit introduced the Progress Report and referred to the fact that there were two limited assurance reports, Management of Police Information (MoPI) and the Duty Management System (DMS).

4.2 The Committee focussed its discussions on the limited assurance reports in particular whether the issues identified were on the risk registers and whether Chief Officers were clear about the implications of the shortcomings identified. The CFO reported positively on both these matters but acknowledged that the risks were being tolerated because the back office was severely stretched. Resources were having to be prioritised because of the severe financial constraints.

4.3 **The Committee requested reports on MoPI and the DMS to the next meeting.** It was hoped that the reports would give more context to the problems picked up at the audit and reassure members that the organisation was aware of the risks and implications.

4.4 It was also agreed that if risks were to be tolerated, i.e. recommendations not actioned or actioned over a longer period this needed to be come back to the Committee for final sign off. Failure to do this would mean the Follow Up audit work would continue to identify recommendations as outstanding (not completed).

4.5 The Director of Audit introduced the Follow Up Report. It was noted that 16 recommendations (Priority 1 and 2) had been implemented since the last meeting and 34 recommendations remained outstanding (or which 3 were priority 1). The Committee noted the increase in the number of outstanding recommendations and the CFO described the processes within the forces for monitoring and challenging implementation. Again the Committee indicated that if the risks of not completing were being tolerated then this should be reported back and the suggested actions discontinued.

4.6 **The Committee noted** the reports.

5. Forward Work Plan

5.1 **The Committee noted** the Plan with some minor changes including the addition of the two reports previous agreed.

Part 2 - Private Agenda

6. Strategic Risk Register Update

6.1 The CFO introduced the report. There were no particular concerns in respect of the identified risks but **the Committee again asked for** clarification as to the reasons for reductions in some of the 'impact' scores.

6.2 The CFO reported that work was ongoing to refine the strategic risk register and a meeting would be held shortly to progress the reporting improvements.

7. Close of Meeting

7.1 The Chairman expressed the Committee's thanks and appreciation to Mr Hewitt (EY) as this was his last meeting. He had been involved in the external audit of Norfolk Police for many years.

7.2 The next meeting would be held on 15 January 2019 at 2 pm in the Filby Room, OCC.

………………………………

Mr R Bennett
CHAIRMAN

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

NORFOLK CONSTABULARY
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ORIGINATOR:	Chief Finance Officer
REASON FOR SUBMISSION:	For Discussion and Agreement
SUBMITTED TO :	Audit Committee
SUBJECT:	To consider the current Terms of Reference for the Committee

SUMMARY:

The Terms of Reference make reference to an annual review. The Committee is asked consider whether any changes are required.

RECOMMENDATION:

The Committee is invited to consider the Terms of Reference and propose any changes.

1. Purpose

1.1 To consider the current Terms of Reference (Appendix 1).

2. Background

2.1 The Terms of Reference are based on the current Chartered Institute of Public Finance and Accountancy (CIPFA) model Terms of Reference and have been expanded to include responsibility for the oversight of Treasury Management arrangements.

3. Recommendation

3.1 The Committee is recommended to review the Terms of Reference and propose any necessary changes.

4. Financial Implications

None.

5. Other Implications and Risks

5.1 As identified within the report.

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	STATE ‘YES’ OR ‘NO’
Has legal advice been sought on this submission?	No
Have financial implications been considered?	Yes
Have human resource implications been considered?	Yes
Have accommodation, ICT, transport, other equipment and resources, and environment and sustainability implications been considered?	No
Have value-for-money and risk management implications been considered?	Yes
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Yes
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Yes
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Yes
Has communications advice been sought on areas of likely media interest and how they might be managed?	No
In relation to all the above, have all relevant material issues been highlighted in the ‘other implications and risks’ section of the submission and have all the relevant officers/staff been consulted?	Yes

Contact Officer:

John Hummersone
Chief Finance Officer

01953 424484
hummersonej@norfolk.pnn.police.uk

Norfolk Audit Committee
Terms of Reference

Constitution

The Committee will comprise five named members with appropriate ~~public sector~~ experience and who are independent of the PCC and the Constabulary. One of the members will be the Chairman who will be directly appointed by the Police and Crime Commissioner for Norfolk (PCC) and the Chief Constable.

Statement of purpose

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

Governance, risk and control

The Committee will, in relation to the PCC and the Chief Constable:

4. Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
5. Review the Annual Governance Statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
6. Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
7. Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the Constabulary.

8. Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the police and crime commissioner/the chief constable in addressing risk-related issues reported to them.
9. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources.

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

Internal audit

The Committee will:

11. Annually review the internal audit charter and resources.
12. Review the internal audit plan and any proposed revisions to the internal audit plan.
13. Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
14. Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
15. Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/Chief Constable including issues raised or recommendations made by the internal audit service, management responses and progress with agreed actions.
16. Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations

External audit

The Committee will:

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

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

Financial reporting

The Committee will:

21. Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the police and crime commissioner and/or the chief constable.
22. Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

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

Other functions

The Committee will:

23. Examine the annual draft Treasury Management Strategy, monitor its application during the year and make any recommendations to the PCC and to the Chief Constable in this respect.

Accountability arrangements

The Committee will:

24. On a timely basis report to the PCC and the Chief Constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
25. Report to the PCC and the Chief Constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
26. Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the Chief Constable.

As agreed by Audit Committee 25 November 2014
Reviewed by Audit Committee 15 January 2019

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

NORFOLK CONSTABULARY
Our Priority is You

ORIGINATOR:	Chief Finance Officer
REASON FOR SUBMISSION:	For discussion and to note.
SUBMITTED TO :	Audit Committee
SUBJECT:	Audit of the 2018/19 Statements of Accounts Action Plan

SUMMARY:

The 2017/18 Accounts were not signed off by the statutory deadline of 31 July 2018. The report details the results of a meeting with Ernst and Young LLP (EY) to discuss the audit of the 2018/19 accounts, with a view to avoiding a similar situation.

RECOMMENDATION:

The Committee is invited to note the report.

1. Purpose

1.1 To consider the Action Plan for the audit of the 2018/19 Accounts (Appendix 1).

2. Background

2.1 The 2017/18 Accounts were not signed off by the statutory deadline of 31st July 2018.

2.2 This matter was discussed by the Committee, in detail, at its meeting 30 July 2018. The Committee requested that an Action Plan be provided following discussions with EY.

3. Recommendation

3.1 The Committee is recommended to note the report.

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	STATE 'YES' OR 'NO'
Has legal advice been sought on this submission?	No
Have financial implications been considered?	Yes
Have human resource implications been considered?	Yes
Have accommodation, ICT, transport, other equipment and resources, and environment and sustainability implications been considered?	No
Have value-for-money and risk management implications been considered?	Yes
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Yes
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Yes
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Yes
Has communications advice been sought on areas of likely media interest and how they might be managed?	No

Contact Officer:

John Hummersone
Chief Finance Officer

01953 424484
hummersonej@norfolk.pnn.police.uk

Appendix 1

Notes of Meeting 1 November 2018

Attendees:-

Associate Partner – Ernst and Young LLP Chief Finance Officer (Norfolk)

Chief Finance Officers (Norfolk and Suffolk)

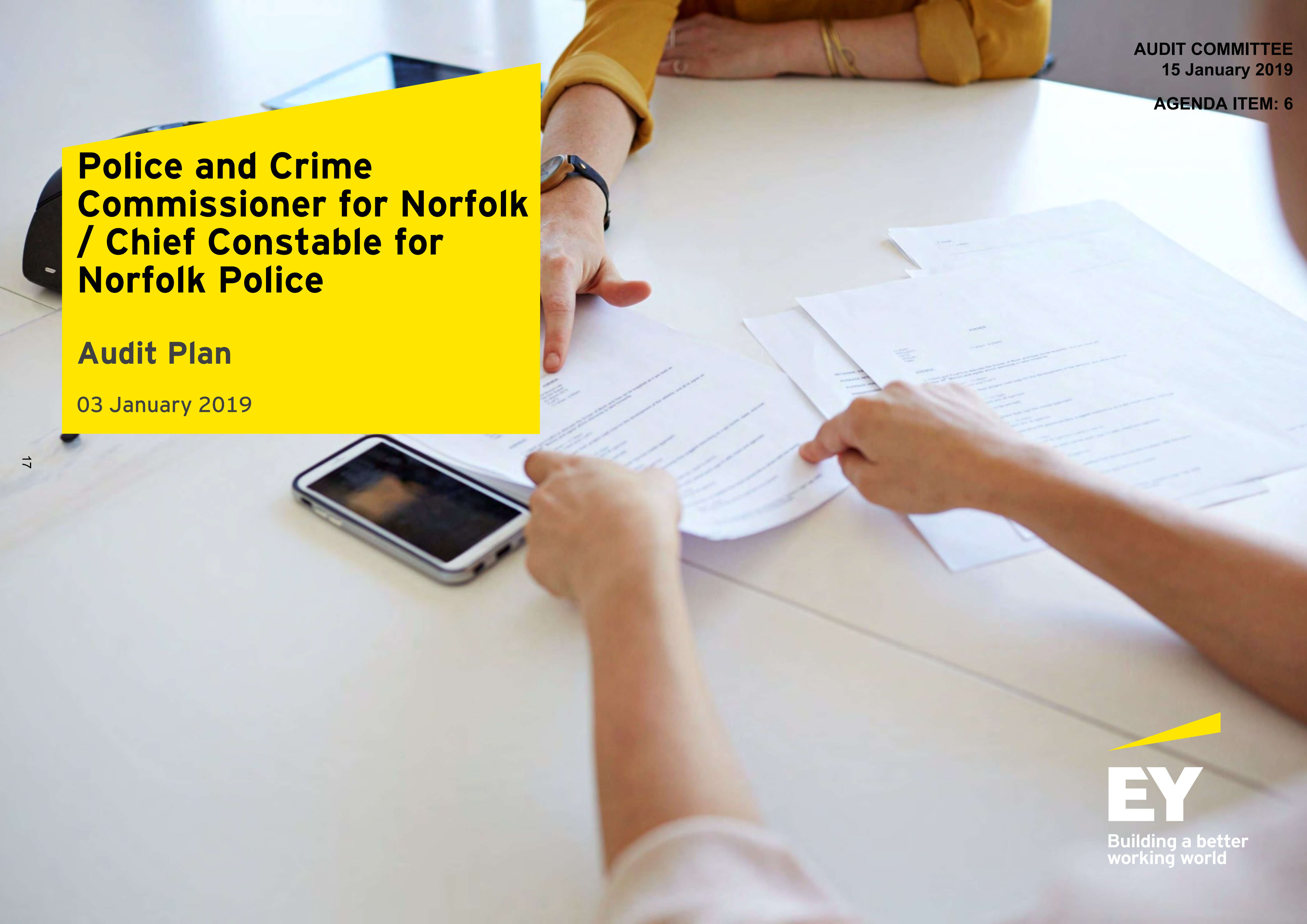
Head of Finance

Other members of the Finance Team

AGREED ACTION PLAN

PPE Valuations	
Value all large properties in addition to the properties which were due for revaluation in the usual valuation cycle.	Accounts team
Audit PPE valuations during the interim audit, clearing any issues at this time	Ernst & Young
Provision of Information from HR	
Identify what proof is acceptable in relation to queries before the audit begins.	Senior Financial Accountant and Audit Manager (EY)
Provide all paperwork relating to compromise agreements within 2 working days of a request from EY	HR
Provide all paperwork relating to exit packages within 2 working days of a request from EY	HR
Provide all paperwork for lump sum payments within 2 working days of a request from EY	Senior Financial Accountant
IAS19 Pension valuation changes	
Discuss with Pension Funds, at early stages, the need for reports to be prepared using March asset valuations.	Head of Financial Accounting

Timing of the audit and not meeting the deadline	
Complete all work on the main audit by mid-July.	EY team
Prioritise areas which have the potential to cause delay e.g. PPE, PFI etc	EY team
Provide a list of items which will be available for audit before the draft accounts are finalised.	Finance
Provide EY with our thoughts about which Tranche of audits we would prefer to be within: Tranche 1 Mid May – End June Tranche 2 June to Mid July	Head of Financial Accounting
Provide the initial Annual Governance Statement during the interim audit.	CFOs
Discuss with key personnel, ahead of the Audit Committee meeting, EY's Value for Money conclusions	CFOs
Provide the year-end timetables to CFOs once agreed.	Finance & EY
Additional comments regarding the Statements of Accounts	
Provide additional disclosure notes/ narrative in relation to: • The expected effect of the changes in the Leasing standard • The anticipated effect of Brexit and that its effects have been considered. There may even be a post balance sheet event related to Brexit.	Head of Financial Accounting



Police and Crime Commissioner for Norfolk / Chief Constable for Norfolk Police

Audit Plan

03 January 2019

Building a better working world

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

03 January 2019

Jubilee House
Falconers Chase
Wymondham
Norfolk
NR18 0WW

Dear Lorne and Simon

2018/19 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Independent Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 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 Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks. This is an initial audit plan as we have not yet completed all our planning procedures. We will provide an updated plan if there are any changes following the completion of these procedures.

