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Democratic Services
Head of Law and Governance


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**To all Members of the North Wales Police
and Crime Panel**

Please ask for:

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Our Ref:

DEJ/DH

Your Ref:

Date:

11.06.15

Dear Member,

North Wales Police and Crime Panel - Monday, 15 June 2015

I refer to this agenda and enclose the following report(s):

- 8iv) Financial Scrutiny of the Chief Constable by and on behalf of the Police and Crime Commissioner

Yn ddiffuant/Yours sincerely,

A handwritten signature in black ink, appearing to read 'Delyth E Jones', written in a cursive style.

Delyth E Jones
Pennaeth y Gyfraith a Llywodraethu/
Head of Law and Governance

For

| | |
|-----------------|--|
| Title: | Financial Scrutiny of the Chief Constable by and on behalf of the Police and Crime Commissioner |
| Meeting: | North Wales Police and Crime Panel, 15 June 2015 |
| Author: | Kate Jackson, Chief Finance Officer |

1. Introduction

- 1.1 The Police Reform and Social Responsibility Act 2011 gives police and crime commissioners responsibility for holding their chief constable to account for policing in their force area.
- 1.2 Finance is integral to the delivery of any public service. Therefore, scrutiny of the Chief Constable’s finances is an important part of the process of holding him to account.
- 1.3 This report describes the activities undertaken by the Police and Crime Commissioner and those acting on his behalf to ensure that funding is used to deliver the objectives of the Police and Crime Plan, that expenditure is appropriate and proportionate, and that best value is obtained throughout the process.

2. Recommendations

- 2.1 To note the report.

3. Scrutiny of the budgets

- 3.1 The Police and Crime Commissioner has an annual revenue budget of around £140m, the majority of which is allocated to the Chief Constable for the delivery of policing services. The current capital programme stands at around £25m to the end of 2016/17. With such large sums involved, effective scrutiny is essential.
- 3.2 Overall funding for the police service in north Wales has fallen in the last five years, and this will probably continue for the next five years. Therefore, savings form an important part of the financial planning and monitoring process.
- 3.3 In setting the revenue budget, the Commissioner needs to take into account:
 - The level of government grant – ignoring the effect of short term specific grants, this has reduced in cash terms every year since 2010/11, and this trend looks set to continue until at least 2018/19
 - The level of council tax that can be raised from local taxpayers (any proposed increase must be “reasonable”)
 - The strategic policing requirement
 - The Police and Crime Plan
 - Any emerging or growing demands
 - Reserves
 - The legal requirement to produce a balanced budget

- The longer term position – a joint Medium Term Financial Plan is produced annually
- 3.4 In December 2014, the Commissioner, supported by the Chief Executive and the Chief Finance Officer, met with the Chief Constable, who was also supported by relevant senior staff and officers to discuss the budget for 2015/16. Discussions focussed on:
- Savings – were the proposals achievable?
 - New demands – were the proposals reasonable?
 - Would it be possible to deliver the objectives in the Police and Crime Plan?
 - Would it be possible to deliver the strategic policing requirement?
- 3.5 Only when these questions had been answered, could the Commissioner present his proposed budget, precept and council tax to the Police and Crime Panel.
- 3.6 Whilst the capital programme includes a number of lines which may be considered routine (for example, vehicle and computer replacement programmes) many larger items are one-off in nature, and require particular scrutiny.
- 3.7 Before embarking on any major project, there are a number of stages. For example, if a building is recognised as no longer being fit for purpose - perhaps due to its age or condition, a capital project could be undertaken to rectify the situation. In this case:
- Options are identified. For the proposed project in Llandudno, these included:
 - Retain the existing building and carry out only day-to-day maintenance
 - Retain the existing building, but carry out minor upgrade to reduce future day-to-day repairs
 - Retain the existing building, but bring it up to all current standards
 - Replace the building on the current site – this would meet all current standards
 - Replace the building elsewhere – again, this would meet all current standards
 - Once the options have been identified, business cases are prepared for each option, outlining the benefits and disbenefits of each option, the capital cost and the annualised revenue cost. All of these were brought to the attention of the Commissioner and the Chief Finance Officer in order that the Commissioner could make an informed decision.
 - The business cases are presented at Strategic Executive Board, and the Commissioner is able to ask questions of the Chief Constable and the Head of Facilities and Logistics Management before the Commissioner makes his decision. The Chief Constable's Head of Finance is also in attendance and can provide further information on the robustness of estimates and the comparability of the financial information between the various options.
- 3.8 Once the budgets have been set, it is necessary to ensure they are monitored effectively during the financial year. Much of the background work is carried out by the Chief Finance Officer, which includes:
- Watching out for virements. It is necessary to establish the reasons that these have been done. It can be helpful for a manager to move budgets around to help monitor overall expenditure. It is also helpful to do virements for one-off items (such as happened with mutual aid in 2014/15) so that the underlying position (i.e. excluding one-off items) can be assessed. However, the budget needs to be monitored against the original agreed budget, and virements can make

variances less visible. Therefore, the Chief Finance Officer monitors all changes to the agreed budget.

