



Independent Audit Committee

Meeting: Tuesday, 27th July, 2021 at 9.30 am

Venue: Microsoft Teams

AGENDA

1. Election of a Chair

To elect a Chair for the year 2021/22
To be conducted by Karen James.

2. Election of a Vice Chair

To elect a Vice Chair for the year 2021/22.
To be conducted by the Chair.

3. Apologies for absence

To record apologies for absence received from members.

4. Declarations of Interest, Equality and Health and Safety Obligations

To receive declarations by members of (a) personal interest [including their nature] and (b) prejudicial interests and to remind members of their responsibility to consider equality and health and safety in all of their decisions.

OPEN AGENDA ITEMS

5. Open Minute Items [FOIA - Open]

To confirm the minutes of the open items from the previous Independent Audit Committee.
To be presented by the Chair.

6. Action Log [FOIA - Open]

To review the action log and receive updates for ongoing actions.

7. Open Items of Chair's Business [FOIA – Open]

To be presented by the Chair.

8. Internal Audit Quarterly Update and Highlights [FOIA - Open]

To provide an update on the progress of the Internal Audit Plan over the last quarter.
To be presented by Laura Wicks.

9. Internal Audit Opinion [FOIA - Open]

To provide the audit opinion for internal audit work for 2020/21.
To be presented by Laura Wicks.

10. External Audit Quarterly Report [FOIA - Open]

To present an update of external audit work for the last quarter.
To be presented by Alex Walling/Mark Bartlett.

11. External Audit Plan and Timetable Update [FOIA - Open]

To present the external audit plan and timetable update for 2020/21.
To be presented by Alex Walling.

12. PSAA Consultation Update [FOIA - Open]

To provide an update on the consultation and procurement process by the PSAA for local auditor appointments from April 2023.
To be presented by Karen James.

13. Financial Reports for Dorset [FOIA - Open]

- a) PCC's Group Narrative Report
- b) Chief Constable's Narrative Report
- c) Going Concern Report

14. Financial Reports for Devon and Cornwall [FOIA - Open]

- a) PCC's Group Narrative Report
- b) Chief Constable's Narrative Report
- c) Going Concern Report

15. Treasury Management Outturn 2020/21 [FOIA - Open]

- a) Devon and Cornwall
- b) Dorset

To present the final outturn for treasury management in the financial year.

To be presented by Nicola Allen (a) and Julie Strange (b).

16. Annual Report on the Total Cost of Insurance [FOIA - Open]

To present the annual report of the total cost of insurance.
To be presented by Karen James.

17. Update on Fraud and Corruption Monitoring and Investigations [FOIA - Open]

To provide an update on Fraud and Corruption monitoring arrangements and number of Fraud and Corruption investigations that have taken place since the last committee. To be presented by Karen James.

18. HMICFRS Value for Money Profiles [FOIA - Open]

To be presented by Neal Butterworth.

19. Draft Code of Corporate Governance Dorset [FOIA Open]

- a) Part 3A - Schedule of Roles and Responsibilities
- b) Part 3B - Scheme of Delegation and Consent
- c) Part 3E - Committee Governance

To be presented by Julie Strange.

20. Annual Assurance Mapping Report [FOIA - Open]

To present the annual assurance mapping report.
To be presented by Jo George.

21. Action Audit Update [FOIA - Open]

To present the Action Audit update.
To be presented by Karen James.

~~22. Update on the Pulse Survey Report Findings [FOIA - Open]~~ Deferred

~~To present the high level findings from the 2021 Pulse Survey.
To be presented by Sgt David Green.~~

CLOSED AGENDA ITEMS

23. Introduction by the Dorset PCC [FOIA - Closed s.22]]

An introduction by David Sidwick, the new Dorset Police and Crime Commissioner.

24. Closed Minutes Items [FOIA - Closed (various)]

To confirm the minutes of the closed items from the previous Independent Audit Committee meeting.

25. Action Log [FOIA - Closed (various)]

To review the action log and receive updates for ongoing actions.

26. Closed Items of Chair's Business [FOIA - Closed (various)]

To be presented by the Chair.

27. Audit Action Log no. 200 and IT security raised by IAC [FOIA - Closed (various)]

To present a verbal update on the Audit Action Log no. 200 and security raise by IAC.
To be presented by Mike Stamp.

28. Update on the G7 Summit [FOIA - Closed (various)]

A verbal update by Sandra Goscomb.

29. Open Invitation to Chief Constables and PCCs [FOIA - Closed (various)]

To raise any matters they wish to bring to the attention of the Independent Audit Committee.

30. Summary update to the Chief Constables and PCCs [FOIA - Closed s.22]

To record from the Chair the update to be provided to the Chief Constables and PCCs.

Attendance

Helen Donnellan (Chair)
Tom Grainger (Vice-Chair)

Chair
Vice Chair

Not Protectively Marked
FOIA – Open

Jo Norton	Committee Member
Gordon Mattocks	Committee Member
David Bowles	Committee Member
Sandy Goscomb	Director of Finance and Resources (Devon and Cornwall Police Force)
Alison Hernandez	Police and Crime Commissioner Devon and Cornwall
Shaun Sawyer	Chief Constable Devon and Cornwall Police
David Sidwick	Police and Crime Commissioner Dorset
Nicola Allen	Treasurer (Office of the Police and Crime Commissioner, Devon and Cornwall)
Neal Butterworth	Head of Finance (Devon and Cornwall and Dorset Police Force)
Julie Strange	Treasurer (Office of the Police and Crime Commissioner, Dorset)
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Jo George	Senior Audit Manager
Alex Walling	Associate Director (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
Laura Wicks	Assistant Director (South West Audit Partnership)
Simon Bullock	Chief Executive Officer (Office of the Police and Crime Commissioner, Dorset)
David Green	Alliance and Wellbeing Team
Mike Stamp	Director of Legal Services

Apologies

Steven Mackenzie	Interim Assistant Chief Officer (Dorset Police)
James Vaughan	Chief Constable Dorset Police
Frances Hughes	OPCC Chief Executive

The Public Sector Equality Duty (PSED) as set out in **section 149 of the Equality Act 2010** requires public bodies to have **due regard** to the need to:

1. Eliminate unlawful discrimination, harassment, victimisation and any other prohibited conduct prohibited by the Act; and
2. Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
3. Foster good relations between people who share a protected characteristic and people who do not share it.

Protected Characteristics are age; disability; gender reassignment; pregnancy and maternity; race (including ethnic or national origins, colour or nationality; religion or belief (including lack of belief); sex and sexual orientation.

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FOIA – Open

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Independent Audit Committee

Thursday 29th April 2021 at 09:30

Via Microsoft Teams

Attendance

Helen Donnellan (Chair)	Chair
Tom Grainger (Vice-Chair)	Vice Chair
Gordon Mattocks	Committee Member
Jo Norton	Committee Member
Nicola Allen	Treasurer (Office of the Police and Crime Commissioner, Devon and Cornwall)
Sandy Goscomb	Director of Finance and Resources (Devon and Cornwall Police Force)
Steven Mackenzie	Interim Assistant Chief Officer (Dorset Police)
Neal Butterworth	Head of Finance (Devon and Cornwall and Dorset Police Force)
Julie Strange	Treasurer (Office of the Police and Crime Commissioner, Dorset)
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Jo George	Senior Audit Manager
Alex Walling	Associate Director (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
Laura Wicks	Assistant Director (South West Audit Partnership)
David Hill	Chief Executive South West Audit Partnership
David Green	Alliance and Wellbeing Team

Apologies

David Bowles	Committee Member
Alison Hernandez	Police and Crime Commissioner Devon and Cornwall
Martyn Underhill	Police and Crime Commissioner Dorset
James Vaughan	Chief Constable Dorset Police

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Shaun Sawyer

Frances Hughes
Simon Bullock

Chief Constable Devon and Cornwall
Police

OPCC Chief Executive

Chief Executive Officer (Office of the Police
and Crime Commissioner, Dorset)

01/21/01 Election of a Chair

TG announced the Committee were not ready to hold an annual election. The Committee agreed to nominate an interim Chair and Vice Chair and defer the annual election to the next meeting. TG proposed HD continue as Chair until the next meeting on 26 July 2021. JN seconded the proposal.

01/21/02 Election of a Vice Chair

Deferred to the next meeting, as above. HD proposed TG continue as Vice Chair until the next meeting on 26 July 2021. JN seconded the proposal.

01/21/03 Apologies for absence

As recorded above.

01/21/04 Declarations of Interest, Equality and Health and Safety Obligations

No new declarations were made. KJ restated an interest as a Director of South West Audit Partnership (SWAP). No Equality and Health and Safety Obligations were raised.

01/21/05 Open Minute Items [FOIA – Open]

The draft open minutes from the meeting of the Independent Audit Committee (IAC) held on 26 January 2021 were agreed as a true and accurate record.

01/21/06 Open Items of Chair's Business [FOIA – Open]

HD pointed out that items of Chair's Business reflect the views of all Committee members. She introduced JN as a newly elected and active member of the Committee, thanked Helen Morgan for managing the meetings and minutes, and JG for her work on Appendix E of the IAC annual report. HD also informed that all Committee members will attend a CIPFA virtual training seminar on 25 May. This will form part of the 2021/22 training and a revised training plan is being produced. HD advised that only one positive response has been received from Regional Committees and she will follow this up. HD raised IT and functionality issues affecting the issued laptops. Access to her police account has been disabled four times recently and is difficult to reinstate. This affects work on the 2020/21 annual report and the publishing date is revised to October 2021. The Committee seeks assurance that the full cost of insurance will be provided now that the first year of the regional contract has passed,

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The IAC Terms of Reference (TOR) review and Operating Principles review dates need to be realigned. NA asked for clarity on the previous discussion about a change in IAC quoracy in the Operating Principles to three members, as it is not recorded in the minutes nor been through the governance process. NA proposed that providing the IAC agrees, the TOR are changed and published on the websites. The Committee agreed.

ACTION: KJ to update the TOR and arrange for this to be published on the websites.

01/21/07 Internal Audit Quarterly Update and Highlights [FOIA – Open]

IAC asked for an update on replacement audits and KJ advised this is covered in the SWAP audit paper. LAW presented an update on progress of the Internal Audit Plan in the last quarter. GM asked that SWAP's annual review of closed audit actions is reported to IAC, to include the total number of recommendations, number reviewed and any concerns.

ACTION: LAW to add more detail into the annual review and ensure this is included in SWAP's paper for the July 2021 IAC meeting.

LAW clarified that 'fleet telematics' (page 12) of the report refers to data gathered on how fleet cars are used and operated when being driven.

IAC sought reasons for the deferral of two audits. LAW explained that for the Making Tax Digital audit, external consultations on a number of controls need to be completed before the audit can start. Regarding the ICT Strategy Audit, the Chief Technology Officer is relatively new in post and is carrying out a holistic review before completing the revised ICT strategy. Once this is complete the SWAP audit will start.