This report is intended solely for the information and use of the PCC and CC, 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 report with you on 15 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

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

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to **the Police and Crime Commissioner for Norfolk (PCC) and the Chief Constable of Norfolk Police (CC), Audit Committee and management** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **PCC,CC, Audit Committee and management** 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 **PCC, CC, Audit Committee and management** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outline risk identification for the upcoming audit and ad in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change from assessment made in previous years	As identified in ISA 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 would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change from assessment made in previous years	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate specific risk, given the extent of the PCC's capital programme.
Valuation of Property, Plant and Equipment	Inherent Risk	No change from assessment made in previous years	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group's 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.
Accounting for Pension Liability	Inherent Risk	No change from assessment made in previous years	The Group's pension fund deficit is a material estimated balance for both the PCC and CC. Accounting for this scheme 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.
Public Finance Initiatives (PFI)	Inherent Risk	No change from assessment made in previous years	The PCC and CC disclosure two PFI contracts in within their financial statements. 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.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£5.2m

We have determined the materiality level for the financial statements of the PCC Group, the subsidiaries (PCC and CC Single entity accounts) and the Police Pension Fund and this is set at 2% of the prior years gross expenditure on provision of services for the PCC Group and CC Single entity accounts, 2% of the prior years gross assets for the PCC single entity accounts and 2% of benefits payable for the Police Pension Fund. Planning materiality is set at £5.2 million for the Group, £2 million for the PCC, £4.7 million for the CC and £0.8 million for the Police Pension Fund.

Performance materiality
£3.9m

Performance materiality is set at £3.9 million for the PCC Group, £1.5 million for the PCC, £3.5 million for the CC and £0.6 million for the Police Pension Fund. Performance materiality represents 75% of materiality for the group, subsidiaries and Pension Fund.

Audit differences
£0.26m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and police pension fund financial statements). The reporting threshold we have set is £0.26million for the PCC Group, £0.1 million for the PCC, £0.23 million for the CC and £0.04 million for the Pension Fund.

Overview of our 2018/19 audit strategy

Audit scope

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 PCC and CC for Norfolk give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC and 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 PCC's and CC'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 CC.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud or error.

Under ISA240 there is also 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. We consider this risk is not material in relation to our audit.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Misstatements due to fraud or error - Incorrect capitalisation of Revenue Expenditure

Misstatements that occur in relation to this risk may impact the following significant accounts:

PCC PPE Additions – Valuation (£8.9 million)

PCC CIES Net Cost of Services – Expenditure – Completeness (£18.4m)

Figures quoted above are from the 2017/18 financial statements

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

This could materialize as a result of capitalizing expenditure on revenue items.

What will we do?

We will undertake additional procedures to address the specific risk we have identified, which will include:

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Design specific journal procedures to review adjustment journals from across the financial year that impact the property plant and equipment account balance

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?	What will we do?
<u>Accounting for Property, Plant & Equipment</u> Property, Plant and Equipment represent a significant balance in the PCCI's 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 for land and buildings in particular. The PCC will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the PCC's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. 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.	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 (e.g. floor plans to support valuations based on price per square metre); ▸ 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 have also considered 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 2018/19 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; ▸ Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; and ▸ Test accounting entries have been correctly processed in the financial statements.

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?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council. The PCC 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 2018 this totalled £1 million and £1.6 million respectively for the Police Pension Schemes and £88.2million for the LGPS. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the 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.	We will: ▸ Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norfolk Police Force; ▸ Assess the work of the LGPS Pension Fund and the Police Pension actuary (Hymans Robertson) 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.

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?	What will we do?
<u>Private Finance Initiative (PFI)</u> 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 2018 the PFI Liability associated with the OCC amounted to £25.5m; 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 2018, the PCC for Norfolk's share of the PFI liability was £35.8million. 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; ▸ Undertaking a review and assessing the impact of any changes in assumptions upon the model; and ▸ Agreeing the models to the disclosures within the financial statements

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but may be 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?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority and police accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.	We will: ▸ Assess the Group and PCC's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ Consider the classification and valuation of financial instrument assets; ▸ Review new expected credit loss model impairment calculations for assets; and ▸ Check additional disclosure requirements.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority and police accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on Police accounting is likely to be limited as large revenue streams like council tax and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: ▸ Assess the Group, PCC and CC implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ Consider application to the Group, PCC and CC revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ Check additional disclosure requirements.

03 Value for Money Risks

Value for Money

Background

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.

For 2018/19 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.

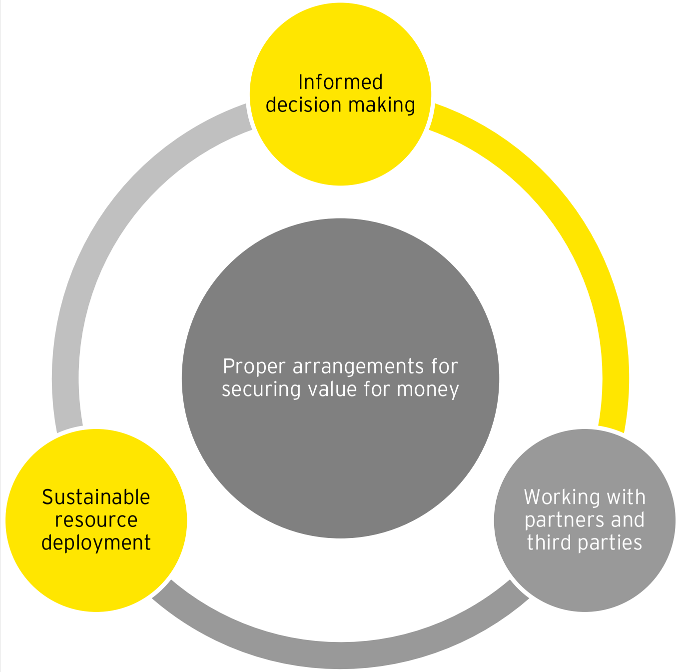
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice 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.
We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this includes consideration of the steps taken by the PCC & CC to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

We have not yet completed our value for money planning risk assessment for 2018/19. Our risk assessment will consider 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. We will update you of our assessment during the audit.



04 Audit materiality

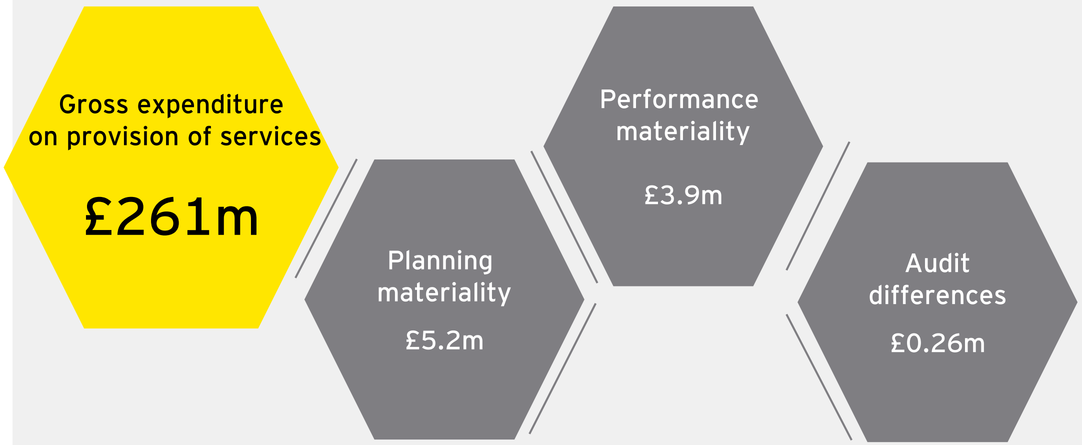
Audit materiality

Materiality

Materiality

We have determined the materiality level for the financial statements of the PCC Group, the subsidiaries (PCC and CC Single entity accounts) and the Police Pension Fund and this is set at 2% of the prior years gross expenditure on provision of services for the PCC Group and CC Single entity accounts, 2% of the prior years gross assets for the PCC single entity accounts and 2% of benefits payable for the Police Pension Fund. Planning materiality is set at £5.2 million for the Group, £4.7 million for the CC, £2 million for the PCC and £0.8 million for the Police Pension Fund.

Materiality will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the PCC and CC confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. Performance materiality is set at £3.9 million for the PCC Group, £3.5 million for the CC, £1.5 million for the PCC and £0.6 million for the Police Pension Fund. Performance materiality represents 75% of materiality for the group, subsidiaries and Pension Fund.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the primary statements (comprehensive income and expenditure statement, balance sheet, and police pension fund financial statements). The reporting threshold we have set is £0.26 million for the PCC Group, £0.23 million for the CC, £0.1 million for the PCC and £0.04 million for the Pension Fund.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the joint independent audit committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of the audit difference threshold of £100,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their 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 also 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 with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Independent Audit Committee.

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 plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

- EY Pension Specialist
- EY Actuaries
- EY Real Estates

- **Mark Hodgson** – Associate Partner
- **Sappho Powell** – Manager
- **Hoang Le Huu** – Senior

Working together with the PCC and CC

We are working together with officers to establish strong communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

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 may be required to provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used by the PCC's valuer, Carter Jonas.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Norfolk County Council Pension Fund, and the Government Actuaries Department.

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 and CC's business 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 specialist to establish whether the source data 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.