- Significant over and underspends. The Chief Finance Officer requests explanations for all variances over £100k, whether they occur on a single line, or as an aggregate within a group.
- Large changes to projections. If a projection moves by a significant amount, whether as a single line within the monitoring or as a group, the Chief Finance Officer requests explanations.
- Are the proposed savings being achieved? The Chief Finance Officer attends Business Committee on a regular basis, where budget savings are discussed, and Estates Rationalisation Programme Board, which focusses on the land and buildings of the Police and Crime Commissioner. This is a useful opportunity to assess whether the action taken by management to implement savings is having the expected impact on the budget monitoring position.

3.9 Capital and revenue monitoring reports are presented to Strategic Executive Board, where the Chief Finance Officer and the Commissioner are able to obtain from the Head of Finance and the Chief Constable any further clarification. It is important that this is scrutinised at SEB, as this enables a link to be made between financial performance and delivery of the Police and Crime Plan.

4. Other scrutiny

4.1 Financial matters are also subject to audit. The Chief Finance Officer is legally required to ensure that there is an adequate and effective internal audit function. In addition, the Wales Audit Office appoints the external auditor. Internal and external audit scrutinise both the Police and Crime Commissioner and the Chief Constable. Both internal and external audit report to the Joint Audit Committee.

4.2 The Joint Audit Committee meets four times each year (more often if required) and its purpose is *“...to provide those charged with governance independent assurance of the adequacy of the risk management framework, **the internal control environment and the integrity of the financial reporting and annual governance processes...**”* (Audit Committees: Practical Guidance for Local Authorities and Police – CIPFA 2013)

4.3 Internal audit can be provided either by employing auditors directly, or by using an outside body. Internal audit for the Commissioner and Chief Constable for north Wales is currently provided by Denbighshire County Council. Appendix 1 shows the plan for 2015/16, and appendix 2 shows the performance measures.

4.4 Internal audit reports rate areas as having a level of assurance as per the following table:

Assurance Rating (Based on areas reviewed)

| | |
|------------------|--|
| High Assurance | Risks and controls well managed |
| Medium Assurance | Risks identified but are containable at service level |
| Low Assurance | Risks identified that require meeting with Corporate Director / Divisional Commander |

| | | |
|--|--------------|---|
| | No Assurance | Significant risks identified that require case conference |
|--|--------------|---|

- 4.5 All but one audit completed in 2014/15 had assurance ratings of “high” or “medium”. The audit which had an assurance rating of “low” involved governance arrangements for partnerships, which we had already identified as an area that needed strengthening.
- 4.6 The Wales Audit Office carries out various reviews, including an audit of the Statements of Accounts, performance, and other work they feel necessary. Where internal audit has carried out a review of an area recently, Wales Audit Office can choose to place reliance on this work.
- 4.7 Wales Audit Office reports regularly to Joint Audit Committee and, in particular, produces an independent auditor’s report to the Commissioner and Chief Constable which is published within the statement of accounts. This includes an opinion on whether the accounts give a true and fair view of the financial position, and whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 4.8 Since the introduction of Police and Crime Commissioners, Wales Audit Office has issued an “unqualified opinion” on the financial statements (no significant errors in the final statements). The Police Authority which preceded the Police and Crime Commissioner also received an unqualified opinion for its financial statements throughout its life. Their value for money opinion for 2013/14 was: “I am satisfied as to the existence of the arrangements the Commissioner and Chief Constable had in place during 2013-14 to secure economy, efficiency and effectiveness in their use of resources.”

5. Implications

| | |
|------------------|---|
| Diversity | No separate diversity implications |
| Financial | <p>The S151 Officer (Chief Finance Officer) has a fiduciary duty the taxpayer to ensure that funds are used properly for the provision of services. The Police and Crime Commissioner has a duty to hold the Chief Constable to account.</p> <p>By the Chief Finance Officer undertaking work to scrutinise the budget setting and budget monitoring of the Chief Constable; by the Police and Crime Commissioner scrutinising the performance of the police force; and by having an adequate and effective internal audit function, it is possible to assess whether funds are being used to deliver the police and crime plan effectively. The work of the Wales Audit Office provides further assurance regarding financial arrangements.</p> <p>Adequate financial resources are vital to the delivery of the Police and Crime Plan and to fulfil our legal requirements.</p> |
| Legal | No separate legal implications |
| Risk | No separate risk implications |
| Police and Crime | No separate police and crime implications |