ACTION: LAW to include the annual review of Audit recommendations in their annual report to the IAC.

IAC queried the significant amount of fieldwork shown in Q4. LAW explained that progress has been made, with only two audits now at the fieldwork stage. Recent staff sickness hindered progress, but work is has now returned to schedule.

Appendix B - Summary of Limited Opinions – Open

The Chair changed the order of the agenda to bring forward the open items from 17a. The closed items remained as item 17a.

LAW presented the findings of the Accounts Payable audit report and HD asked if the recommendations will be complete by the end of December 2021. NB advised there have been some recurring issues, with an action plan now reviewing processes to address and resolve those issues. Issues relating to Purchase Orders have been resolved and an additional member of staff has been appointed to deal with the volume of work involved. NB explained that IT issues relating to the schedule of the budget

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FOIA – Open**

holder are being addressed as a priority. NB confirmed 31 December 2021 is a realistic deadline. TG asked for reassurance on the number of non-Purchase Order with 45 in Dorset and 35 in D&C. NB agreed this is an area of some concern with tightening up between orders and invoices submitted by Estates, IT and Fleet. NB advised that work to achieve this is progressing well and he does not consider this a significant risk.

LAW presented the information Sharing Agreements (interim) audit report. HD enquired if the intention is to take the interim review to the June 2021 Joint Information Board. JG confirmed that she is unaware of any change to this.

01/21/08 Internal Audit Plan and Charter [FOIA - Open]

LAW drew attention to page 21, where changes are intended to improve balance and cross referencing. The plan aligns with the Force Management Statement (FMS) forming a tool to assist the Forces when the FMS is being built. SM confirmed that assurance is given to the four Corporate Soles so that the PCCs are able to challenge the Forces. It is for the four Corporation Soles to satisfy themselves they receive assurance regarding the FMS, through other operational boards. SG explained that the FMS is required by HMIC, however HMIC requested that FMS were not published in 2020. This year's FMS is to be submitted by the end of May. IAC asked if the FMS can be shared with Committee members. SG will check for any operational sensitivities, but other than that there are no reservations about sharing the FMS after it has been agreed.

ACTION: SG to check for any operational sensitivities within the FMS and otherwise share with IAC after it has been agreed.

IAC questioned Data Quality on the list of possible audits to be scoped, whether this is operational or personnel data, and how integrity is assured for accuracy, access, and availability to the correct people. LAW stated that the Data Quality audit is on the list of possible audits as this is being audited by other Forces. The annual audit plan is risk assessed during the year and should this audit be considered a significant risk it will be included in the audit plan with a scoping discussion at that time. The Committee want to ensure that Data Quality remains on the list of possible audits.

01/21/09 Joint Annual Audit Letters [FOIA - Open]

AW presented key findings from 2019/20 based on audit findings reports. It was noted that the Annual Audit Plans for both Forces were not presented to IAC, although shared with those charged with governance. With regard to the Annual Audit Letters, IAC queried the time difference between reports for each Force. AW explained that reports are required within a month of completing the annual audit opinion, leading to the time difference between completion for each Force.

IAC queried why GT applied a higher level of materiality for Dorset and reduced the level for Devon & Cornwall. AW clarified that at the time of audit plan it was believed gross expenditure in Devon & Cornwall exceeded £500 million and was less than this for Dorset, which triggers different percentage rates.

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IAC asked for clarification about the significant increase in external audit fees. AW informed that audit fees have increased for several reasons and disagreed that it is always more efficient to work remotely. Microsoft Teams virtual meetings need to be scheduled which takes longer than spontaneous onsite meetings. Improved performance, highlighted in the Financial Performance Council (FRC)'s 2020 Audit Quality Inspection report refers to quality reporting particularly regarding property, plant and PPE and pensions. GT have reflected this in their work and these additional areas have been added since the PSAA originally set the external audit fees.

Devon & Cornwall annual audit letter, page 15: IAC pointed out that 'delays in receiving accounts' does not apply and asked for these words to be removed. AW confirmed that there were no delays in obtaining the accounts and the audit. GT had worked hard to produce the audit. AW apologised for not having removed the words before the letter was finalised and it is not possible to make an amendment at this stage.

SG/SM informed that D&C and Dorset have raised the increase in audit fees to the PSAA. No response has yet been received about whether increased fees are payable or not, however it is likely that the PSAA will adjudicate in favour of GT. SG stated that the issue is that adequate assurance on staffing levels has not been given and this has been raised to the PSAA.

LH clarified the difference in membership data for the Police Officer Scheme. The years quoted in the joint annual letters are correct and match the 2019/20 accounts. Dorset's valuation is out by one year and is being addressed in the 2020/21 accounts. This issue was identified during the year-end work last year. To bring the accounting and actuarial valuations in line it was agreed to roll forward the accounting valuation in 2019/20, rather than complete a full accounting valuation exercise which is what would normally take place. Assurance was given that the roll forward approach will not introduce significant distortion in the valuation figures. In the 2020/21 accounts all will be aligned as both valuations will use the same membership data. There are two types of valuation: a full accounting valuation by Barnett Waddingham and an actuarial valuation by the Government Actuary's Department. Both valuations are carried out every four years. IAC commented that it would be valuable for both Forces to use the same valuation data.

TG raised the monitoring of savings within the Value for Money conclusion. SM said the unallocated savings target referred to in the audit management letter represents a relatively small proportion of the annual budget each year. Budget monitoring involves both the CC and the PCC through the Resource Control Board and, while the budget for the savings target is not specifically monitored, it forms part of the overall budget monitoring and the fact that the out-turn for the Force is broadly in line with the total budget means that savings have been achieved. The required savings are generally achieved through the procurement process for the various contracts for the supply of goods and services. SG advised this is discussed each year with GT and Devon & Cornwall savings are monitored. SG advised that D&C monitor high profile budgets and others form part of budget monitoring plan. That section of the report is not very clear and has been challenged every year. IAC asked AW if this will be resolved and not be an issue for next year. AW explained that as part of Value for Money (VfM) GT will look at sustainability and can explore the monitoring process with CFOs in more detail for the 2020/21 audit review.

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01/21/10 External Audit Quarterly Report [FOIA – Open]

AW presented an update on the external audit over the last quarter and looking forward to the next quarter. TG supported the views expressed nationally as valuable feedback but felt it would be valuable for distinction between agency and Government sources and recommended some caution needs to be exercised in updates.

GM raised concerns about the valuation of buildings where measurements of some premises were found to be incorrect. AW informed further checks were carried out, but this was the only error identified and not related to a fault on the database. LH explained that valuers received two measurements as some figures were picked up incorrectly, however the details had the incorrect measurements. The technical drawings and measurements were reviewed and corrected. The valuers have been made aware and additional checks introduced to prevent any future recurrence.

01/21/11 External Audit Plan and Timetable Update [FOIA – Open]

AW stated that late opinions for 2019/20 had a huge impact on the audit plan and therefore this paper is deferred. However, audit plans were sent to CFOs for comment on April 28. Audits were scheduled to be published on 30 September however this is not possible, and GT will discuss a revised date with the CFOs. HD appreciated the open and candid response from GT and welcomed a deliverable definition of dates, as the drawn-out process in previous years took a great toll on those involved. JS has discussed a timetable with AW and MB to assist both GT and the Force to alleviate the pressure experienced last year and will bring the reports to the next meeting.

HD asked when the audit will commence for D&C. AW anticipates 15 June but advised this cannot commence until the NHS audit has been completed. SG advised that the timetable was recently discussed with GT and intervals scheduled to allow the teams finance and accounts to sustain other work, which will improve staff welfare.

01/21/12 Fraud and Corruption [FOIA – Open]

KJ provided an update on the number of Fraud and Corruption investigations since the IAC meeting on 26 January 2021. She presented the Fraud and Corruption policy and IAC asked if the policy needs to refer to the 2006 Fraud Act. KJ advised that a generic template was used, but there is no reason why the Fraud Act cannot be added.

ACTION: KJ to add the 2006 Fraud Act to the Fraud and Corruption policy.

KJ confirmed vetting and security checks are always completed prior to appointments being made. KJ stated there is no single specific awareness training for fraud and corruption however the Professional Standards Department (PSD) delivery a presentation in all induction training courses. There is also focused training attached to specific roles such as the exchequer function, due to the nature of their role and the opportunity for fraud and corruption to be perpetrated. In addition, PSD provide a range of intranet updates, and signposting to policies and procedures as well as support offered by the Force.

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KJ advised the effectiveness of the policy is measured through routes which include the National Fraud Initiative, irregularities found during audits, the number of professional standards investigations and disciplinary actions taken.

IAC asked if the policy applies to contractors as part of the initial contract is not overtly addressed in these documents. KJ advised that contractors have access to report any suspected fraud to Professional Standards Department (PSD) or Legal Services Department. JN asked how such reports would be picked up and dealt with to avoid reputational risk. KJ answered that when suspicions arise these would be alerted to PSD or follow the criminal procedure. JN asked if the contracts include fraud and SG assured IAC that the standard terms and conditions for contractors cover such matters, including bribery and money laundering. Should anything suspicious be found then a contract would not progress. Breaches of terms and conditions can also lead to termination of a contract.

01/21/13 PSAA Updates [FOIA – Open]

KJ provided an update on the annual quality assessment exercise by the PSAA and updated Audit Fees for 2021/22. IAC raised concerns about the increase in audit fees. TG stated the PSAA fees are higher than the PSAA base rate and asked the expectations for this year's fees. AW stated that fee adjustments for Dorset and D&C are comparable with other Forces. The draft audit plans set out proposed fees for 2020/21 are broadly akin to last year. However, fees have risen for Value for Money (VfM) work, mainly due to a change in code and expectations. AW advised that the report sets out the quality of performance and significant work at Grant Thornton has been done to ensure that quality is at the top of the company's agenda. This has contributed to the increased fees. Underpinning improvements is a new Director for Audit Quality and the Improvement Plan. AW assured IAC that there is a dedicated quality team and mandatory training, which is monitored and reported to the Financial Reporting Council (FRC).

01/21/14 HMICFRS Value for Money Profiles [FOIA – Open]

NB advised this item has been deferred to the IAC meeting on 26 July 2021 due to delays and discrepancies in figures that need to be addressed.