07 Audit timeline

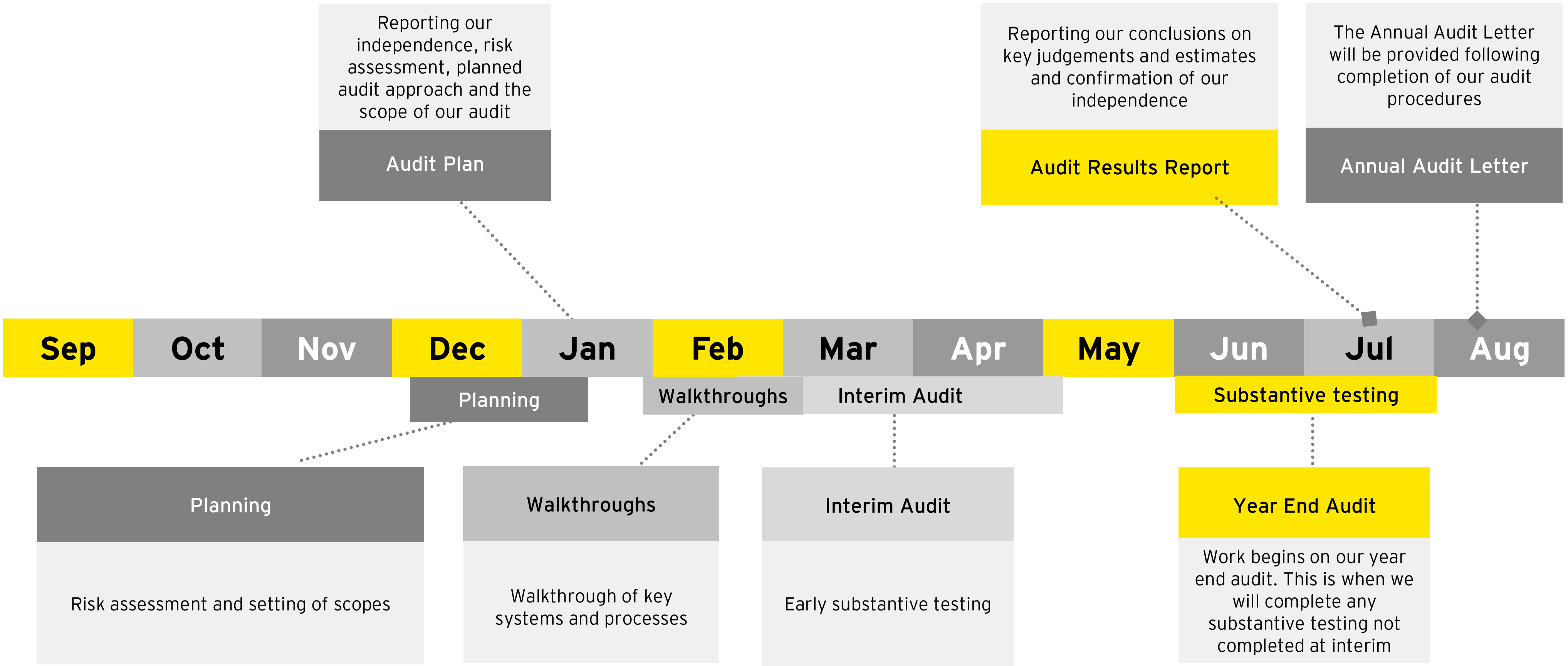
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them with the PCC and CC and senior management as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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 Ernst & Young (EY) including consideration of all relationships between the 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. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, 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 services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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, analysed in appropriate categories, are disclosed.

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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include 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 you. 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 you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we are not undertaking any non-audit work on behalf of the Group. Therefore 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 self review threats at the date of this report.

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision 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.

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

Other communications

EY Transparency Report 2017

Ernst & Young (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 in place 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 2018 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total PCC Fee – Code work:	26,045	26,045	33,835 – Note 1
Total CC Fee – Code work:	11,550	11,550	15,000 – Note 1
Total audit fees	37,595	37,595	48,825

All fees exclude VAT

Note 1 – The final fee for 2017/18 is still subject to approval by the Public Sector Audit Appointments (PSAA Ltd) following the submission of a scale fee variation of £9,950 for the additional audit procedures required during that audit. The original scale fees have been shown in the table above.

In addition, the agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided; and
- ► The PCC and CC have 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 management in advance. Any variations to the audit fee need to be approved by PSAA.

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

Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan – January 2019
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 ▸ Findings and issues regarding the opening balance on initial audits	Audit Results Report – July 2019

Appendix B

Required communications with the PCC and CC (continued)

Required communications	What is reported?	Our Reporting to you: When and where
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 - July 2019
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report - July 2019
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 - July 2019
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 - July 2019

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner'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 - January 2019 Audit Results Report - July 2019
External confirmations	▶ **Management's refusal for us to request confirmations** ▶ **Inability to obtain relevant and reliable audit evidence from other procedures**	Audit Results Report - July 2019
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 - July 2019
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit Results Report - July 2019

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 - January 2019 Audit Results Report - July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2019
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - July 2019
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan - January 2019 Audit Results Report - July 2019 Annual Audit Letter - September 2019

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Joint Independent Audit Committee reporting appropriately addresses matters communicated by us to the Joint Independent Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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

Audit Progress Report – Norfolk

2018/19

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 8th January 2019. 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 2018/19 ANNUAL PLAN

2. Our progress against the Annual Plan for 2018/19 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**
Enact Replacement Project (NSC1906)	**Reasonable**	**12/11/2018**	**23/11/2018**	**23/11/2018**	**0**	**2**	**1**	**1**
GDPR (NSC1907)	**N/A**	**15/06/2018**	**18/12/2018**	**19/12/2018**	**0**	**2**	**2**	**3**
Capital (NSC1910)	**Reasonable**	**23/10/2018**	**07/11/2018**	**12/11/2018**	**0**	**1**	**2**	**0**
Allowances (NSC1912)	**Limited**	**12/07/2018**	**09/11/2018**	**14/11/2018**	**1**	**2**	**0**	**0**
Vetting (NSC1917)	**Reasonable**	**29/05/2018**	**13/11/2018**	**22/11/2018**	**0**	**4**	**2**	**0**

Transport Procurement (NSC1919)	**Reasonable**	**20/12/2018**	**04/01/2019**	**04/01/2019**	**0**	**1**	**1**	**0**
Estates Strategy and Policies (NSC1921)	**Reasonable**	**31/10/2018**	**13/11/2018**	**13/11/2018**	**0**	**1**	**1**	**0**
Purchase Cards (NSC1923)	**Reasonable**	**04/01/2019**	**04/01/2019**	**04/01/2019**	**0**	**0**	**0**	**0**

Copies of the finalised reports are available to Audit Committee Members on request. The details for Norfolk only reports will only be included in the Norfolk progress report.

CHANGES TO THE ANNUAL PLAN 2018/19

6. There has been the following changes made to the annual plan since the last meeting:

- MOPI – a detailed follow up was proposed in year, a report on progress will instead be received by management and a follow up with position statement undertaken in 2019/20
- Transformation with Business Cases – CDC are going through restructure, which will continue throughout quarter four and into 2019/20. The audit will be moved to 2019/20 to review on completion of the restructure.

FRAUDS/IRREGULARITIES

7. 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. It is noted that there are a number of limited assurance reports issued, where elements of the system have warranted a limited assurance due either to non-compliance with statutory requirements or internal requirements, however it is also noted that progress is being made by management at the time of the audit to address the control weaknesses and this progress is taken into account in the overall annual opinion.

10. We have made the following urgent recommendations (i.e. fundamental control issues) since the previous Progress Report:

- Allowances - The policy and processes for dog handler allowances and associated expenses to be clarified, adopted within the policy, communicated to relevant staff/officers and accurate records maintained.

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

RESPONSIBILITY/DISCLAIMER

12. 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.

Appendix A

Progress against the Annual Plan for 2018/19

System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Audit Committee Reporting	Assurance	Comments
2018/19 Plan							
GDPR (NSC1907)	1	18	18	Final report issued	January 2019	N/A	Advisory report
Fixed Assets (NSC1911)	1	10	10	Final report issued	October 2018	Substantial	
Allowances (NSC1912)	1	14	14	Final report issued	January 2019	Limited	
Duty Management System (1916)	1	14	14	Final report issued	October 2018	Limited	
Vetting (NSC1917)	1	10	10	Final report issued	January 2019	Reasonable	
Stations, including building access and vehicle security (NSC1922)	1	14	14	Final Report issued	July 2018	Reasonable	
Proceeds of Crime (NSC1927)	1	10	10	Draft report issued			
Lone Working (NSC1929)	1	10	10	Final report issued	October 2018	Reasonable	
Strategic Control, Corporate Governance and Whistleblowing (NSC1901)	2	10	10	Draft report issued			
Capital Programme (NSC1910)	2	10	10	Final report issued	January 2019	Reasonable	
Establishment, Capacity, Recruitment and Retention (NSC1915)	2	15	15	Draft report issued			
Enact Replacement Project (NSC1906)	2	12	12	Final report issued	January 2019	Reasonable	
Website Content / CAD Grazing (NSC1908)	2	12		In progress			

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System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Audit Committee Reporting	Assurance	Comments
Estates Strategy and Policies (NSC1921)	2	6	6	Final report issued	January 2019	Reasonable	
Ethical Standards (Relationships Conduct) (NSC1930)	1-2	10	10	Draft report issued			
Risk Management – Embedding/Development (NSC1903)	1-3	12		In progress			Working with management to monitor embedding, review in Q4
Commissioners Grants (NSC1904)	2	18	18	Draft report issued			
ERP Disaster Recovery (NSC1913)	3	12		In progress			
Transport Strategy (NSC1918)	2	6	6	Draft report			Draft report prepared, to be issued
Transport Procurement (NSC1919)	2	9	9	Final report issued	January 2019	Reasonable	
Purchase Cards (NNSC1923) Norfolk only	3	6	6	Final report issued	January 2019	Reasonable	
Control Room (NSC1924) Norfolk only	3	14		Fieldwork complete			Close out meeting 8/1/19
Control Room (NSC1925) Suffolk only	3	14		Fieldwork complete			Close out meeting 8/1/19
Key Financial Systems (NSC1909)	4	30		In progress			
Telematics and Fuel Usage (NSC1920)	4	16		Scheduled			
Recovered Property (NSC1928)	4	10		Scheduled			
Transformation & Strategic Planning, with Business Cases (NSC1902)	4	12		Cancelled			Moved to 2019/20
MoPI Project Implementation (NSC1914)	3	4		Cancelled			Moved to 2019/20
Custody Administration	1		--	Cancelled			HMIC inspection undertaken
Cyber Security – Maturity Assessment (NSC1905)	2			Cancelled			Moved to 2019/20

System	Planned Quarter	Planned Days	Actual Days to date	Current Status	Audit Committee Reporting	Assurance	Comments
Records Management (NSC1913)	3			Cancelled			Replaced with ERP Disaster Recovery
Follow up of previous recommendations	1-4	12	3	Ongoing			
Management	1-4	20	4	Ongoing			
Contingency b/fwd		58					
Contingency (c/fwd)		(34)					Possible Local Counter Fraud days
Total Days Planned		384					
Annual Plan Days		330					

KEY:

(blue)	=	To be commenced
(amber)	=	Site work commenced
(peach)	=	Draft report issued
(green)	=	Final report issued

Appendix B

Summaries of Finalised Audit Reports issued since the last report

Audit Report: Enact Project Replacement (NSC1906)

Report: November 2018

SCOPE

A review of arrangements in place over the Management and Governance of the Enact replacement project was requested to help provide assurance over the forces' procedures, controls and records relating to this project, specifically: Project Documentation, Governance, Change Management and Acceptance processes. Across Norfolk and Suffolk Constabularies.

MATERIALITY

The development of a replacement for the Enact system in time to replace it when support for it ends is critical for the seamless provision of business critical administration services.