Appendix 1 – Annual Internal Audit Plan 2015/16

| Area of Audit Work | Reason for Review | Body | Provisional Timeframe | Plan Days |
|--|--|--------------|-----------------------|-----------|
| Financial Assurance | | Force | | 90 |
| Allowances Bank Reconciliation Budgetary Control Cashiers Construction Industry Tax Scheme Creditor Payments Data Interrogation and Analysis Debtors Income Overtime Payroll Pensions – officers Pensions – staff Purchasing Purchasing Cards Risk Management Strategic Planning Travel & Subsistence Treasury Management Value Added Tax | <p>The Force’s financial systems process the majority of the Force’s financial transactions, so providing assurance to the Chief Finance Officers that the key controls within these significant systems are operating effectively is a fundamental part of our work. The external auditor (Wales Audit Office) also relies significantly on our review in the performance of its work on the financial statements to provide it with assurance that the financial systems can be relied upon to produce materially correct outputs.</p> <p>We will cover all those areas, on a risk-basis, annually to provide:</p> <ul style="list-style-type: none"> • a significant contribution to the Annual Governance Statement • assurance for the Section 151 Officer • annual assurance for the external auditor <p>And is included due to its risk of:</p> <ul style="list-style-type: none"> • high financial impact • high customer impact • high corporate impact | | Quarters 1 & 3 | |
| Governance | | Joint | | 20 |
| S151 Officer Role | | | Quarter 2 | 10 |

| Area of Audit Work | Reason for Review | Body | Provisional Timeframe | Plan Days |
|---|---|-------|-----------------------|-----------|
| Overview of governance arrangements | | | Quarter 2 | 10 |
| Risk Management | | Joint | | 25 |
| Annual review of the arrangements for managing risk within the OPCC and the Force | <p>North Wales Police faces a wide range of strategic, operational and financial risks, from both internal and external factors, which may prevent it from achieving its objectives. Risk management is therefore important to the successful delivery of its services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. Audit reviews in this area will also provide assurance for the Annual Governance Statement.</p> | | Quarter 4 | 10 |
| Review of high corporate risks | <p>The purpose of the North Wales Police Corporate Risk Register is to identify the potential future events that may have a detrimental impact on its ability to deliver its Police & Crime Plan. The identified controls and actions are therefore crucial to the delivery of its priorities.</p> <p>Our audit reviews will provide independent assurance on the effectiveness of the internal control procedures and mechanisms in place to mitigate the identified high risks. We also provide independent challenge to ensure that the principles and requirements of managing risk are consistently adopted throughout the Force and OPCC.</p> | | Quarter 4 | 15 |
| IT Governance | | Force | | 20 |
| Areas to be agreed following discussion of current key risk areas with IT Manager | | | | |

| Area of Audit Work | Reason for Review | Body | Provisional Timeframe | Plan Days |
|--|-------------------|-------|-----------------------|------------|
| Contingency | | Joint | | 15 |
| Extra work that may be commissioned at any time by the Police & Crime Commissioner or the Chief Constable. | | | | |
| Management | | Joint | | 20 |
| Attendance at Joint Audit Committee Chairs Pre-Meeting Briefing Reporting to Chief Financial Officers General liaison, advice & guidance Strategic Planning Liaison with Wales Audit Office | | | Throughout the year | |
| Follow Up | | Joint | Throughout the year | 10 |
| Total Days | | | | 200 |

Appendix 2 – Internal Audit Performance Measures

To measure how well we deliver our essential audit work and a customer-focused service, we will use the following performance measures:

| Assurance Measures | Target |
|---|---|
| Complete the annual audit of Financial Assurance – an audit of the creditors and payroll transactions for the 12-month financial year period, using data interrogation and analysis tools | Final report issued in time to contribute to the Annual Audit Opinion |
| Complete the annual audit of Corporate Governance – a review of an area of the arrangements for achieving effective corporate governance | Final report issued in time to contribute to the Annual Audit Opinion |
| Complete the annual audit of Risk Management – an audit to ensure the arrangements for managing risk within the Force and the Office of the Police and Crime Commissioner, are effective. | Final Report issued in time to contribute to the Annual Audit Opinion |
| Form and write the Head of Internal Audit’s Annual Audit Opinion, which provides an opinion on the effectiveness of the arrangements for managing risk, governance and internal control. | Submitted in time to contribute to the Annual Governance Statement |

| Customer Service Standards | Target |
|---|--------|
| We will contact you at least two weeks in advance to arrange a suitable date for our visit. | 100% |
| We will discuss, agree and send you the Internal Audit Project Scoping Document before we commence work. | 100% |
| At the conclusion of our work, we will hold a closing meeting with all relevant people to discuss the outcome of our work, and then send you a draft report within 10 working days of that meeting. | 90% |
| Once we have agreed the draft report and any actions with you, we will send you the final audit report within five working days. | 90% |