At 11:30 am the open section of the meeting concluded

The Committee reconvened at 11:35 am

01/21/15 Closed Minute Items [FOIA – Closed (various)]

01/21/16 Action Log [FOIA – Closed (various)]

01/21/17 Items of Chair's Business [FOIA – Closed (various)]

17a Summary of Limited Assurance Opinions – Appendix B

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- 01/21/18 Reduction in Audit Days 2022/23 [FOIA – Closed s.22]**
- 01/21/19 Audit Action Update [FOIA – Closed s.22]**
- 01/21/20 Draft Code of Corporate Governance Dorset [FOIA – Closed (various)]**
- 01/21/21 Draft Annual Governance Statement [FOIA – Closed s.22]**
- 01/21/22 Resourcing Major Operations Update [FOIA -Closed s.22]**
- 01/21/23 Regional Governance [FOIA – Closed s.23]**
- 01/21/24 Staff Wellbeing and Sustainability [FOIA – Closed s.22]**
- 01/21/25 Verbal Update by Chief Constable (Open Invitation) - Devon & Cornwall [FOIA - Closed s.23]**
- 01/21/26 Summary update to the Chief Constables and PCCs [FOIA - Closed s.22]**

There being no other business the meeting closed at 13:15

The next full IAC meeting is scheduled for 27 July 2021 at 09:30 via Microsoft Teams.



Devon & Cornwall Police and The Office of the Police & Crime Commissioner (OPCC)

Dorset Police and The Office of the Police & Crime Commissioner (OPCC)

Report of Internal Audit Activity - July 2021

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

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Unrestricted

Executive Summary

The Assistant Director is required to provide an annual opinion to support the Annual Governance Statement.

As part of our plan progress reports, we will provide an ongoing opinion to support the end of year annual opinion.

We will also provide details of any significant risks that we have identified in our work, along with a progress update in relation to outstanding Priority 1 & 2 recommendations.

Audit Opinion and Summary of Significant Risks

Progress of 2020/21 Internal Audit Plan

Progress with the 2020/21 audit plan is outlined in the Annual Reporting Paper that is also being presented at this Committee. At the time of reporting, 100% all of the audits from the 2020/21 audit plan have been reported upon, including the work around Regional Vetting, currently at Draft Report.

In order to avoid duplication of coverage, we have detailed the summary of audit opinions, performance data and Progress Against the 2020/21 Plan schedule within the Annual Opinion report only.

Progress of 2021/22 Internal Audit Plan

At the time of reporting, progress is being made with the 2021/22 audit plan as outlined in Appendix A with a further verbal update to be provided to the Committee in the meeting.

A number of changes have been made to the 2021/22 Plan to date, particularly around scheduling, given the commitments of the Forces and OPCCs with Operation Trelawny. We have outlined the changes to date on Page 3. As per last year, we have detailed our performance below on an overall and quarterly profiled basis:

Overall Performance with 2021/22 Plan YTD

Performance Measure	Performance
Completed	3%
Work at Draft Report Stage	3%
Fieldwork in Progress	13%
Scoped – Fieldwork Ready to Start	0%
Scoping	21%
Not Yet Started	60%

Profiled Performance of Audits (6) in Quarter

Performance Measure	Performance
Completed	17%
Work at Draft Report Stage	17%
Fieldwork in Progress	66%
Scoped – Fieldwork Ready to Start	0%
Scoping	0%
Not Yet Started	0%

Further detail on status of each audit is provided in Appendix A.

Audit Opinion:

Due to the limited work completed on the 2021/22 plan to date, we are not currently in a position to offer an indicative opinion for the year as yet. The Head of Internal Audit Opinion for 2020/21 is presented as a separate paper to the IAC.

Executive Summary

Significant Risks:

The significant risk identified within 2020/21 work is outlined in the Annual Opinion and Report 2020/21 and relates to the DCP Telephony review.

No significant risks have been identified at this stage relating to 2021/22 audit work.

Where audit reviews have resulted in a 'Limited' assurance rating since the meeting of the IAC in April 2021, a summary of the key findings from these reviews have been captured within **Appendix B**. Since our last progress report, one review has been finalised that received a 'Limited' assurance opinion and includes the significant risk referenced above:

- DCP Telephony (2020/21).

Outstanding Recommendations

Outstanding recommendations are now presented by the Alliance Audit Team. SWAP will continue to review a sample of priority one and two recommendations each year to verify implementation. Any concerns around these will be flagged to the Committee. Details of the SWAP verification of recommendations marked as Complete by the Alliance during 2020/21 is contained within the Annual Opinion report.

Regional Audit Work

At the time of writing, we are progressing with the fieldwork on the Digital Forensics audit. We will likely be using remaining allocation from this year to be conducting an audit of Pensions Administration concerning the two suppliers for the SW Forces. An Audit Brief is being prepared for agreement from the regional Directors of Finance.

Internal Audit Plan Progress 2020/21

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.

Approved Changes to the Audit Plan

The outturn for the Internal Audit Plan for 2020/21 has been reported within the Annual Opinion report also presented to this Committee.

The Internal Audit Plan for 2021/22 is reported under **Appendix A** and is subject to change to meet the requirements and emerging risks of the organisations.

Since the start of this financial year, the following changes have been made to the Audit Plan:

The following timing amendments have been made to the 2021/22 Internal Audit Plan:

- DP&DCP: Partnership Governance – moved to **Q2** from Q1 due to operational pressures regarding Operation Trelawny);
- DP: Operational Contact Management – moved to **Q3** from Q1 due to completion of an internal review in Q1, the outputs of which will drive the audit; and
- DP&DCP: Accelerated Increments - moved to **Q1** from Q2 to substitute one of the above pieces of work.

The areas of focus for the ICT Audit Allowance (37 days) have been agreed with the Chief Finance Officers as follows:

- Disaster Recovery – Q2 – 15 days; and
- Boundary Defences – Q3 – 15 days.

The remaining seven days are yet to be determined and may support a follow up of previous audit work or form a contribution to another audit. It has been provisionally agreed that a follow up of the Cyber Security review from 2020/21 will take place early next financial year.

Due to the commitments of staff and officers with Operation Trelawny, we were unable to progress the Complaints Handling audit early in Q1 and needed to wait for the data to be provided to select a sample. This timing was agreed with the Chief Finance Officers. A verbal update will be provided on progress at the IAC meeting.

Internal Audit Plan Progress 2021/22

Appendix A

Audit Type	Audit Area	Audit Partner	Audit Days	Period	Status	Opinion	No of Recs	1 = Major	↔	3 = Minor
								Recommendation		
								1	2	3
In Progress										
Force Wellbeing	H&S of Front-Line Officers and Staff - TRiM	DP & DCP	15	Q1	Complete	Reasonable	5	-	4	1
Finance	Accelerated Increments	DP & DCP	10	Q1	Draft Report	TBC	-	-	-	-
Deferred from 20/21 Responding to the Public	Complaints Handling	DP & DCP	12	Q1	Fieldwork	TBC	-	-	-	-
Protecting Vulnerable People	Clinical Governance – Prescription Drugs	DP & DCP	20	Q1	Fieldwork	TBC	-	-	-	-
Force Functions	Seized Property Brought Back into Force Use	DP & DCP	15	Q1	Fieldwork	TBC	-	-	-	-
Force Wellbeing Finance	Approach to Overpayments	DP & DCP	10	Q1	Fieldwork	TBC	-	-	-	-
Collaborations	Partnership Governance	DP & DCP	15	Q2	Scoping	-	-	-	-	-
OPCC Specific Activity Finance	Ministry of Justice Victims Services Grant	OPCCs	15	Q2	Scoping	-	-	-	-	-
Protecting Vulnerable People OPCC Specific Activity	Victim Support Re-Commissioning	D&C OPCC	10	Q2	Scoping	-	-	-	-	-
Force Functions	Learning & Development - Mandatory Training	DP & DCP	15	Q2	Scoping	-	-	-	-	-
Governance, Fraud & Risk Management	Risk Management	DP & DCP	15	Q2	Scoping	-	-	-	-	-
Force Functions Knowledge Management & ICT	Social Media use	DP & DCP	10	Q2	Scoping	-	-	-	-	-
	Not Yet Started									
Knowledge Management & ICT	Implementation of NICHE	DP & DCP	15	Q2	Not Yet Started	-	-	-	-	-

Audit Type	Audit Area	Audit Partner	Audit Days	Period	Status	Opinion	No of Recs	1 = Major	↔	3 = Minor
								Recommendation		
								1	2	3
Force Wellbeing Finance	Operational Overtime Review	DP & DCP	15	Q2	Not Yet Started	-	-	-	-	-
Knowledge Management & ICT	Disaster Recovery/Back Ups	DP & DCP	15	Q2	Not Yet Started	-	-	-	-	-
Responding to the Public	Operational Contact Management	Dorset Police	13	Q3	Not Yet Started	-	-	-	-	-
Force Functions	Fire Safety Equipment Testing	D&C OPCC	10	Q3	Not Yet Started	-	-	-	-	-
Finance	POCA Follow Up Audit	DP & DCP	12	Q3	Not Yet Started	-	-	-	-	-
Force Functions Finance	Abnormal load management	DP & DCP	15	Q3	Not Yet Started	-	-	-	-	-
OPCC Specific Activity Responding to the Public (Deferred from 20/21)	Complaints Review Process	OPCCs	8	Q3	Not Yet Started	-	-	-	-	-
Deferred from 2020/21 Finance	Making Tax Digital	DP & DCP	13	Q3	Not Yet Started	-	-	-	-	-
Knowledge Management & ICT	Boundary Defences	DP & DCP	15	Q3	Not Yet Started	-	-	-	-	-
Finance	Key Financial Control Reviews To include aspects of: Accounts Receivable Accounts Payable Payroll Main Accounting Budget Monitoring Treasury Management	DP & DCP	63	Q3	Not Yet Started	-	-	-	-	-
Force Functions	Ammunition and Armoury Management	DP & DCP	15	Q4	Not Yet Started	-	-	-	-	-

Internal Audit Plan Progress 2021/22

Appendix A

Force Functions	D&C Fire Safety Management	D&C OPCC	10	Q4	Not Yet Started	-	-	-	-	-
Force Functions	Follow Up Audit on Vehicle Safety Checks	DP & DCP	10	Q4	Not Yet Started	-	-	-	-	-
Finance	Follow Up Audit of Accounts Payable in Estates and Fleet	DP & DCP	5	Q4	Not Yet Started	-	-	-	-	-
Governance, Fraud & Risk Management	Financial Governance	DP & DCP	20	Q4	Not Yet Started	-	-	-	-	-
Force Functions	Annual Leave Central Record	Dorset Police & OPCC	13	Q4	Not Yet Started	-	-	-	-	-
Knowledge Management & ICT	ICT Remaining Allowance – Scope TBC	DP & DCP	7	Q4	In Progress	-	-	-	-	-
Governance, Fraud & Risk Mgt.	Regional Audit Allocation	DP & DCP	10	Q1-4	In Progress /Scoping	-	-	-	-	-



Devon & Cornwall Police and The Office of the Police & Crime Commissioner (OPCC)

Dorset Police and The Office of the Police & Crime Commissioner (OPCC)

Internal Audit Annual Opinion and Report 2020-21

Contents

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Summary of Work Plan

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Summary

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes; and
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Summary