KEY FINDINGS

- The project to replace Enact is being regularly scrutinised by the Shared Services Transactional Project Board.
- The project has been developing new forms using the Cloud-based Apex development tool, although a local installation of the tool is required.
- Testing of the new system has been recognised as a requirement, although test scripts have not yet been developed to document this.
- The project to replace Enact is being regularly scrutinised by the Shared Services Transactional Project Board.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	2	1	1

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

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The project is very small and is being run by the ERP support team. The ERP System and Development Manager is the lead, supported by the ERP System Support Technician, who is working on the changes to replace Enact using the Apex tool. It was noted that the project team are currently only able to use a cloud-based Apex environment to develop the Enact replacement as a local installation has not yet been implemented. A recommendation to help ensure that the local installation of the Apex development tool is being raised.	Management to ensure that a local installation of the Apex development tool is completed as soon as possible so that the relevant forms and other tools that are to replace the Enact system can be developed and implemented in a timely manner.	2	*Apex has been installed onto our test database to allow development to begin. Some minor configuration is being finalised. Whilst this development is underway, Apex will be installed into our change controlled environment and production environment databases. This will not affect the forms development as these can be extracted from the test database and uploaded into each of the new environments without the need to recreate the whole form.*	*23/11/18*	*ERP Systems and Development Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Compliance	Test scripts for documenting the testing of the new system have yet to be developed. However, it is noted that the Project timeline document suggests that this has been factored into the work required to complete the project. A recommendation to ensure that all testing is formally documented into test scripts, with results reported to relevant senior management and the SSTC project board has been raised.	ERP Management to ensure that all testing of the new forms and related processes are formally documented into testing scripts with results reported to relevant senior management as this will help demonstrate that appropriate testing has taken place and will also help inform the project acceptance process.	2	*Test scripts will be created as part of the form build in anticipation of user acceptance testing.*	*17/12/18*	*ERP Systems and Development Manager*

Audit Report: GDPR (NSC1907)

Report: December 2018

SCOPE

The focus of the review was to support to assist the constabularies to embed and comply with GDPR by means of undertaking a gap analysis review of the existing Data Protection Act measures. The Law Enforcement Directive (LED) is not covered by the scope of the review, although is referenced in the report.

MATERIALITY

The potential risk profile associated with non-compliance with the new GDPR legislation and subsequent data breach is a 20m Euro fine or 4% of turnover and reputational damage.

KEY FINDINGS

- A Data Protection Officer has been assigned and a Data Protection Reform project is in progress, reporting to the Information Management Steering Group (IMSG). The project scope includes an update of policies and processes.
- Although initial work started in 2017, the formal project scoping document was produced in April 2018 and the project plan in May 2018. Evidence was seen demonstrating significant progress against the plan.
- A Data Protection Reform Communications Plan is in place and being followed, with GDPR being widely communicated across the
- There is an established Subject Access Request process in place, although the impact of increased requests due to GDPR is a risk that needs
- An Information Asset Register (IAR) is maintained and fields have been added for GDPR, although work is needed to reconcile it to the IT asset register and to ensure completeness.

OVERALL ASSURANCE ASSESSMENT

This is a gap analysis review, therefore no opinion has been given.

ACTION POINTS

Urgent	Important	Routine	Operational
0	2	2	3

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	Operational	New Police standards information and Information Commissioners' Office (ICO) guidance is awaited before new policies are finalised and taking account of the 'seven forces' joint working arrangements. It was confirmed that an initial review of policies is underway as part of the project with folders maintained of those reviewed and those awaiting review.	Policies be reviewed, approved and updated to fully incorporate GDPR when it is practical to do so, in line with the action plan in place.	2	*The Implementation Team have reviewed and updated 158 of the policies which were approved and sent back to the Policy Unit.* *There are 14 policies awaiting a final check before they are returned to the Policy Unit and nine pending being sent to the relevant department to make changes before they are returned.* *There are six policies pending review by the Implementation Team.* *A process has been established with the Policy Unit to include the team in consultation processes for any new policies to ensure that DPA/GDPR issues are addressed.*	*31/01/19*	*Compliance Officer*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
4	Operational	There is an established process in place for handling Subject Access Requests (SARs), and performance statistics show that 95% of requests have been responded to in the 40 days required by the Data Protection Act 1998. At the time of the audit visit ahead of the GDPR 'go-live' date of 25th May 2018, the new GDPR target of responding in one month was not yet worked to. The volume of requests in the short, medium and long term after GDPR is not yet known, but it is anticipated there will be an increase due to the removal of the application fee and publicity in the media advising people how to request access to their information.	A paper be presented to management setting out the anticipated impact of the increased numbers of SARS and how this will be managed to ensure compliance with the new one month response timescale required by GDPR.	2	*Since the DPA became law SAR requests have increased by 100% and performance against statutory deadlines have reduced.to 77% for Suffolk and 83% for Norfolk. A paper is being drafted and discussion held with the DCCs to manage demand.*	*31/01/19*	*Information Compliance Manager*

Audit Report: Capital (NSC1910)

Report: November 2018

SCOPE

The review considered 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, across Norfolk and Suffolk Constabularies.

MATERIALITY

As at June 2018 the Suffolk Capital Plan was £3.9m, Norfolk £5.7m and Joint £3.5m.

KEY FINDINGS

- Capital Programme Monitoring is covered in section 3 of the Financial Regulations. Roles and responsibilities are defined within Job Descriptions.
- Business cases are submitted for approval for individual capital bids, the documentation requires updating and consistent use across the Force.
- Capital budgets are monitored monthly with budget holders input however these do not record the amount approved in the original business case for comparison.
- There is a documented reporting structure for Capital monitoring and minutes record where issues are raised.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	1	2	0

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	Compliance	Three estates capital projects per force and two joint projects were reviewed to ensure that a business case had been produced and agrees to the budget in the capital plan, the business case template was used, the date the business case was reviewed, evidence easily located to support scrutiny, the date the business case was approved and who approved. Testing identified that the Business case template isn't used and therefore there is no consistency in the information being provided for approval.	Business case template documentation be used consistently across both forces for all capital bids, to ensure consistency of information presented and decisions made and recorded.	2	*The PMO are currently reviewing the Business Case template for re-design. This review will ensure the use of a consistent template that captures all relevant information in order to prioritise projects and evaluate how they are contributing to strategic priorities, thus enabling a check on benefits realisation, post implementation review etc. As key stakeholders Finance, HR and ICT will be consulted on along with PM and other internal department resources.*	*30/04/19*	*Head of Programme Management Office*

Audit Report: Allowances (NSC1912)

Report: November 2018

SCOPE

The review focused on the validity of allowances claimed, including on-call, overnight, mutual aid and meal allowances, as well as compliance with policy and clarification of claiming allowances across Norfolk and Suffolk Constabularies.

MATERIALITY

From the data provided by the Head of Transactional Services the cost in 2017/18 of allowances, expenses, overtime and travel was £10m in Norfolk and £7.8m in Suffolk.

KEY FINDINGS

- The overall opinion is derived from the nature of the urgent and important recommendations raised and the risks within the system, identified through this review and relevant recommendations raised within a recent overtime and expenses audit that impact on allowances.
- Policies and procedures are out of date, inconsistent between Constabularies and require review and consolidation.
- The dog unit does not have current up to date records of police dogs held and the application of allowances is inconsistent across dog handlers.
- There is no current honorarium policy held and inconsistencies in payment methodologies can be adopted.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
1	2	0	0

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)
3	Compliance	Testing concluded that rates of pay for each dog handled were calculated correctly, and authorised enact forms were in place to support any changes. Inconsistencies were identified between records held by payroll and the Inspector, Specialist Operations, with payroll holding the correct details; one paid dog handler was not on the records held by the Dog Unit and four police officers were paid for more dogs than recorded by the Dog Unit. It is not clear what expenses dog handlers are entitled to claim in addition to their dog handler allowance and what expenses are expected to be covered as part of the allowance; sample testing identified that two of the dog handlers only claimed the allowance, whilst other dog handlers claimed reimbursement for items such as dog grooming, mileage costs and valet vehicles, whilst the remaining dog handlers claimed additional expenses, which were inconsistently applied.	The policy and processes for dog handler allowances and associated expenses to be clarified, adopted within the policy, communicated to relevant staff/officers and accurate records maintained.	1	*This will be referred to the Superintendent Specialist Operations, who will form a policy and process.*	*31/03/19*	*Supt Specialist Ops*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	Through a review of standard forms available on the intranet it was clear that not all were readily available. However, it was also considered that there is more clarity needed around which allowances require a specific form. Once the policy has been reviewed and agreed appropriate forms are needed to support the requirements of the policy. At the time of the review there was a form available on the intranet to claim boot allowance, however eye tests and bonus payments were not present. Exceptions were noted in the use of forms and claiming through expenses instead.	A standard approach be adopted regarding the use of forms for claiming allowances. This is to be incorporated within guidance for staff and available on the intranet.	2	*The content of the Payroll and HR Intranet pages are under review as part of the SSTC project. Forms will be loaded onto the intranet for staff to use and the teams will direct them to use the appropriate form. Future developments of forms on line will follow.*	*31/03/19*	*Head of Transactional Services*
2	Compliance	The Enact system is being used for processing honorarium payments, this is not in line with the process stated in the Good Work Recognition policy, which is currently subject to review and update. Of the testing completed all honorariums had been claimed using the Enact system. The Enact system does not require authorisation by a line manager.	The process and methodology be reviewed for making honorarium payments, to enable transparency and compliance with Constabularies' policy.	2	*A Joint Good Work Recognition Policy is being developed. The policy will standardise the process for honorariums.*	*31/03/19*	*Policy , Reward and Employee Relations Manager*

Audit Report: Vetting (NSC1917)

Report: November 2018

SCOPE

The review focussed on the systems and processes for vetting new and existing staff, officers and contractors, across Norfolk and Suffolk Constabularies.

MATERIALITY

Performance information shows that a total of 3,315 vetting applications were completed in 2017/18.

KEY FINDINGS

- There are national policies and local procedures in place, although the local Vetting Policy has been withdrawn awaiting further national guidance.
- The WPC CoreVet system is used to record vetting information. Strengthening the application password controls would improve security.
- Work is taking place to address a vetting backlog. There is also a large archiving backlog which requires review and risk assessment.
- Testing found that new starter vetting and vetting renewals are carried out in line with the policy, with minor matters arising.
- Testing concluded that contractors are vetted in line with the policy, with no matters arising.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	4	2	0

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

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The vetting policy titled 'Vetting – Interim Guidance (v5)' was published in April 2016 and has a review date of April 2018. The Vetting Manager explained that the policy was withdrawn due to the publication of the new Code of Practice and Authorised Professional Practice (APP), and the Vetting Team follows national rules. Vetting units across the country are raising questions and further guidance is awaited from the national lead. Later in the year the Constabularies will decide whether to rewrite a local policy or whether to have a collaborative policy shared across seven forces.	The Vetting Policy be reviewed, approved, and communicated.	2	*The existing policy has been withdrawn as non-compliant. Now working to a seven force policy in line with APP, with local guidance.* *Once the national guidance is produced in September 2018, the seven force approach will be agreed and local guidance produced on this basis.*	*31/03/2019*	*Senior Complaints, Appeals and Policy Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Compliance	In order to access the CoreVet application, the user first needs to pass network authentication in order to access a browser. The user needs to know the URL to find CoreVet and a CoreVet username, which is different to the network username. The user must then enter an application password which is set by the administrator and is required to be changed the first time it is used. There is not a requirement for passwords to be set length or complexity however, or for users to change passwords. The Information Security Officer provided copies of the IT Security Policy and advised to ensure that any passwords created are of a minimum of nine characters, comprised of upper and lower case letters, numbers and special characters.	A service request be put to WPC, the CoreVet system supplier, to identify whether password controls could be introduced to improve authentication control in line with the IT Security Policy. In the meantime, staff be advised to set strong passwords and to change these on a periodic basis.	2	*WPC have advised that they can amend the settings. They will give the forces administrator access to enable specified officers to update.*	*31/10/2018*	*Senior Complaints, Appeals and Policy Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
5	Compliance	The HR department provides the Vetting team with notification of leavers, and these are then marked as 'no longer employed' on Corevet. This triggers a six year clock in order to meet the required retention period, after which the record is deleted. Audit testing confirmed this had been done for all recent leavers in the sample. Until recently however this process did not operate resulting in a backlog of records requiring archiving, which is expected to amount to thousands of records when contractors are taken into account. These each require manual review and so clearing these is a resource-intensive exercise. The Senior Complaints, Appeals & Policy Manager has been tasked with reviewing PSD's compliance with MOPI, of which this is part.	An assessment be made of the risk of the archiving backlog, taking into account the Management of Police Information (MOPI) requirements and the new General Data Protection Regulations (GDPR). Once assessed the risk be entered onto the PSD risk log in order that is can be managed, and an action plan devised to reduce the backlog.	2	*This has been entered onto the risk log. Work will be undertaken to address the risk. This timing of implementation is dependent on additional resources, which is dependent on budget and resource, as such an interim date is provided until a known implementation date can be identified.*	*31/03/2019*	*Senior Complaints, Appeals and Policy Manager*