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

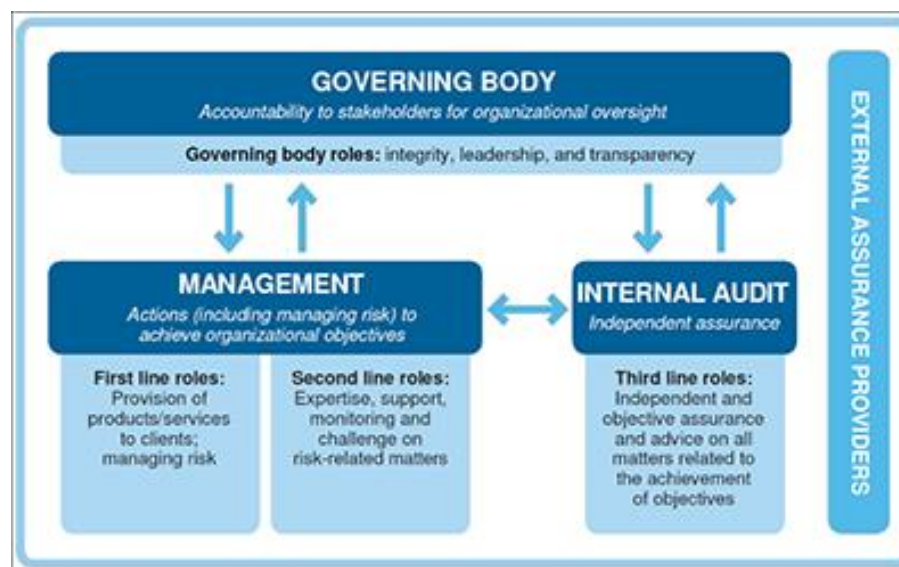
- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

Scope

The Internal Audit service for Dorset Police & OPCC and Devon and Cornwall Police & OPCC is provided by SWAP Internal Audit Services. The internal audit work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee (see Appendix). This report summarises the activity of the internal audit function for the 2020/21 year against the Internal Audit Plan (as approved by the Joint Audit Committee). Our annual opinion should inform the Review of Effectiveness within the AGS.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



Summary of Audit Work

The Annual Opinion is made based on the following sources of information:

- Completed audits (during the year 2020/21) which evaluate risk exposures relating to the organisation's governance, information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

Annual Opinion

The Head of Internal Audit is required, under the Public Sector Internal Audit Standards (PSIAS) and linked in with the Chartered Institute of Internal Audit IPPF Standard 2450, to provide an annual opinion on the overall adequacy and effectiveness of the of the organisations' framework of governance, risk management and internal control.

Our internal audit annual opinion is a balanced reflection rather than a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

The majority of the assurance opinions resulting from Internal Audit work completed in 2020/21 were Reasonable, and giving consideration to the adequacy and effectiveness of the wider governance and risk management arrangements at the Force and OPCC, overall I am pleased to be able to offer a **Reasonable** Annual Opinion. There are currently no significant issues that Internal Audit is aware of which would require inclusion within the Annual Governance Statement. Further detail on the constituent areas informing our Opinion is outlined under subsequent headings below.

It is important to note that Internal Audit has not reviewed all risks and assurances relating to Dorset Police & OPCC and Devon and Cornwall Police & OPCC and therefore cannot provide absolute assurance on the internal control environment. Senior Management are ultimately responsible for ensuring an effective system of internal control.

COVID-19

The COVID-19 pandemic has continued to impact organisations on an unprecedented, global level, for well over a year at the time of writing. When composing the previous Annual Opinion we noted the inevitable impact on the management on Force and OPCC operations towards the end of the 2019/20 financial year. The last year brought about significant challenges and resulted in changes to working practices, including extended periods of home-schooling for parents and carers and a move to homeworking for the vast majority of employees. The extended nature of restrictions and requirements to work from home as far as possible, resulted in changes to processes and controls across the organisations. Throughout our audits, we have ensured that these changes, particularly those to financial controls, were reviewed as part of our work. As we enter a period of restrictions easing, there will inevitably be associated challenges, including the health and safety of those returning to the office more regularly and wellbeing concerns. Lessons learnt from the pandemic will no doubt be a key feature of audit work going forward. The Internal Audit Plan itself was subject to changes in year with the inclusion of a number of pieces of Advisory work, however these were not focussed on COVID-19 itself. No SWAP staff were redeployed to Dorset Police or OPCC, and/or Devon and Cornwall Police or OPCC. Regular meetings took place between the Senior Audit Manager and the Chief Finance Officers for Dorset Police and OPCC and Devon & Cornwall Police and OPCC and SWAP to keep informed of any changes/seek advice as necessary.

Summary of Audit Work

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

We have set out how the audits from the 2020/21 Internal Audit Plan provides coverage of the key components set out in the Force Management Statement (FMS), against which we have aligned our audit universe.

We have set out the coverage against the FMS areas where audits provided coverage/assurance over the course of the year. For 2020/21, we did not afford coverage to the following areas and the Force/OPCC should seek alternative assurance as a minimum:

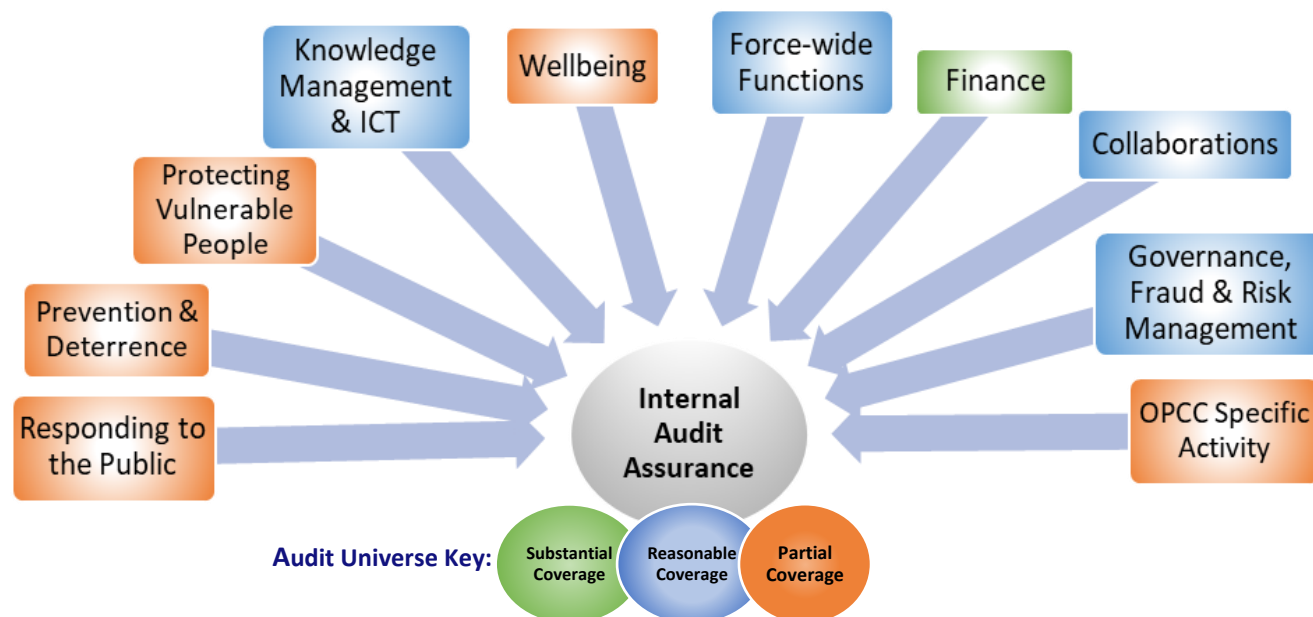
- Major Events
- Managing Offenders
- Investigations
- Managing Serious and Organised Crime

Opinion on Internal Control

The majority of our Internal Audit work in 2020/21 presents a broadly positive picture in terms of assurance levels provided. In six of the audits completed, we were only able to provide Limited assurance, however the majority of our audits provided a Reasonable (13) or Substantial (2) assurance opinion, signifying that we found there to be a generally sound system of governance, risk management and control in place. Whilst we consider the breadth of our audit plan adequate to inform an overall opinion, coverage of some more operational areas of the Force's work has been limited and our opinion should be considered in this context. A summary of the assurance opinions awarded during the course of the year, together with details of the number of recommendations raised, is included in Appendix A.

Internal Audit Coverage

The diagram below provides an assessment of the *depth of our audit coverage* over 443 days against the sections of the Force Management Statement as a proxy for the audit universe:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

Summary of Audit Work

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.

Significant Corporate Risks

During the course of the year, we identified one significant/ 'High' corporate risk for Devon & Cornwall Police only in our reports as outlined below:

Review/Risks

Telephony

The Force operates 999/101 call handing on platforms and systems that are out of support. This may result in a wider loss of disruption between back office and 999/101 telephony which will impact future operational activity.

A number of recommendations were raised as a result of this work, all of which were accepted by Management and prioritised for action.

Actions

High priority recommendations/actions to address weaknesses identified were raised accordingly with Management to address the weaknesses identified and will be subject to independent follow up and verification when due.

Over the year, we have found the organisation to be generally supportive of Internal Audit findings and responsive to the actions raised. We have noted an improved turnaround times in finalising reports due to more prompt responses from Management to the Actions raised in comparison to previous years, which is likely in part to be due to our more streamlined approach to audit reporting.

During the 2020/21 financial year, the approach by SWAP to the verification of Actions implemented changed. From July 2020, it was agreed that updates to Actions would be completed by the Alliance Audit, Strategic Risk and Insurance Team, with SWAP completing a dip sample verification exercise each quarter. A schedule of outstanding Priority 1 and 2 Actions is presented quarterly to the IAC by the Alliance Audit, Strategic Risk and Insurance Team. Any exceptions we identify with regards to the implementation status of Actions due to lack of evidence to support the status would be reported at the quarterly meeting of the IAC.

It was agreed that SWAP would report on the Actions considered within this Annual Opinion report and a summary is below:

- SWAP signed off 54 recommendations at Priority 1 or 2 over the course of the year where we had verified the supporting evidence and were satisfied the recommendation was implemented.
- At the time of writing, SWAP were in the process of reviewing a further sample of over one third of the recommendations currently considered Complete by the Alliance. We awaited some additional information for some items in our sample at the time of writing and will provide a verbal update at the meeting, with an updated report to be provided for circulation/publication.

Summary of Audit Work

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.

Annual Opinion Continued

Changes to the Internal Audit Plan

The schedule provided at Appendix A contains a list of all audits agreed for delivery as part the Annual Audit Plan 2020/21 and the final outturn for the financial year. In total 32 audits will be delivered, together with one piece of regional work. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed. A number of changes were made to the 2020/21 Internal Audit Plan and a summary of these is provided from Page 12.

Governance

We have not completed a specific piece of assurance work around governance at either Force or OPCC during 2020/21, however we have naturally incorporated elements of governance within our work and made recommendations as necessary. An audit review of Financial Governance was deferred into the 2021/22 Plan due to a lack of time to embed the new arrangements between these being formalised in April 2020 and the potential audit.

Updated Draft Codes of Corporate Governance were presented to the IAC over the past year for IAC consideration and have since been published on the website for Devon and Cornwall Police and OPCC and for Dorset, we understand this was going through the required governance mechanisms at the time of the last update in April to be finalised thereafter.

SWAP completed a review of the 2019/20 AGS Documents prior to these being published and fed back any relevant commentary to support these.

A review of key governance documentation on the respective websites found that these were generally well maintained (save for the updated Code of Corporate Governance for Dorset Police & OPCC as mentioned above) however a number of published policies were also found to be out of date, which could potentially misinform the public.

Risk Management

Whilst we have not specifically afforded Internal Audit coverage to risk management during the course of 2020/21, we did complete an audit of this during 2018/19, which received a Partial assurance opinion. We understand that there has been a considerable amount of work completed regarding risk management over the course of the year and as such, a 'root and branch' review has been incorporated within the 2021/22 internal audit plan. We will also follow up that recommendations raised within the last audit have been implemented, or indeed superseded by the changes referenced above.

IAC Members are provided with information regarding risk management and acted as observers at the Joint Risk and Assurance Board until its cessation in December 2020. Corporate risk registers were presented during the course of the year, however this was paused due to the aforementioned changes.

Summary of Audit Work

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

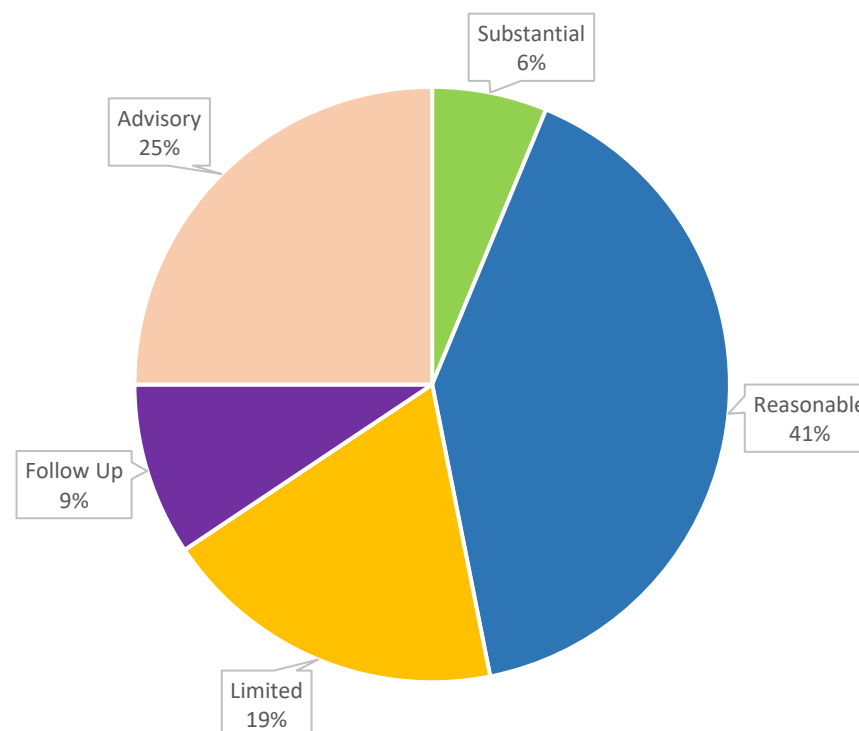
Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Summary of Control Assurance Opinions

As well as our standard audit opinions, we have also included our Follow Up work. It should be noted that the chart below is based on all of the 2020/21 work and considers regional work as Advisory.

Summary of Opinions for 2020/21 Internal Audit Plan



Summary of Audit Work

Actions raised within our audit reports are scored according to priority:

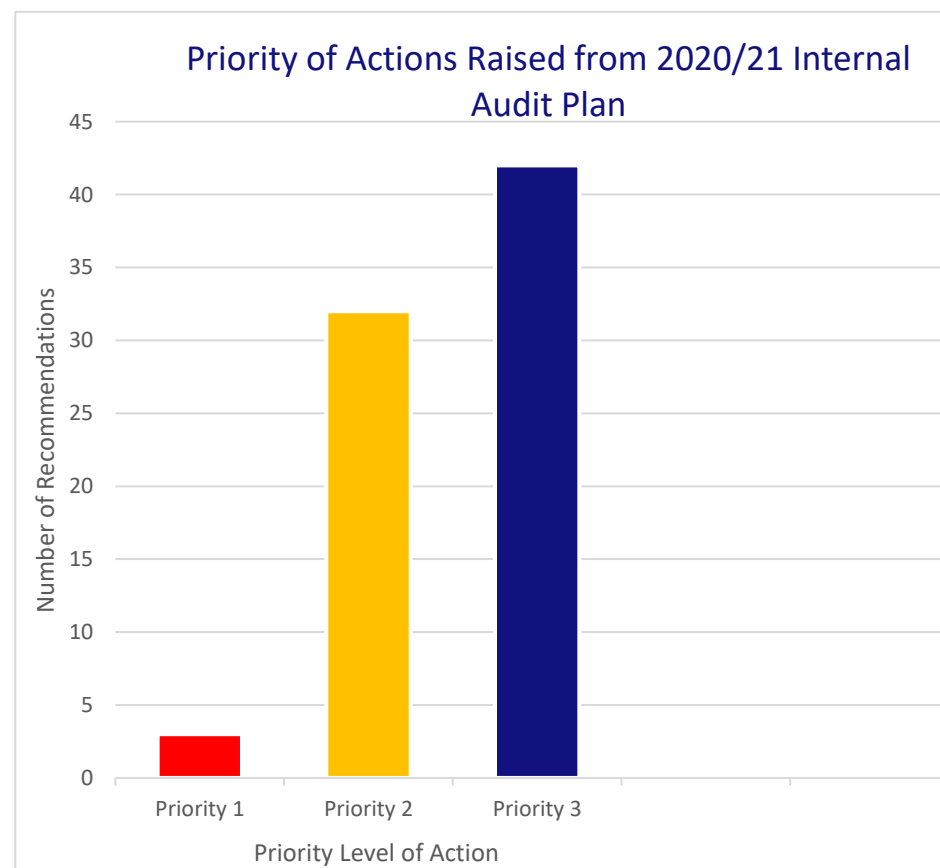
Categorisation of Actions

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Summary of Actions Raised

A graph outlining the priority level of the recommendations raised during the course of producing the Internal Audits for 2020/21 is detailed below. The number of recommendations raised has decreased quite significantly in comparison to the numbers issued in the previous year.



Plan Performance

Value Added

‘Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.’

Value Added

Innovations and Enhancements to our Audit Process

During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

Introducing the concept of ‘Agile Auditing’ to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year and have had positive feedback from the senior managers working with us on these reviews. We deployed the same approach as the previous year with regards to the Key Financial Controls audits: using an agile methodology to deliver the five pieces of work involved, compiling an overarching report summary and completing as much of the audit ‘testing’ as possible ourselves, using our Agresso access in order to minimise disruption to the Finance Team, particularly with remote working due to COVID.

With the help of SWAP’s two newly appointed Data Analysts, we continue to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.

Introducing a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.

We have also:

- Sought to complete a piece of regional audit work around Vetting;
- Utilised risk areas and audits undertaken with other Partners to inform our 2021/22 audit plan;
- Provided Audit Committee Member training;
- Accessed benchmarking information from other police forces and local authorities outside of the SWAP Partnership and attended national Police Audit Group conferences.

The day prior to the submission due date for this report, we received agreement from the Regional Chief Finance Officers to conduct a bespoke Fraud Baseline Review on behalf of the five SW Forces, funded from the days remaining from the 2020/21 regional audit allocation. This review is adapted from the SWAP Fraud Baseline Assessment which has been completed across a number of local authority Partners to date. These adaptations mean that this review will be more reflective of the unique arrangements in place at police forces, in particular given the role of the Professional Standards Department. We are commencing this review straight away and will provide an update at a subsequent meeting of the IAC.

Plan Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Extracts from feedback received during the course of the year

External Quality Assessment

Internal Audit Team Performance

SWAP's performance is subject to regular monitoring and review by both the Executive Board and the Member Board. The respective outturn performance results for Dorset Police & OPCC and Devon and Cornwall Police & OPCC for the 2020/21 year are as follows:

Performance Measure	Performance
<u>Audit Plan – Percentage Progress (Days)</u>	
Complete/Draft Report	100%
In Progress	0%
<u>Quality of Audit Work</u>	
Overall Client Satisfaction	100%
(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation?)	
Percentage of SWAP Team qualified or working towards a qualification	100%
<u>Value</u>	
Percentage of Recommendations accepted	100%

"Thanks for your work on this it is much appreciated and the finding will be helpful in keeping us focussed moving forward."

"It's been a long time coming but we are in a significantly better place than we were. Thanks to SWAP for helping this forwards"

"Thank you for your support which has identified some important learning for our team."

"I am confident that the findings of the report and the very fact of them being expressed in such an authoritative manner will lead to some necessary improvements... The final report was impressive."

SWAP's work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards. Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our agreed actions.

Approved Changes to the Audit Plan

The schedule provided at Appendix A contains a list of all audits agreed for delivery as part the Annual Audit Plan 2020/21 and the final outturn for the financial year. In total 33 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed. A summary of the changes/allocations occurring in year and previously reported which were made as part of the 2020/21 plan are detailed below (excluding minor timing changes in year):

Deferrals from the 2020/21 Plan which were subsequently incorporated into the 2021/22 Plan were as follows:

- DP&DCP: ICT Strategy – due to the ongoing work by the Chief Technology Officer since arriving in post, this focus was changed to a generic allocation for ICT audit work and will be delivered in 21/22.
- DP&DCP: VAT – Making Tax Digital – due to delays in completion of the consultant’s work on which we will be looking to provide assurance, this audit will be completed in 21/22.
- DP&DCP: Complaints Handling – this review was initially delayed due to sickness in the team, however it was subsequently agreed to provide the data to us in Q1 of 21/22. Furthermore, due to the PCC elections, the audit work covering the Forces and OPCCs were split, with the OPCCs review taking place in 21/22.
- DCP: Implementation of NICHE – this was replaced by the Telephony audit noted below, however this will be delivered in 21/22.

Cancellations/Removals from the 2020/21 Plan were as follows:

- DP&DCP: Financial Governance – this year was deemed too early to review the embeddedness of the new arrangements and so this audit is included in the 2021/22 Plan.