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
6	Operational	Performance statistics are produced by the Vetting Manager for the Detective Superintendent, Head of the PSD. These show a backlog in processing vetting applications. For the last 12 months these show a peak backlog of 307 in June 2017, which reduced down to 21 by November 2017 but subsequently increased to 109 in February 2018. The Vetting Manager provided an update on 4th May that there were 145 new applications outstanding and 203 records that require renewal vetting. The Vetting Team has a vacancy which is currently being advertised, and when this post is filled it should help to address the backlog.	The vetting renewals backlog be cleared in order that renewal vetting is done in a timely manner.	2	*Due to resource pressures, new force applicants and increase in the level of checks to be undertaken on each applicant, the backlog has gained pace.* *The team are running with one post down and no applicants applied to the first advert, this has gone out to advert again. The post will need to be resourced before this can be progressed. There are three temporary roles that finish on 31st March 2019, however this is unlikely to be met by then. If resource issues can be resolved it would still put back implementation by at least six months after the original deadlines.* *Other ways to process these are being investigated. A business case around web forms has been prepared which would help the process.*	*31/12/2019*	*Senior Complaints, Appeals and Policy Manager*

Audit Report: Transport Procurement (NSC1919)

Report: January 2019

SCOPE

The review focused on policy and compliance for purchasing vehicles for current and future requirements, for Norfolk and Suffolk Constabularies.

MATERIALITY

Norfolk and Suffolk Constabularies have combined vehicle fleet of approximately 1,150 vehicles (excluding bicycles).

KEY FINDINGS

A comprehensive procurement programme is in place for the Constabularies transport requirements, which complies with the transport strategy. In addition, a programme is in place to fit telematics into selected police vehicles. Telematics should bring a number of benefits, including; reduced fuel usage, reduced maintenance costs and assistance with procuring of vehicles for the future. Two areas were identified for improvement:

- A set process to be developed for addressing, inappropriate driver behaviour that is identified through the use of telematics.
- Reconciliation between the asset register and Tranman to be undertaken, to ensure that accurate and correct records are maintained.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	1	1	0

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

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	Telematics will enable the Constabularies to identify drivers that are not driving Constabulary vehicles correctly and efficiently. Where it is identified that there are drivers that are not driving Constabulary vehicles correctly a set process needs to be developed so that there is clarity as to how that is to be dealt with.	A standard be agreed for identifying through telematics when drivers are not using vehicles correctly and efficiently and how this is addressed.	2	*A Transport Standards Group is scheduled to meet on 15th January 2019. Terms of reference have been provided to TIAA. This Group will agree the process and report directly into the Motor Risk Management Programme Board as the oversight group.*	*31/03/2019*	*Head of Transport Services, Uniform and Equipment*

Audit Report: Estates Strategy (NSC1921)

Report: November 2018

SCOPE

The audit appraised the strategy for managing the estates for current and future requirements, with supporting policies, across Norfolk and Suffolk Constabularies.

The audit considered if the estates strategy is in line with corporate strategies and direction for current and future need.

MATERIALITY

Total budgeted expenditure for Norfolk estate for the 2018/19 financial year is £2.9 million. Total budgeted expenditure for Suffolk estate for the 2018/19 financial year is £1.7 million.

KEY FINDINGS

- Norfolk and Suffolk have current estate strategies. Implementation plans are in place to support with the delivery of Norfolk and Suffolk estate strategies.
- The Carbon Management Working Group has been tasked with monitoring performance of the Constabularies against the delivery of the Joint Environmental Strategy, in particular monitoring the progress of the Constabularies in reducing each Constabularies' carbon footprint. The Carbon Management Working Group has not met regularly during the current financial year.
- The Carbon Management Working Group has an action plan in place to support the delivery of the Constabularies Joint Environmental Strategy. A target completion date needs to be assigned for actions to enable effective escalation where progress is not made.
- Norfolk and Suffolk have current estate strategies. Implementation plans are in place to support with the delivery of Norfolk and Suffolk estate strategies.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	1	1	0

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

Report Ref	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The Carbon Management Working Group has been tasked to monitor the performance of the Constabularies against the delivery of the Joint Environmental Strategy. The Carbon Management Working Group has not met regularly during the current financial year.	The Carbon Management Working Group to meet at the designated intervals as per the Carbon Management Working Group terms of reference.	2	*The next Carbon Management Working Group is planned to take place on 29th November 2018,*	*29/11/18*	*Head of Estates*

Audit Report: Purchase Cards (NSC1923)

Report: January 2019

SCOPE

The audit focused on the use of purchase cards in Norfolk Constabulary, and compliance with policy.

MATERIALITY

Purchase card expenditure for the period April to November has been approximately £160k for Norfolk Constabulary, which is in line with the expenditure for the same period in 2017/18.

KEY FINDINGS

Progress has been made in relation to recommendations raised in the previous audit and a reasonable assurance opinion can be given. Whilst no further recommendations have been raised, substantial assurance is not applicable due to the nature of the system, where exceptions do arise, with reasonable prevention and detective controls applied.

Purchase card expenditure is submitted and authorised promptly and is uploaded on to the ledger.

Expenditure over the individual transaction limit of £500 was made by splitting transactions on cards, this has previously been raised. Management are considering the individual cases.

Purchase cards are not always used in line with the purchase card manual, the majority of those exceptions identified were for fuel payments, as the fuel card for police vehicles was rejected. Management are considering the individual cases.

OVERALL ASSURANCE ASSESSMENT

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	0	0

tiaa

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

Follow Up Review

2018/19

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 October 2018 Audit Committee meeting and those outstanding past their implementation dates. A breakdown of this summary is attached as Figure

Figure 1 - Summary of the action taken on Recommendations made

Evaluation	P1 - Urgent Recommendations	P2 - Important Recommendations	Total	October 2018 Position for comparison
	Number	Number		Total
New Recommendations Added Since Last Meeting	1	24	25	N/A
Implemented Since Last Meeting	1	10	11	16
Outstanding – Past Original Deadline (incl. Deadlines Extended*)	2*(2)	33*(24)	35	34
Original Deadline Not Yet Reached	1	19	20	5

Audit Ref	Audit Area	Date Presented to Audit Committee	Assurance Level	Completed since last Audit Committee P1	Completed since last Audit Committee P2	Outstanding / Overdue P1	Outstanding / Overdue P2	Outstanding with Extended Period Not Reached P1	Outstanding with Extended Period Not Reached P2	Not Yet Due for implementation P1	Not Yet Due for implementation P2
2016/17 Internal Audit Reviews											
NSC1703	Transport	Sep-16	Reasonable		2		1				
NSC1707	Duty Management	Dec-16	Limited						3		
NSC1714	Overtime, Expenses	Mar-17	Reasonable						1		
NSC1716	Pensions	Mar-17	Reasonable						1		
2017/18 Internal Audit Reviews											
NSC1804	L&D Skills	Jul-18	Limited					1	8		
NSC1810	Temporary Recruitment	Feb-18	Reasonable		1						
NSC1811	Procurement	Sep-17	Reasonable						1		
NSC1812	Business Interests	May-18	Reasonable				2		1		
NSC1814	Risk Management	May-18	Reasonable						1		
NSC1817	Data Quality - Athena	Nov-17	Limited		2		1				
NSC1819	HR Absence Management	Mar-18	Limited	1	1						
NSC1822	Safeguarding and Investigations	Jul-18	Substantial		1						
NSC1823	Overtime, Expenses	May-18	Limited						2		

				Completed since last Audit Committee			Outstanding / Overdue		Outstanding with Extended Period Not Reached		Not Yet Due for implementation	
				P1	P2		P1	P2	P1	P2	P1	P2
NSC1825	Corporate Policies	May-18	Limited					2		1		
NSC1829	Payroll	Mar-18	Limited						1	2		
2018/19 Internal Audit Reviews												
NSC1906	Enact Replacement	Nov-18	Reasonable							2		
NSC1907	GDPR	Nov-18	N/A									2
NSC1910	Capital Programme	Nov-18	Reasonable									1
NSC1912	Allow ances	Nov-19	Limited								1	2
NSC1916	Duty Management	Oct-19	Limited									9
NSC1917	Vetting	Nov-18	Reasonable					1				2
NSC1921	Estates Strategy	Nov-18	Reasonable							1		
NSC1922	Stations, including building access and vehicle security	Jul-18	Reasonable		3			1				1
NSC1929	Lone Working							1				2
TOTALS				**1**	**10**		**0**	**9**	**2**	**24**	**1**	**19**

KEY FINDINGS

3. There are two urgent recommendation outstanding and past the agreed deadlines:

3.1 Payroll (NSC1829) – this is regarding checks and balances for pensionable pay, for which a reporting tool is being pursued. A revised date was agreed and applied.

3.2 L&D Skills (NSC1804) – this issue is around the skills data held by Learning and Development, the timescales were ambitious, following which the service manager has left the Constabularies. Discussions are being held with the department to identify reasonable timescales for implementation.

3.3 Any recommendations in relation to policies are advised as in progress and require consultation prior to implementation. A revised policy review process has commenced to reduce the extent of time taken to update / approve policies, which will continue to be monitored as part of the follow up process.

3.4 It is noted that the majority of recommendations continuing to remain outstanding are largely due to resource and IT requirements to be sourced. Long standing recommendations have been retained on the report, as the risks are still present and require addressing.

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.

SCOPE AND LIMITATIONS OF THE REVIEW

4. The review considers the progress made in implementing the recommendations made in the previous internal audit reports and to establish the extent to which management has taken the necessary actions to address the control issues that gave rise to the internal audit recommendations. The implementation of these recommendations can only provide reasonable and not absolute assurance against misstatement or loss.

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

6. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff, accounting records and transactions and to ensure the authenticity of these documents.

RELEASE OF REPORT

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

Date draft report issued:	N/A
Date management responses recd:	N/A
Date final report issued:	8th January 2019

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Detailed Report

FOLLOW UP

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

9. Recommendations are split into those past their original / revised deadline and those with a revised deadline that has not been reached.