Additions to the Plan were as follows:

Due to changes to the Plan outlined above, and to allocate time from any Contingency allocation, the below audits were subsequently added in to the Plan which were completed in year:

- DP&DCP: Review of 2019/20 AGS Documents - Prior to publication;
- DC OPCC: Safety Camera Partnership;
- DP&DCP: Right to Work in the UK - review of the Forces’ approach to Right to Work in the UK checks following Home Office guidance since the start of the pandemic, given the difficulty with face to face verification;
- DP&DCP: Cashflow Spreadsheet Review - review of cashflow spreadsheet formulae, completed by the Data Analysis Team to assist with the Treasury Management function;
- DCP: Telephony - a replacement audit for the Implementation of NICHE work; and
- DC OPCC Budget Consultation Review.

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2020/21 and the final outcome for the financial year.

Audit Type	Audit Area	Audit Partner	Period	Status	Opinion	No of Recs	1 = Major		3 = Minor
							Recommendation		
							1	2	3
Finance	Continuous Auditing - Data Analytics	DP & DCP	Q1	Competed	Advisory	N/A	-	-	-
Governance, Fraud & Risk Mgt.	Review of 2019/20 AGS Documents - Prior to publication	DP & DCP	Q1	Completed	Advisory	N/A	-	-	-
Finance	Safety Camera Partnership	D & C OPCC	Q1	Completed	Limited	4	-	4	-
Governance, Fraud & Risk Mgt.	IAC Governance regarding Operational Policing	DP & DCP	Q1	Completed	Advisory	N/A	-	-	-
Finance	Payments to the National Police Air Service (NPAS)	DP & DCP	Q1	Completed	Advisory	N/A	-	-	-
Finance	Chief Officer and OPCC Expenses	DP & DCP	Q1	Completed	Reasonable	3	-	2	1
Collaborations	Transforming Forensics	Dorset Police	Q2	Completed	Reasonable	7	-	2	5
Finance	Police Officer Overtime Follow Up – Part 1	DP & DCP	Q2	Completed	Follow Up	N/A	-	-	-
Finance	Superintendent & Heads of Service Expenses	DP & DCP	Q1	Completed	Reasonable	3	-	2	1
OPCC	Ministry of Justice Victims Services Grant	DP & DCP OPCCs	Q1	Completed	Reasonable	1	-	-	1
Force Functions	Estates – Statutory Obligations Management – Gas, Electrical compliance, Legionella & asbestos.	DCP OPCC	Q2	Completed	Reasonable	9	-	1	8
Force Functions	Fleet Vehicle Safety Checks	DP & DCP	Q3	Completed	Limited	2	-	1	1
Finance	Cashflow Spreadsheet Review	DP & DCP	Q3	Completed	Advisory	N/A	-	-	-
Force Wellbeing	Support to officers and staff investigating crimes with vulnerable victims	Dorset Police	Q2	Completed	Reasonable	4	-	1	3
Collaborations	Contract Monitoring	DP & DCP	Q2	Completed	Reasonable	1	-	-	1

Audit Type	Audit Area	Audit Partner	Period	Status	Opinion	No of Recs	1 = Major		3 = Minor
							Recommendation		
							1	2	3
IT & Information Management	Cyber Security	DP & DCP	Q2	Completed	Advisory	N/A	-	-	-
Finance	Key Financial Control Reviews - to include :	DP & DCP	Q3	Completed					
	Accounts Receivable				Reasonable	4	-	-	4
	Accounts Payable				Limited	4	-	4	-
	Payroll				Substantial	1	-	-	1
	Main Accounting				Reasonable	5	-	1	4
	Budget Monitoring				Reasonable	1 (DCP only)	-	-	1
Force Functions	OPCC Budget Consultation Review	D&C OPCC	Q4	Completed	Advisory	N/A	-	-	-
Force Functions	Estates / HR (H&S) - Fire Safety Management	DP & DCP	Q4	Completed	Limited	7	2	4	1
IT & Information Management	Information Sharing Agreements	DP & DCP	Q4	Completed	Limited	0	-	-	-
Force Functions	Fleet Telematics	DP & DCP	Q4	Completed	Advisory	N/A	-	-	-
Force Functions	Right to Work in UK Checks	DP & DCP	Q3	Completed	Reasonable	4	-	1	3
Force Functions	Custody Meals – Data Analysis	DCP	Q3	Completed	Follow Up	1	-	1	-
Force Functions	Contracting with Training Providers (PEQF)	DP & DCP	Q4	Completed	Reasonable	4	-	2	2
Prevention and Deterrence	Firearms Licensing	DP & DCP	Q4	Completed	Reasonable	4	-	1	3
Finance	Police Officer Overtime Follow Up – Part 2	DP & DCP	Q4	Completed	Follow Up	4	-	3	1
IT & Information	Telephony	D&C	Q4	Completed	Limited	4	1	2	1
Protecting Vulnerable People	Victim Support Contract Re-Commissioning	Dorset OPCC	Q4	Completed	Substantial	0	-	-	-
Governance, Fraud & Risk Mgt.	Regional Audit Allocation	DP & DCP	Q1-4	Draft Report	TBC	-	-	-	-

Audit progress report and sector update

Devon and Cornwall Police and Crime Commissioner and Chief Constable
Dorset Police and Crime Commissioner and Chief Constable

Year ending 31 March 2021

July 2021



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Introduction

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This paper provides the Independent Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a police body.

Members of the Independent Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2021

Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in March 2021, and our interim audit in March and April. We began our work on the Devon & Cornwall Police draft financial statements in June. Our work on the Dorset Police draft financial statements is scheduled to start in late September/October.

Our interim fieldwork includes:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Police and Crime Commissioners and Chief Constables make material estimates for the financial statements

The results of our interim work are included in this report.

In April we issued our detailed audit plans, setting out our proposed approach to the audit of the 2020/21 financial statements, which are included on the agenda of this meeting.

We will report our work in the Audit Findings Reports and aim to give our opinions on the financial statements by 30 September for Devon & Cornwall Police and by 20 December for Dorset Police.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Progress at July 2021 (cont.)

Other areas

Meetings

We met with Finance Officers in April as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plans We are required to issue a detailed accounts audit plans to the Independent Audit Committee setting out our proposed approach in order to give opinions on the 2020-21 financial statements.	April 2021	Complete
Interim Audit Findings We will report to you the findings from our interim audits within our Progress Report.	July 2021	Complete
Audit Findings (ISA260) Reports The Audit Findings Reports will be reported to: <ul style="list-style-type: none"> Devon & Cornwall Police - September Independent Audit Committee Dorset Police - December Independent Audit Committee 	September 2021 December 2021	Not due yet Not yet due
Auditors Reports This is the opinion on your financial statements. <ul style="list-style-type: none"> Devon & Cornwall Police Dorset Police 	September 2021 December 2021	Not due yet Not due yet
Auditor's Annual Reports These reports communicate the key issues arising from our Value for Money work. <ul style="list-style-type: none"> Devon & Cornwall Police Dorset Police 	December 2021 January 2022	Not due yet Not due yet

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the financial statements.
Journal entry controls	We have reviewed the journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the control environment or financial statements.	Our work has not identified any journal control issues. We will complete our journal entry testing as part of our final accounts fieldwork.
Walkthrough testing	We have completed walkthrough tests of the controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. The significant risks identified were the revaluation of land and buildings and the valuation of the net pension fund liability.	Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from sector specialists**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.A dark purple rectangular button with the text "Police" in white, sans-serif font, centered within the button.

HMICFRS's proposed 2021/22 policing inspection programme and framework

HMICFRS held a consultation in April and May on its proposed policing inspection programme for the coming year.

Types of inspection in 2021/22 comprise of:

- PEEL assessments;
- National thematic inspections;
- Commissions from the Home Secretary and local policing bodies
- Inspection of national agencies and other non-Home Office forces
- Joint inspections
- State of Policing report

The consultation asked for views on whether the review cover the right themes and areas of policing. In particular, HMICFRS were seeking responses to the following consultation questions:

1. Do these proposed thematic inspections cover those areas that are of most concern to you at the moment?
2. Are there any significant new or emerging problems in policing that HMICFRS should take into account in its inspection activity?
3. How else could HMICFRS adapt the way in which it acquires information to take account of current circumstances and risks to public safety?

The consultation documents can be accessed [here](#).

Police generally responded well to exceptional circumstances of pandemic

Based on an inspection of policing between March and November 2020, Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) said that although there were some inconsistencies, in general police forces took immediate and decisive action to respond to the extreme circumstances of the pandemic.

HMICFRS found that during the first lockdown the demand on policing changed. There were fewer reports of some crimes such as theft and robbery, and an increased need to support the work of other frontline services as well as enforcing lockdown restrictions. This change meant forces utilised their resources differently. For example, some forces were able to clear backlogs of outstanding arrest warrants.

Inspectors also found that the fast-paced announcement and introduction of new legislation affected some forces' ability to produce timely and clear guidance for staff. This sometimes led to confusion over the difference between legislation and government guidance, with the inspectorate stressing that the police can only enforce legislation.

The inspectorate acknowledged the criticism some forces faced for their interpretation of lockdown restrictions, including undertaking road checks to identify unnecessary journeys, drone surveillance, and police action in relation to non-essential shopping and what was thought to be excessive exercise.

While these actions were viewed by some as heavy-handed or inconsistent, inspectors were assured that police forces had learnt from these instances and in general did well to maintain public trust.

The full report can be accessed [here](#).

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA's proposals closed on 8 July.



The news article can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>



Informing the audit risk assessment for Devon and Cornwall Police and Crime Commissioner and Chief Constable 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Devon and Cornwall Police and Crime Commissioner and Chief Constable's external auditors and Devon and Cornwall Police and Crime Commissioner and Chief Constable, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of 'those charged with governance' under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Police and Crime Commissioner and Chief Constable. ISA(UK) emphasises the importance of two-way communication between the auditor and 'those charged with governance' and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Police and Crime Commissioner and Chief Constable in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from 'those charged with governance' and supports the Police and Crime Commissioner and Chief Constable in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures, we are required to obtain an understanding of management processes and the Police and Crime Commissioner and Chief Constable's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Devon and Cornwall Police and Crime Commissioner and Chief Constable's management. The Police and Crime Commissioner and Chief Constable as 'those charged with governance' should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>There has been a robust consideration of the monitoring information throughout the year which has enabled actions to be taken early. The main aspects impacting on 2020/21 have been;</p> <p>Valuations at 31st March – revised values due to Covid-19 (fixed assets, pensions, although unlike last year no material uncertainty has been declared, and investments)</p> <p>Increase in the level of external borrowing</p> <p>Full valuation for assets</p> <p>Pension officer valuation has been carried out on full membership data</p> <p>Increase in accumulated absence account</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Devon and Cornwall Police and Crime Commissioner and Chief Constable?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies have been reviewed and considered.</p> <p>No substantive changes to the Accounting Policies although they have been reviewed against the CIPFA code to ensure that they remain appropriate.</p> <p>One new Accounting Policy added on donated inventories as per the recommendation in the CIPFA Bulletin, which is not material in value.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>We have financial instruments which are disclosed in the notes to the accounts. None of which are derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We have recognised in the accounts that a number of properties have been demolished.
6. Are you aware of any guarantee contracts?	Yes – The PCC has signed a guarantee for the Police ICT Company, and has provided a pensions guarantee for the APCC pension fund. These are covered in a note to the accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Devon and Cornwall Police and Crime Commissioner and Chief Constable during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Primarily use of in house Legal Department. Separate legal advice has been obtained in instances where in house expertise is not available. For example, Michelmores were used for specialist advice on a dispute with British Gas. External legal advice has also been sought on detailed estates issues.

General Enquiries of Management

Question	Management response
9. Have any of the Devon and Cornwall Police and Crime Commissioner and Chief Constable's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose - Treasury Management Advisors, providing advice on Treasury Management matters as and when they arise and to provide quarterly updates on performance. Ernst & Young – VAT Advisors- providing advice on VAT matters as and when they arise.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both 'those charged with governance' and management. Management, with the oversight of the Police and Crime Commissioner and Chief Constable as 'those charged with governance', needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Police and Crime Commissioner and Chief Constable should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Devon and Cornwall Police and Crime Commissioner and Chief Constable's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Police and Crime Commissioner and Chief Constable as 'those charged with governance' regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Police and Crime Commissioner and Chief Constable as 'those charged with governance' oversees the above processes. We are also required to make inquiries of both management and the Police and Crime Commissioner and Chief Constable as 'those charged with governance' as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Devon and Cornwall Police and Crime Commissioner and Chief Constable's management.

Fraud risk assessment

Question	Management response
<p>1. Have Devon and Cornwall Police and Crime Commissioner and Chief Constable assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the risk management process link to financial reporting?</p>	<p>Yes.</p> <p>The S151 officers have a remit for risk and audit and maintains close links with the internal audit lead and the Professional Standards Department. This is on top of the formal framework outlined in the AGS.</p> <p>This has been based on the risk register and internal audit programme. Due diligence on financial standing is undertaken for significant contracts.</p> <p>The risk of material misstatement is low. No fraud identified</p> <p>The risk management processes are considered by both the PCC and CC at a joint meeting. The risk arrangements and risk registers are considered by the IAC. The risk registers also form part of the annual budget process.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Disposal of Assets, Payroll and Expenses. Significant controls are in place in these areas accordingly.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Devon and Cornwall Police and Crime Commissioner and Chief Constable as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>The risk register is discussed at the Joint Leadership Board and individual management boards. The framework is covered in the AGS. Corporate risk registers are presented to the Independent Audit Committee on a quarterly basis. An update on fraud and corruption investigations is presented to each meeting of the Independent Audit Committee.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Devon and Cornwall Police and Crime Commissioner and Chief Constable where fraud is more likely to occur?</p>	<p>There have been no specific areas identified, although Theft and Fraud (by employee) is a priority risk for the Counter Corruption Unit. Quarterly meetings are held between the S151 officer and Professional Standards Department to look at themes and where process can be implemented to mitigate these risks. However, there have been no areas identified as material.</p> <p>Yes – Payroll. As such robust audit processes are in place in this area, with the latest internal audit providing a 'substantial' assurance level</p> <p>No</p>
<p>5. What processes do Devon and Cornwall Police and Crime Commissioner and Chief Constable have in place to identify and respond to risks of fraud?</p>	<p>Financial regulations in place. Robust recruitment processes in place. Invoices are paid through financial system and two step process. Majority of supplier detail confirmed prior to use. For commissioned services there is a tender process with support from Force procurement specialist team. Professional Standards / internal audit information sharing arrangement. Routinely participate in the National Fraud Initiative exercise, with detailed analysis of any matches. There are polices in place on whistleblowing and arrangements in the code of corporate governance about roles and responsibilities. Processes are also in place for dealing with large amounts of cash. Fraud is an area covered by internal audit when undertaking their reviews.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Devon and Cornwall Police and Crime Commissioner and Chief Constable, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example, because of undue pressure to achieve financial targets)?</p>	<p>The internal control process is covered in the Annual Governance Statement (AGS). This covers the adequacy of the internal control environment.</p> <p>The process of reviewing the effectiveness filters through the Independent Audit Committee (IAC). The IAC report back to both the PCC and CC in which they raise any concerns or recommendations direct. All internal audit reports are sent to key strategic officers where recommendations and concerns are raised.</p> <p>n/a</p> <p>Financial systems and processes are the subject of annual internal audits.</p> <p>No – segregation is strictly maintained. Financial forecasts are reviewed by the Executive of the Force and OPCC</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any</p>

Fraud risk assessment

Question	Management response
<p>8. How do Devon and Cornwall Police and Crime Commissioner and Chief Constable communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Ethical standards required for contractors is covered within the financial regulations. Due diligence is undertaken for all significant contracts and all contractors are expected to sign up to ethical standards. Commissioned Services contain standard within contract documentation. Theft and Fraud (by employee) is a priority risk for the Counter Corruption Unit. Required compliance with policing Code of Ethics for officers and staff. Ethics Committee sits monthly to debate “ethical dilemmas”.</p> <p>There is also a Force Disclosure Policy (Whistleblowing Policy) which is published by the Counter Corruption Unit.</p> <p>A business plan for the OPCC covers the way we work and the beliefs of the organisation. This plan is completed with the involvement of all staff. The business plan has quantitative and qualitative performance targets which are monitored at the OPCC management board and communicated to all staff. OPCC team have an agreed vision and values and these are regularly reviewed and good practice shared at team meetings.</p> <p>Promotion and compliance with College of Policing’s Code of Ethics</p> <p>Promotion and compliance of force values</p> <p>Regular updates to all officers and staff via the Force intranet on expected standards of behaviour, including updates on issues dealt with by the Professional Standards Department</p> <p>There are a variety of ways that concerns can be reported, include a whistleblowing line. No significant issues have been reported.</p> <p>No significant issues reported</p>

Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Covert officer, payroll staff, purchasing & exchequer staff</p> <p>Covert posts are vetted to a higher level, and routinely monitored by Professional Standards Department. Payroll and P&E have necessary processes to ensure segregation of duties on higher risk activities, and are both subject to annual audit. Audit trails are available identifying which staff have input all transactions</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Chief Executive writes to all Senior Officers to request the completion of a related party declaration. The Chief Executive is responsible for maintaining a policy on the business interests of the staff and office holders of the OPCC and also for maintaining a register of business interests. The Chief Constable is responsible for maintaining a policy on the business interests of the staff of the Force and also for maintaining a register of business interests.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Police and Crime Commissioner and Chief Constable as 'those charged with governance'?</p> <p>How does the Police and Crime Commissioner and Chief Constable as 'those charged with governance' exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>There is a direct link to the OPCC Monitoring Officer via the financial regulations. A quarterly update report on Fraud & Corruption is presented to the Independent Audit Committee.</p> <p>Risk management is considered by the Joint Leadership Board regularly.</p> <p>The risk of material misstatement is low. No fraud identified</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No whistleblowing complaint received. Complaints about the PCC have statutory process via the Police and Crime Panel and are reported quarterly. Complaints about staff are dealt with by the Line Manager or Chief Executive. Complaints about service or the police are managed via the dedicated officer within the PCC. There is a separate process within the OPCC for complaints against the CC</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Police and Crime Commissioner and Chief Constable as 'those charged with governance', is responsible for ensuring that Devon and Cornwall Police and Crime Commissioner and Chief Constable's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Police and Crime Commissioner and Chief Constable as 'those charged with governance' as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance, we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Devon and Cornwall Police and Crime Commissioner and Chief Constable have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the regulatory environment that may have a significant impact on the financial statements?</p>	<p>Governance, financial regulations, professional codes of practice.</p> <p>Robust governance structure which is tested via internal audits.</p> <p>No</p>
<p>2. How is the Police and Crime Commissioner and Chief Constable as 'those charged with governance' provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the: Annual Governance Statement; internal audit reports; and external audit reports.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None – other than those outlined in the notes to the accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Devon and Cornwall Police and Crime Commissioner and Chief Constable have in place to identify, evaluate and account for litigation or claims?	Litigation and claims dealt with by the Legal department. A litigation report is presented to the Resources Board (which is joint between the PCC and CC) on a quarterly basis. There is also a detailed confidential meeting to look at the individual ongoing live cases.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No. However the Information Commissioner's Office carried out an audit which led to a number of recommendations in September 2020.

Related Parties

Issue

Matters in relation to Related Parties

Devon and Cornwall Police and Crime Commissioner and Chief Constable are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Devon and Cornwall Police and Crime Commissioner and Chief Constable;
- associates;
- joint ventures;
- an entity that has an interest in the entity that gives it significant influence over Devon and Cornwall Police and Crime Commissioner and Chief Constable;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Devon and Cornwall Police and Crime Commissioner and Chief Constable, or of any entity that is a related party of the Devon and Cornwall Police and Crime Commissioner and Chief Constable.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Devon and Cornwall Police and Crime Commissioner and Chief Constable's perspective but material from a related party viewpoint then Devon and Cornwall Police and Crime Commissioner and Chief Constable must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Devon and Cornwall Police and Crime Commissioner and Chief Constable's 2019/20 financial statements?</p> <p>If so, please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Devon and Cornwall Police and Crime Commissioner and Chief Constable whether Devon and Cornwall Police and Crime Commissioner and Chief Constable has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions. 	<p>The inclusion of the Assistant Chief Officer (People) who is a non executive director on the College of Policing Board. The Board position is reserved for a member of police staff and no remuneration is received. The College of Policing is a public sector company overseen by the Home Office and NPCC.</p>
<p>2. What controls does Devon and Cornwall Police and Crime Commissioner and Chief Constable have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Chief Executive of the OPCC writes to the Senior Management Team, and IAC members requesting them to complete a declaration for related parties. There is a requirement for officers and staff to fully disclose any business interests, which are held on a central register by Professional Standards Department.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Business interests are considered and approved by line manager, a vetting process, and Professional Standards Department, including the Head of PSD.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>We don't operate outside of normal business unless we are under emergency powers e.g. the pandemic when procurement rules were relaxed.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Police and Crime Commissioner and Chief Constable as 'those charged with governance':