The following matters were identified as outstanding past their original/revised deadline:

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
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	The 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	31/10/16	30/9/18	27/6/18	The Transport policy/SOPs have all be revised and the first draft sent for formal policy review. A revised date was set by internal audit to assess progress. Due to staff sickness a date to meet to discuss outstanding recommendations has been set as 25/10/2018.
NSC1812 Business	The business interest policy to	2	The policy is out to consultation, waiting to	Senior Complaints,	30/9/18	31/12/18	11/10/18	The Business Interest Policy is

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
Interests	be expanded to include what constitutes a business interest, when and how this should be declared and those allowable; police funded courses, to ensure that individuals only undertake courses in the interest of the Constabularies and not for personal gain; requirement for managers to consider approval for staff undertaking police funded courses to be considered on an individual basis.		be ratified and on to JNCC. The completion date is to reach this point in the approval process, as the subsequent stages are outside of the department's control.	Appeals & Policy Manager				still under review by PSD. There is an issue around categorising Politically Restricted Posts. Recent discussions were that the posts to be included were to be agreed by HR, PSD and UNISON at the next Integrity Board on 29th November. The Business Interest Policy published on the intranet is the Business Interest Policy that is dated June 2016.
NSC1812 Business Interests	Business interest reviews be undertaken at the designated review periods, as agreed when the business interest was approved.	2	The level of outstanding reviews has improved, however there is still a backlog to clear. A process is in place for timing of reviews depending on their risk, with low level risks being reviewed every two years, up to high	Senior Complaints, Appeals & Policy Manager	30/11/2018		03/10/2018	

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			risk cases being reviewed every few months.					
NSC1817 IM - Data Quality	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.	Head of Information Management / D/Supt Joint Justice Command - Athena Lead	1/4/18	31/12/18	20/9/18	The Head of Information Management is meeting with the Athena Project Team to discuss the force business case proposals on how this can be resourced in future.
NSC1825 Corporate – Policies	A formal action plan be developed stating the key tasks and target completion date for separating policies and procedural guidance.	2	Linked to Action Plan Finding 1. An action plan will be drawn up to consider the actions and deadlines associated with splitting the documentation into policies and procedures.	Corporate Support Manager	31/12/2018		03/10/2018	

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			In addition the Policy Creation document should be updated to reflect the changes to layouts articulated above.					
NSC1825 Corporate – Policies	A review of withdrawn policies be undertaken to identify if the policy details are addressed by another policy, and for those that are not covered by another policy, a formal action plan be drawn up which records the action to be taken to ensure that these are reviewed promptly and a new policy developed.	2	Linked to Action Plan Finding 1 & 4 A review of the Policy Creation document will incorporate guidance on how withdrawn policies are reviewed and considered going forward.	Corporate Support Manager	31/12/2018		03/10/2018	
NSC1917 Vetting	A service request be put to WPC, the CoreVet system supplier, to identify whether password controls could be introduced to improve authentication	2	WPC have advised that they can amend the settings. They will give the forces administrator access to enable specified officers to update.	Senior Complaints, Appeals and Policy Manager	31/10/2018		22/11/2018	

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	control in line with the IT Security Policy. In the meantime, staff be advised to set strong passwords and to change these on a periodic basis.							
NSC1922 Stations, including building access and vehicle security	A review of officers that have access to the Bury St Edmunds armoury be undertaken to ensure that only officers that have current in date fire arms training and require access are able to access the armoury.	2	Firearms Officers use the Chronical application to access the armoury and the contents contained in it. e-Personnel files need to be updated to reflect the officers' current training status. ERP does not have an accurate record of officers that have undertaken firearms training. Work is underway to address the inaccuracies of records within ERP. Only officers that have undertaken firearms training are granted access to the armoury, it is the training records on ERP being incorrect.	The Joint L&D and The Joint Information Security Dept	30/11/2018		12/11/2018	
NSC1929 Lone Working	A more thorough check of risk assessments be	2	The Joint Constabulary Health and Safety Arrangement makes the	Health and Safety Manager / Advisors	01/11/2018		19/10/2018	

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	conducted, at least on a sample basis, to ensure that all risks, including those relating to lone workers have been identified and appropriate controls measures have been put in place.		requirement to ensure that risk assessments are in place upon the relevant Heads of Department. Line Managers/Commanders are also expected to ensure that risk assessments are in place and this includes identifying and ensuring that persons who are lone workers have specific control measures in place where a hazard and risk to them exists for lone working. The Health and Safety Team undertake periodic reviews of risk assessments and this is recorded via our monitoring spreadsheet. The purpose of the Health and Safety Team outside of being legally required is to provide support and guidance to the Constabularies on complying with health and safety legislation. Health and Safety Manager has previously issued					

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			Hearth and Safety Advisors with an objective to 'audit' risk assessments more thoroughly and a template form to support this process has been designed.					

The following matters were identified as outstanding, with a revised deadline not yet reached:

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
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.	Chief Finance Officer (Norfolk)	30/6/17	31/3/19	17/9/18	This is still being considered by Crown for a future release of the DMS system. When audit functionality is implemented this often affects the systems performance, which will require testing and review prior to being used.
NSC1707 Duty Management System	DMS to be used for recording overtime, and investigated to establish if approval of overtime can be recorded on DMS.	2	The RMU is working to reduce exceptions before embarking on the issues with overtime. Delivering overtime will require a project to be set up to deliver training and understanding to all line managers and the confidence that claims will be accurately recorded.	Chief Finance Officer (Norfolk)	31/1/18	31/3/19	17/9/18	A smart form is being developed for recording police officer overtime. DMS cannot be used for overtime until the number of exceptions has reduced. Alternative processes are in place to manage overtime.
NSC1707 Duty Management System	Monthly reconciliations to be undertaken between DMS and payroll to establish if the value of	2	Not all areas of the business provide information of Overtime to the RMU, and therefore this is challenging to deliver.	Head of Transactional Services	30/6/17	31/3/19	17/9/18	A review of all the exceptions being generated by DMS is underway to agree what is required to update DMS or

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	overtime on DMS agrees with the value of overtime paid by payroll.		This would be a Finance task.					change working practices to eliminate, where possible exceptions. This work is being completed by the ERP Programme Delivery Manager and the RMU-System/Support and Management Information manager. A process for approving changes to the set-up of DMS has been agreed.
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	30/6/17	31/3/19	19/9/18	Whilst it is acknowledged and accepted that this needs to be done, resources and time have limited what action can be taken, as such an extension to the original deadline is required.
NSC1716 Pensions Administration	The payroll system to be investigated to establish if a report can be run	2	The pension contributions are set at system level and the appropriate	N/A	1/3/17	31/3/19	7/3/18	Checks, balances and reconciliations that are completed in respect of

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	to calculate pensionable pay for staff.		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.					pensionable pay, including some very challenging returns to Local Government Pension Scheme and Police Officer pension administrators at year end. The Audit Committee accepted these mitigations. In addition, the Constabulary is pursuing a new reporting tool that will address the issues but this will not be implemented until the end of the 2018/19 financial year.
NSC1804 HR – Learning and Development	Succession planning be linked to the workforce plan to ensure that there are appropriately qualified and trained officers.	2	A framework for succession planning has been established, and a pilot held involving senior leaders within the Constabularies (Chief Inspector and above). This included career conversations, chief officer meetings in order to draw up short, medium and long term succession plans. The	Director of HR	30/9/18	31/3/19	4/10/18	Feedback has been collated and is being reviewed by the Director of HR. This feedback will influence how this is rolled out across the constabularies – including police staff.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			feedback from the pilot will be used to refine and develop the framework in conjunction with workforce planning for the rest of the organisation.					
NSC1804 HR – Learning and Development	A standard process be developed for the approval of training. This should include the Learning and Development department to approve all requests for training, and be notified when courses are arranged by areas such as Specialist Operations and Firearms.	2	Learning and Development are progressing work to understand the flow of requirements around external training. Through understanding the flow, Learning and Development will be able to determine expenditure against planned and proposed bids. Following this exercise, Learning and Development will present the DCCs with all training bids for scrutiny with recommendations from Learning and Development and justification from the department heads.	Temporary Chief Inspector - Operational Training Manager	30/9/18	30/6/19	4/10/18	This process has been agreed with the DCCs and is being rolled out for planning preparations for 2019/20 year.
NSC1804 HR – Learning and Development	ERP be investigated to see if adequate quality	2	Learning and Development are working with Cap	Temporary Chief Inspector -	30/9/18	31/3/19	4/10/18	A technical fix is still being progressed by Cap Gemini.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	control measures can be set up to prevent police staff being assigned courses and skills that only police officers can achieve.		Gemini and have identified a number of change requests to the ERP Board to improve the work flow, and therefore improve the quality of data input into the system.	Operational Training Manager				
NSC1804 HR – Learning and Development	Training and user guides be provided to the Learning and Development Administrators so that skills data is accurately and correctly recorded on ERP.	2	This will be drafted and completed as part of the work listed.	Temporary Chief Inspector - Operational Training Manager	30/9/18	31/3/19	4/10/18	This is still in progress.
NSC1804 HR – Learning and Development	Training expiry dates be assigned for all courses, to enable reminders to be sent at designated intervals and/or ERP updated with a new expiry date.	2	Automated ERP reminders are problematic owing quantity. Force Announcements have advised individuals that it is their responsibility to understand their own skill profile.	Temporary Chief Inspector - Operational Training Manager	30/6/18	31/3/19	4/10/18	A semi-automated method that records expiry dates has been developed. In conjunction with the semi-automated method and training leaders this enables better tracking of competencies. A longer term solution surrounding a self-help function will be available via the Learning Management System.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
NSC1804 HR – Learning and Development	Standard titles be assigned for all courses and these to be uploaded on to ERP so that Learning and Development staff select the appropriate course for staff.	2	The ERP Project has identified naming discrepancies within skills. The project is setting naming conventions when new course details.	Temporary Chief Inspector - Operational Training Manager	30/9/18	31/3/19	4/10/18	This work is still in progress. The Task and Finish group is the governance mechanism for this work. An action plan has been produced to address this, progress against this is monitored by the Task and Finish Group.
NSC1804 HR – Learning and Development	Evaluation of training be undertaken at the designated intervals at both two weeks after the course is completed and three months after the training course is completed.	2	The Operational Training Manager is currently writing a new evaluation strategy which will sit across all training. As part of the implementation of PEQF (and the Police Constable Degree Apprenticeship), evaluation will be more rigorous given the Constabularies' relationship with a higher education Institution. The strategy is being written to support this. Currently all students are tracked throughout the two year probation period, and exit interviews and case	Temporary Chief Inspector	30/09/2018	31/03/2019	03/10/2018	This is still in progress.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			conferences are monitored to ensure that any lessons learned are captured and incorporated into future training.					
NSC1804 HR – Learning and Development	A full review of the skills data recorded on ERP to be undertaken, requesting skills data held and trainers from individual departments, to ensure that ERP has an accurate record and can be used to identify skill requirements and gaps across the forces.	1	The ERP skills review is well underway. The findings are being fed into the ERP Board for future changes to the ERP system, which will require change requests. The ERP Board has agreed the procurement of new management information software for the ERP system, which will also provide assistance in this area.	Temporary Chief Inspector - Operational Training Manager	27/6/18	31/3/19	4/10/18	A review is underway. Progress against this review is being monitored by the Task and Finish Group.
NSC1804 HR – Learning and Development	ERP be used for recording all scheduling of training courses and expected attendees by the Learning and Development Administrators, and be updated when officers have completed courses.	2	Protective Services were required to hold the "Mercury Report" which is a national requirement. Significant sections of this have to be undertaken manually. ERP could be better utilised to complete this. Work contained within the other management	Temporary Chief Inspector - Operational Training Manager	30/9/18	31/3/19	4/10/18	Mapping of those elements of the Mercury report that are not stored within ERP has been undertaken, and these areas have been highlighted to stakeholders. Stakeholders have been informed of the benefits of an automated approach

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	Discontinuing the use of spreadsheets.		responses will enable this to be progressed.					to this submission which will also enable more informed workforce planning.
NSC1811 Procurement – Compliance with CSO within departments	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.	Head of Finance and Head of Transport Services	31/3/18	31/3/19	27/6/18	Tranman was updated by Civica back in December 2017. The authorisation was added at invoice stage on Tranman, which is incorrect and has now been removed. Civica provided a quotation, as they want to charge for the approval process in the right place. Unfortunately at a cost of £10k. A meeting was held again with Civica to and negotiate a better deal but this was not possible. A request for change form is to be submitted to the Organisational Board for approval of the funding.
NSC1812 Business	Employment contracts be	2	The policy has been revised to reflect	Senior Complaints,	30/9/18	31/3/19	9/10/18	This is still work in progress. A review

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
Interests	reviewed for staff that attend police funded courses to be required to reimburse the Constabularies if they leave within set time periods of attending the course. As well as setting restrictions on working within a set geographical area for a given period.		setting restrictions on geographical area for working and on course reimbursement. Consideration is being given to including reimbursements within employment contracts and what would be enforceable. An implementation date of 30th September 2018 is provided for the consideration period, to ascertain whether this is feasible to fully implement.	Appeals & Policy Manager				of contracts has not been undertaken due to resourcing issues.
NSC1814 Risk Management – Mitigating Controls	Controls on the strategic risk register be made specific, applying the 'so what' approach, to enable them to address the risk identified.	2	Linked to Action Plan Finding 4 (above).A pilot of the revised template for the Joint Strategic Risk register will incorporate this recommendation.	Risk & Compliance Manager	8/6/18	28/2/19	13/9/18	An overarching report and revised template for the Strategic Risk Register was presented to Chief Officers on the 18/06/18. It was agreed that a six month trial would take place to assess the benefits. The template has been amended to incorporate additional controls for the Joint Strategic Risk register and will be

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
								reported upon in February 2019. This trail is underway and due to report back to Chief Officers in February 2019.
NSC1823 Overtime, Expenses and Additional Payments	Sample testing on 10% of claims to include the validity of the claim and whether they are submitted within the guidelines.	2	The claims selected for testing are checked that they comply with the policy and rejected if they do not. With regards to the validity it had been agreed that through publication of the appropriate policy along with an understanding of potential disciplinary proceedings for non-compliance that the Constabulary would manage the remaining risk.	Head of Transactional Services	30/9/18	31/4/19	19/9/18	The reporting solution is currently being developed, which is anticipated to be ready for the new financial year.
NSC1823 Overtime, Expenses and Additional Payments	Regular sample checking of expenses claimed through purchase cards, purchasing and iexpenses be undertaken to identify any duplication in claims.	2	The risk will assessed by validating claims in 2017/18 and these will be reported in due course.	Head of Transactional Services	30/9/18	31/4/19	03/10/18	The reporting solution is currently being developed, which is anticipated to be ready for the new financial year.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
NSC1825 Corporate – Policies	Review and update of HR protocols be undertaken, and amalgamated into a policy where possible.	2	Linked to Action Plan finding 2.As all of the protocols belong to the HR Department, this will form part of the JCOT decision paper to be tabled in July 2018.	Director of HR	16/7/18	31/3/19	13/9/18	The Programme Management Office advised that it has been agreed with HR that these protocols will be loaded onto their Health & Safety intranet site for employees to view. A link back to any more formal policy documentation will be available on the same intranet page. These HR health and safety protocols will no longer be reported on as part of the policy updates. An action plan has been developed by HR to review all policies, protocols are to be incorporated into an appropriate policy where appropriate.
NSC1829 Payroll, including ERP Reporting	System controls on Enact to be investigated, to ensure Enact forms can only be approved by the relevant authorised	1	Enact has only one more year under contract, and the intention is not to renew this product. Instead a review is underway into products that are	Head of Transactional Services	30/6/18	31/3/19	19/9/18	Apex is currently being implemented and the contact with Encircle (Enact) will be terminated in due course.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	signatory and prevent employees from approving their own Enact forms.		either already part of the Oracle ERP suite, or integrate into that platform. However, conversations are underway with the Enact provider Encircle and early indications are that they can make this change at minimal cost. However, if significant investment was required this will not be undertaken as any investment will be into the replacement system.					
NSC1829 Payroll, including ERP Reporting	The reporting functionality on ERP to be explored so that all necessary reports can be provided to enable line managers to have all necessary information, including a report of new starters, leavers and changes within the monthly payroll.	2	Heads of Department have regular meetings with their management teams, and with HR and Finance Business Partners to understand their staffing position. However, a business case is in draft in connection to a new reporting solution and funding has been provided within the MTFP. The reporting solution will have much wider benefits than the more narrow	Head of Transactional Services	30/6/18	31/4/19	19/9/18	The new reporting tool is anticipated to be implemented by the new financial year 2019/20, with reporting availability following this.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
			issue outlined here.					
NSC1829 Payroll, including ERP Reporting	Resources to be allocated to addressing the issue for the 70 employees that have not been included on the FPS report, to rectify that for these employees their ability to claim state pension is not affected.	2	This is a complex issue and work has been ongoing within Capgemini to arrive at a solution. Also discussions have been taking place with HMRC on the issue. The latest position is that an Earlier Year Update (EYU) process will be run to correct the position and provide HMRC with the correct information about the individuals concerned.	Head of Transactional Services	30/6/18	31/3/19	19/9/18	The payroll team has now been restructured and a special projects role created to resolve the outstanding issues within ERP. A fix has been provided by CapGemini and has been tested successfully in the test in environment.
NSC1906 Enact Replacement Project	ERP Management to ensure that all testing of the new forms and related processes are formally documented into testing scripts with results reported to relevant senior management as this will help demonstrate that appropriate testing has taken place and will also help	2	Test scripts will be created as part of the form build in anticipation of user acceptance testing.	Toni Osborne ERP Systems and Development Manager	17/12/2018	31/01/2019	22/11/2018	This is ongoing and is due for completion in January 2019.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	inform the project acceptance process.							
NSC1906 Enact Replacement Project	Management to ensure that a local installation of the Apex development tool is completed as soon as possible so that the relevant forms and other tools that are to replace the Enact system can be developed and implemented in a timely manner.	2	Apex has been installed onto our test database to allow development to begin. Some minor configuration is being finalised this week. Whilst this development is underway, Apex will be installed into our change controlled environment and production environment databases. This will not affect the forms development as these can be extracted from the test database and uploaded into each of the new environments without the need to recreate the whole form.	ERP Systems and Development Manager	23/11/2018	31/01/2019	22/11/2018	This is currently underway with our local ICT DBA Team. This is anticipated to be completed in January 2019.
NSC1921 Estates Strategy and Policies	The Carbon Management Working Group to meet at the designated intervals as per the Carbon	2	The next Carbon Management Working Group is planned to take place on 29th November 2018,	Head of Estates	29/11/2018	31/01/2019	13/11/2018	The November 2018 Carbon Management Group was cancelled due to an operational meeting and has been rearranged for

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Date	Last Update	Latest Response
	Management Working Group terms of reference.							30 January 2019.

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

ORIGINATOR:	Chief Finance Officer

REASON FOR SUBMISSION:	To review and note.

SUBJECT: Mid-Year Treasury Management Monitoring Report 2018/19

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 2018 to 30th September 2018.

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

At the 30th September 2018, the PCC's external debt excluding PFI was £16.111m, its investments totalled £10m and bank balances £12.3m.

RECOMMENDATION:

The Committee is asked to review and note the report.

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 (2018/19) was reviewed by the Audit Committee on 9 January 2018 and approved by the PCC in February 2018.

1.2 The PCC operates a balanced budget, which broadly means income receivable during the year will cover expenditure payable and any planned movement on reserves. 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 financing 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 consultant) and details treasury activities for the period 1st April 2018 to 30th September 2018 including; cash balances and cash flow management, investment performance, counterparty management and long term borrowing/debt management.

2. Link Asset Services Economic Overview - October 2018

2.1 Economic performance year to date

UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

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.

JAPAN - has been struggling to stimulate consistent significant GDP 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 Interest rate forecasts

The PCC's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

<u>The balance of risks to the UK</u>

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

<u>Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:</u>

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.

- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained 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 and short term investment balances comprise revenue and capital resources, such as general balances 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 and short term-investment balances in the year to date totals £16.268m.

3.2 Cash and short term investment 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. However presently the interest returned on instant access accounts is similar to those earned on short term lending arrangements. These accounts are therefore frequently utilised within counterparty limits as they provide greater liquidity.

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), monies received amounts to £130.8m, while payments total £112.8m, resulting in an overall increase in cash balances of £18m.

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 needed 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 0.5% 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 2018, the PCC held £10m 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	-	-	-	-	-
Non-UK Banks	-	-	6.0	-	-
Building Societies	-	4.0	-	-	-
Other*	-	-	-	-	-
Total	-	4.0	6.0	-	-

*Includes: Other Local Authorities

4.3 A more detailed investment profile at 30th September 2018 is shown at Appendix 1.

4.4 The average interest rate earned for the year to date is 0.5041% compared with the estimated average 3 month day London Interbank Bid Rate (LIBID) of 0.6713%.

4.5 Gross interest earned for the period 1st April 2018 to 30th September 2018 is £0.040m.

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 2018/19. 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 2018 to 30th September 2018 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 2018/19 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 2018, the PCC's external borrowing (debt outstanding, excluding PFI) totaled £16.111m (PWLB)

6.4 The PCC's overall capital financing requirement (excluding PFI) at 31.3.18 was £29.1m. The projected capital financing requirement at 31.3.19 is approximately £31.2m. 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 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy will be included in the Budget and Medium Term Financial Plan 2019/23 which will be presented to the Police and Crime Panel on 5 February 2019.

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 MiFID II (Markets in Financial Instruments Directive).
On 3 January 2018 the EU introduced regulations under MiFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions have with local authorities (and PCCs). This has 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 - apart from for cash deposits with banks and building societies.

8 Conclusion

8.1 The Mid-Year Treasury Management Monitoring Report 2018/19 provides information on the Treasury Management activities of the PCC for the period 1st April 2018 to 30th September 2018.

9 Recommendation

9.1 It is recommended that Audit Committee notes the Mid-Year Treasury Management Monitoring Report 2018/19.

Appendix 1

Outstanding Deposit Profile @ 30th September 2018				
Counterparty	**Deal Date**	**Maturity Date**	**Rate**	**Principal(£m)**
Goldman Sachs Intl	05/07/2018	05/12/2018	0.80%	2.00
Goldman Sachs Intl	05/07/2018	05/11/2018	0.74%	4.00
Nationwide BS	05/07/2018	05/10/2018	0.57%	4.00
Barclays Bank	07/09/2018	Instant Access	0.60%	2.25
Barclays Bank	10/09/2018	Instant Access	0.60%	2.00
Barclays Bank	19/09/2018	Instant Access	0.60%	1.00
Lloyds Bank	13/08/2018	Instant Access	0.50%	0.50
Lloyds Bank	19/09/2018	Instant Access	0.50%	5.00
Lloyds Bank	24/09/2018	Instant Access	0.50%	1.25
Barclays Bank (Current A/C)				0.30
Total				22.30

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 2019/20

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 5 February 2019.

There are no significant changes in the 2019/20 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 2019/20.

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2019/20

1. Background

1.1 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 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 that the PCC can meet his capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

1.3 The contribution the treasury management function makes to the PCC is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.6 This PCC has not engaged in any commercial investments and has no non-treasury investments.

2. Reporting requirements

2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that the PCC fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Capital Strategy will be published separately but is included within the PCC's Budget and MTFP report.

2.2 Treasury Management reporting

The PCC is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators); (Appendix 1)
- a minimum revenue provision (MRP) policy, (how unfunded capital expenditure is charged to revenue over time); (Appendix 2)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update the PCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. Treasury Management Strategy for 2019/20

3.1 The strategy for 2019/20 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators; see Appendix 1.

- the minimum revenue provision (MRP) policy. See Appendix 2.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

3.2 The CIPFA Code requires the responsible officer to ensure that officers with responsibility for treasury management receive adequate training in treasury management. This also applies to Audit Committee members responsible for scrutiny. Training on the Prudential Code and the Capital Strategy was provided to Audit Committee members in October 2018.

Treasury management consultants

3.3 The PCC uses Link Asset Services, Treasury solutions as its external treasury management advisors.

3.4 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our treasury advisers.

3.5 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Treasury Management Function

3.6 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.”

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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).

3.13 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.

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

3.15 Link Asset Service's Economic Forecast is set out in Appendix 3.

4. Investment Strategy 2019/20

4.1 The Bank Rate is forecast to stay flat at 0.75% until quarter 2 2019 and not to rise above 1.25% until quarter 4 2020. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later Years	2.50%

4.3 There are 3 key considerations to the treasury management investment process. MHCLG'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 MHCLG'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 10).

5. Investment Strategy 2019/20 - 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

- **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

- **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 PCCs 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 2019/20 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 2019/20 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 2019/20 – 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 365 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 PCCs 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 365 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 2019/20 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2019/20

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 365 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 £16.11m (excluding PFI). At 31 March 2018 there was a £29.1m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £31.2m at 31 March 2019, £40.3m at 31 March 2020 and £45.8 at 31 March 2021. Additional long term borrowing is estimated at £4.0m for 2018/19,

£11.7m for 2019/20 and £6.95m for 2020/21. 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 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans, Local Authorities and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 In addition to the key Treasury Indicators included in the Prudential Code and reported separately, there are two treasury management 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:

- **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 31.3.19:

	Actual*	Lower Limit	Upper Limit
Under 12 months	0.3%	0%	15%
12 months and within 24 months	0.3%	0%	15%
24 months and within 5 years	11.2%	0%	45%
5 years and within 10 years	33.7%	0%	75%
10 years and above	54.5%	0%	100%

* Actual is based on existing balances at 31.12.18

- **Upper Limits to the Total of 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 2019/20, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £4.475m.

Appendix 1

Prudential Code Indicators 2019/20, 2020/21, 2021/22

1. Background

1.1 The Prudential Code for capital investment came into effect on 1st April 2004. It replaced the complex regulatory framework, which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation. All borrowing undertaken is self-determined under the prudential code. A revised Prudential Code was published in December 2017 and is has applied from 2018/19

1.2 Under Prudential arrangements the PCC can determine the borrowing limit for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.

1.3 The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the PCC to set and monitor performance on:

- capital expenditure
- affordability
- external debt
- treasury management (now included within Treasury Management strategy)

1.4 The required indicators are:

- Capital Expenditure Forecast
- Capital Financing Requirement
- Actual External Debt
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt

However authorities are now advised to use local indicators, where this would be beneficial, especially if carry out commercial activities.

1.5 Once determined, the indicators can be changed so long as this is reported to the PCC.

1.6 Actual performance against indicators will be monitored throughout the year. All the indicators will be reviewed and updated annually.

2. The Indicators

2.1 The **Capital Expenditure Payment Forecast** is detailed in Appendix x (of the PCC's Budget and MTFP report 2019/23). The total estimated payments are:

	2019/20	2020/21	2021/22
	£m	£m	£m
Capital Expenditure Forecast	15.147	11.004	7.417

The PCC is being asked for approval to an overall Capital Programme based on the level of capital financing costs contained within the draft revenue budget.

2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from local taxation and non-specific government grants. The estimates include PFI MRP and interest costs. Estimates of the ratio of capital financing costs to net revenue budget for future years are:

Ratio of Capital Financing Costs to Net Revenue Budget		
2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
5.18%	5.31%	5.39%

2.3 The **capital financing requirement** represents capital expenditure not yet financed by capital receipts, revenue contributions or capital grants. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/19 Estimate	31/03/20 Estimate	31/03/21 Estimate	31/03/22 Estimate
£91.499m	£99.441m	£103.637m	£105.702m

2.4 The guidance on **net borrowing for capital purposes** advises that:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Net borrowing refers to the PCC's total external borrowing net of any temporary cash investments and must work within this requirement.

2.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2019/20 and future years limits.

For 2019/20 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

As required by the Code, the PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total limit for any individual year, to effect movement between the separate limits for borrowing and other long term liabilities. Any such changes made will be reported to the PCC.

Authorised Limit for External Debt			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	31.633	38.278	40.455
Other long term liabilities (OCC PFI)	24.552	23.994	23.373
Other long term liabilities (PIC PFI)	34.564	33.834	33.049
Headroom	13.664	12.712	14.109
Total	104.413	108.818	110.987

These proposed limits are consistent with the Capital Programme. They provide headroom to allow for operational management, for example unusual cash movements.

2.6 The Code also requires the PCC to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the external debt limit without the additional headroom. The operational boundary represents a key management tool for in year monitoring.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified again. The PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total operational boundary for any individual year, to make any required changes between the separately agreed figures for borrowing and other long-term liabilities. Any changes will be reported to the PCC.

Operational Boundary Limit for External Debt			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	3.633	38.278	40.455
Other long term liabilities (OCC PFI)	24.552	23.994	23.373
Other long term liabilities (PIC PFI)	34.564	33.834	33.049
Total	90.749	96.107	96.878

Minimum Revenue Provision (MRP)
Proposal to change MRP Policy and MRP Statement for 2019/20.

1. Introduction

1.1 The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.

1.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is "prudent". The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

2. Options for Making Prudent Provision

2.1 Four options are included in the guidance, which are those likely to be most relevant for the majority of local government bodies. Although other approaches are not ruled out, local government bodies must demonstrate that they are fully consistent with the statutory duty to make prudent revenue provision.

Option 1 - Regulatory Method
Authorities may continue to use the formulae put in place by the previous regulations.

Option 2 - Capital Financing Requirement (CFR) Method

Under this option, MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3 – Asset Life Method
This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:
(a) Charging MRP in equal instalments over the life of the asset
(b) Charge MRP on an annuity basis, where MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4 - Depreciation
MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

2.2 The regulations make a distinction between capital expenditure incurred before 1 April 2008 and capital expenditure incurred from 1 April 2008 in terms of the options available.

2.4 Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

3. Proposed Change to MRP Policy

3.1 In previous accounting periods the option adopted for expenditure incurred after 1 April 2008 was Option 3a (Equal Instalment method). This method was deemed prudent whilst assets were primarily being internally financed.

3.2 As reserves, cash and investment balances have been consumed following the decrease in direct government funding, it is now necessary to externally finance capital expenditure on long life assets. The current preferred financing method is via the Public Works Loans Board (PWLB) borrowed on an annuity basis.

3.3 It is proposed that option 3b (Annuity Method) is adopted for capital expenditure chargeable as MRP for the first time after 1 April 2019. The principal reason for the proposed change is for the charge to revenue to reflect the capital repayment basis on the associated finance. This method will therefore adopt a similar MRP basis as those assets financed through lease or PFI arrangements.

3.4 Under the revised Statutory Guidance released on 2 February 2018, this proposed change in policy cannot be applied retrospectively to assets placed in service prior to the date the revised policy was introduced. Therefore it is proposed that Option 3a is still applied to capital expenditure chargeable as MRP for the first time prior to 1 April 2019.

3.5 Based on projected capital spend in the latest medium term financial plan (2019/2023) the change in policy will generate MRP reductions of £16k in 2020/21, £211k in 2021/22, £232k in 2022/23 and £271k in 2023/24. Savings will continue to be made until 2048/49. From 2049/50, the change in policy will generate additional charges to the revenue budget until 2070/71.

4. Recommendations

4.1 It is proposed that the MRP policy is changed for capital expenditure chargeable as MRP for the first time after 1 April 2019 and that the following MRP charges will apply for 2019/20:

- Capital expenditure incurred before April 2008 is treated in accordance with Option 1 of the regulatory guidance;
- Capital expenditure chargeable as MRP for the first time from 1 April 2008 to 31 March 2019, is treated in accordance with Option 3(a) of the regulatory guidance.
- Capital expenditure chargeable as MRP for the first time after 1 April 2019 is treated in accordance with Option 3(b) of the regulatory guidance.

Appendix 3

LINK ASSET SERVICES

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in September, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.2%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.8%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP 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. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The interest rate forecasts provided by Link Asset Services above, are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since

2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.

- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process at 13.12.18

- March 2017: UK government notified the European PCC of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- 11.12.18 vote in UK Parliament on the agreement (postponed)
- 21.12.18 – 6.1.19 UK Parliamentary recess
- Before 21.1.19 vote in UK Parliament on the agreement
- 8.1.19 – 29.3.19 second vote (?) in UK parliament if first vote rejects the deal
- 21.1.19 vote in Parliament on a ‘no deal’ scenario; if approved...
- By 29.3.19 then ratification by EU Parliament requires a simple majority
- By 29.3.19 if UK and EU parliaments agree the deal, EU PCC needs to approve the deal; 20 countries representing 65% of the EU population must agree

- 29.3.19 UK leaves the EU (or asks the EU for agreement to an extension of the Article 50 period if UK Parliament rejects the deal and no deal departure?)
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- 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 may leave the single market and tariff free trade at different times during the 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.

Link Asset Services
October/November 2018 (updated)

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

NORFOLK CONSTABULARY
Our Priority is You

Audit Committee
Forward Work Plan

16 April 2019

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **15 January 2019**	
Internal Audit 2018/19 Progress Report and Follow Up Review 2018/19 Annual Report 2019/20 Internal Audit Plan (Final)	Reports from Head of Internal Audit
Annual Governance Statement 2018/19	Report from CFO
External Audit Plan 2018/19	Report from Director, EY
Strategic Risk Register update	Report from Chief Exec and CC
Forward Work Plan	Report from CFO

11 June 2019 Private (informal meeting)

Draft Statements of Accounts 2018/19	Reports from CFO

30 July 2019

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **16 April 2019**	
Internal Audit 2019/20 Progress Report (including outstanding reports from 2018/19)	Report from Head of Internal Audit
Final Accounts 2018/19 Approval including External Auditor's Audit Results Report	Reports from CFO and EY
Forward Work Plan	Report from CFO

22 October 2019

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **30 July 2019**	
Annual Audit Letter	Report from EY
Internal Audit 2019/20 Plan update and follow-up Report	Report from Head of Internal Audit
Strategic Risk Register update	Report from Chief Exec and CC
Forward Work Plan	Report from CFO

14 January 2020

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **22 October 2019**	
Audit Committee Terms of Reference	Report from CFO
Internal Audit 2019/20 Plan update 2020/21 Internal Audit Plan (draft)	Reports from Head of Internal Audit
External Audit 2018/19 Accounts Annual Audit Letter 2019/20 Audit Plan	Reports from Director, E&Y
Treasury Management 2019/20 Half Year Update 2020/21 Strategy	Report from CFO
Strategic Risk Register Update	Report from Chief Exec and CC
Forward Work Plan	Report from CFO

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