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Police and Crime Commissioner and Chief Constable as 'those charged with governance' to satisfy themselves that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Pensions liability for the Police Pension Scheme and the LGPS scheme. The liability figures disclosed in the accounts are estimated figures that have been calculated by our pension actuaries using source data held by the Accounts Department and pension administrators.</p> <p>Asset valuation of the land and building assets held by the PCC. These figure as based on the condition of the properties and the market conditions in the area. These figures are provided by valuers that are independent to the PCC.</p> <p>There is uncertainty around the provision set aside for self insured motor claims, which is based on an estimate. The nature of the claims is that the amounts involved may fluctuate.</p>
<p>2. How does the risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Valuations are calculated by professional advisors, such as actuaries and valuers where appropriate. These valuations are subject to scrutiny to ensure robustness.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Valuations are calculated by professional advisors in accordance with the applicable accounting standards, using their assessment of the most appropriate method.</p> <p>Pension assumptions are reviewed and confirmed by Chief Financial Officers. Professional advisors on pensions also provide independent review of the source data.</p> <p>The basis for asset valuations is checked to ensure consistency with prior years as applicable.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>A year on year comparison is carried out to highlight and understand in year movement.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>Pension assumptions from the actuaries have been updated to reflect the current situation as at the 31st March.</p> <p>Asset valuation has been carried out as at 1st January, with a follow up request to determine changes up to the 31st March.</p>
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Areas of clear specialism, such as premises valuation, valuation of financial instruments, and pensions valuation, are referred to professional experts in these areas</p>
<p>7. How does the management of the Police and Crime Commissioner and Chief Constable determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>High level checks are applied to all external valuations provided to ensure that a degree of challenge is applied, and that the figures appear consistent and reasonable</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Chief Financial Officers provide high level review to key assumptions, valuations and provisions.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements. 	<p>Monitoring and budget papers are discussed with management ahead of formal meetings, including testing the basis for estimations.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	The split between the PCC Group and the CC.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How are the Police and Crime Commissioner and Chief Constable as 'those charged with governance' provided with assurance that the arrangements for accounting estimates are adequate?	Through their S151's officers and the Resources Board.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	A full valuation has been undertaken. Measurement basis is dependent on the type of property: Operational specialised property – depreciated replacement cost Operational non-specialised property assets – existing use value Non-property asset – depreciated historical cost Surplus assets – fair value	Valuation has been carried out in accordance with the RICS Valuation – Global Standards 2017. A year on year comparison of the figures, life and basis of valuation has been undertaken with significant variances and changes questioned.	Vickery Holman	<p>The 2019/20 valuations were subject to material uncertainty due to the impact of Covid-19. An assessment by the valuers of whether material uncertainty existed as at 31st March 2021 was specifically requested. This year the valuation has not been reported as being subject to material uncertainty.</p> <p>The valuations were performed as at 1st January 2021. A further report: the letter of assurance was received in response to advising the valuers of additions in the last quarter, updates on changes to properties, and a request to inform us of any changes to the estimates since the initial valuation.</p> <p>Assets useful lives are dependent on assumptions about the level of repairs and maintenance. The Police and Crime Commissioner Group have assessed that the repairs and maintenance is sustainable at the current level of spending.</p> <p>A review of the basis of valuation has also been undertaken to determine it's appropriateness against the asset in question.</p>	No.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	A full valuations have been undertaken. Operational non-specialised property assets – existing use value	<p>Valuation has been carried out in accordance with the RICS Valuation – Global Standards 2017.</p> <p>A year on year comparison of the figures, life and basis of valuation has been undertaken with significant variance and changes questioned.</p>	Vickery Holman	<p>The 2019/20 valuations were subject to material uncertainty due to the impact of Covid-19. An assessment by the valuers of whether material uncertainty existed as at 31st March 2021 was specifically requested. The valuation has not been reported as being subject to material uncertainty.</p> <p>The valuations were performed as at 1st January 2021. A further report: the letter of assurance was received in response to advising the valuers of additions in the last quarter, updates on changes to properties, and a request to inform us of any changes to the estimates since the initial valuation.</p> <p>Assets useful lives are dependent on assumptions about the level of repairs and maintenance. The Police and Crime Commissioner Group have assessed that the repairs and maintenance is sustainable at the current level of spending.</p> <p>A review of the basis of valuation has also been undertaken to determine it's appropriateness against the asset in question.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Assets are depreciated monthly over their useful lives.	Useful lives are estimates, provided by experts. These are considered as part of the Capital MTFS. In addition the valuers provide the useful lives at every valuation.	Vickery Holman and budget holders.	When assets are purchased a number of possible purchase options are considered which includes estimation on costs and life of the asset. All business cases are considered by the Capital Strategy Group.	No
Valuation of defined benefit net pension fund liabilities	Barnett Waddingham provide a standard set of assumptions both demographic and financial.	<p>The valuation figures are prepared in accordance IAS19 which complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work.</p> <p>Additional checks have been introduced including a year on year check of the figures and a comparison of the reports.</p>	Barnett Waddingham	<p>The assumptions have been accepted following consideration by the S151's.</p> <p>The 2019/20 pension valuation for Police Staff was subject to material uncertainty due to the impact of Covid-19. An update on the position as at the 31st March 2021 was specifically requested. The valuation has not been reported as being subject to material uncertainty.</p>	No

Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Fair value templates are provided by Arlingclose and are used to assess the fair value of the financial instrument.	<p>These are standard templates shared to all clients by Arlingclose who are authorised and regulated by the Financial Conduct Authority.</p> <p>The accounting treatment of each instrument has been established with reference to the IFRS 9 Code and consultation with the Treasury Advisor.</p> <p>A reasonableness check on the outcome of the FV is undertaken using knowledge from the quarterly benchmarking meetings with Arlingclose and in year performance of returns.</p>	Arlingclose	The market volatility present during the year due to Covid-19 has had an impact on the fair value. However, due to the type of investments and the level of balances held, the fair value calculation is not material. Therefore the degree of uncertainty is assessed as low.	No



Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Information is received on new and paid transactions from the relevant departments. These figures are compared with the provision held as at 31 st March 2020. A check is also completed against general ledger where possible. Explanations for large variances are sought from the appropriate departments.	Estimations are provided by Departments independent of the Alliance Finance team. A year on year comparison is undertaken and significant changes questioned. The S151's are also engaged in reviewing the provision made.	Legal Department	The Legal Team review the likelihoods and estimated cost throughout the year on a case by case basis using their knowledge of the case.	No
Accruals	Commitments shown in Agresso are used to inform the year end accruals. Information is also sought from the budget holders.	The forecasting during the year is used as a measure against the outturn position. Variances are reviewed and explained through individual department narrative reports and the outturn report.	Budget Holders	Commitments are based on orders for goods and services from other organisations. These commitments are monitored through the year by the Alliance Finance Lead and Budget Holder. Any variations to the estimates are captured through the forecasting process.	No

Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	<p>Credit loss on investments is calculated using templates provided by Arlingclose.</p> <p>Impairment allowances are calculated using other trade receivables as any default is likely to be with this debtor class as opposed to Central Government, Local Authorities or the NHS. The calculation is performed using knowledge from previous years on bad debts as well as the current environment.</p>	<p>Credit loss: A reasonableness check is undertaken using knowledge from the quarterly benchmarking meetings with Arlingclose and in year performance of returns.</p> <p>Impairment allowances: A reasonableness check is undertaken by comparing to the previous year and the bad debt provision made in the year.</p>	<p>Arlingclose for the credit loss calculation.</p> <p>Impairment allowances are calculated internally.</p>	<p>Credit loss: The market volatility present during the year due to Covid-19 has had an impact on the fair value. However, due to the type on investments and the level of balances held, the fair value calculation is not material. Therefore the degree of uncertainty is assessed as low.</p> <p>Impairment allowances: As at 31st March 2020, it was estimated that 2% of other trade receivables may default on paying their invoices due to the impact of Covid-19. This level of default was not seen in the year and so the loss allowance was reduced to 1%.</p>	No



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Informing the audit risk assessment for Dorset Police and Crime Commissioner and Chief Constable 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Dorset Police and Crime Commissioner and Chief Constable's external auditors and Dorset Police and Crime Commissioner and Chief Constable, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of 'those charged with governance' under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Police and Crime Commissioner and Chief Constable. ISA(UK) emphasises the importance of two-way communication between the auditor and 'those charged with governance' and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Police and Crime Commissioner and Chief Constable in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from 'those charged with governance' and supports the Police and Crime Commissioner and Chief Constable in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures, we are required to obtain an understanding of management processes and the Police and Crime Commissioner and Chief Constable's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Dorset Police and Crime Commissioner and Chief Constable's management. The Police and Crime Commissioner and Chief Constable as 'those charged with governance' should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>There has been a robust consideration of the monitoring information throughout the year which has enabled actions to be taken early. The main aspects impacting on 2020/21 have been;</p> <p>Valuations at 31st March – revised values due to Covid-19 (fixed assets, with a declaration of uncertainty, pensions, and investments)</p> <p>Increase in the level of external borrowing</p> <p>Pension officer valuation has been carried out on full membership data</p> <p>Increase in accumulated absence account</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Dorset Police and Crime Commissioner and Chief Constable?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies have been reviewed and considered.</p> <p>No substantive changes to the Accounting Policies although they have been reviewed against the CIPFA code to ensure that they remain appropriate.</p> <p>One new Accounting Policy added on donated assets, which is not material in value.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>We have financial instruments which are disclosed in the notes to the accounts. None of which are derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	Yes – The PCC has provided a pensions guarantee for the APCC pension fund. This is covered in a note to the accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Dorset Police and Crime Commissioner and Chief Constable during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Use of in house Legal Department.

General Enquiries of Management

Question	Management response
9. Have any of the Dorset Police and Crime Commissioner and Chief Constable's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose – Treasury Management Advisors

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both 'those charged with governance' and management. Management, with the oversight of the Police and Crime Commissioner and Chief Constable as 'those charged with governance', needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Police and Crime Commissioner and Chief Constable should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Dorset Police and Crime Commissioner and Chief Constable's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Police and Crime Commissioner and Chief Constable as 'those charged with governance' regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Police and Crime Commissioner and Chief Constable as 'those charged with governance' oversees the above processes. We are also required to make inquiries of both management and the Police and Crime Commissioner and Chief Constable as 'those charged with governance' as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Dorset Police and Crime Commissioner and Chief Constable's management.

Fraud risk assessment

Question	Management response
<p>1. Have Dorset Police and Crime Commissioner and Chief Constable assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the risk management process link to financial reporting?</p>	<p>Yes.</p> <p>The S151 officers have a remit for risk and audit and maintain close links with the internal audit lead and the Professional Standards Department. This is on top of the formal framework outlined in the AGS.</p> <p>This has been based on the risk register and internal audit programme. Due diligence on financial standing is undertaken for significant contracts.</p> <p>The risk of material misstatement is low. No fraud identified</p> <p>The risk management process is considered by both the PCC and CC at a joint meeting with the corporate risk registers being considered at the Deputy's Board. IAC review the risk management strategy and approach. The risk registers also form part of the annual budget process.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Disposal of Assets, Payroll and Expenses. Significant controls are in place in these areas accordingly.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Dorset Police and Crime Commissioner and Chief Constable as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>The risk register is discussed at the Joint Leadership Board and individual management boards. The framework is covered in the AGS. Corporate risk registers are presented to the Independent Audit Committee on a quarterly basis.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Dorset Police and Crime Commissioner and Chief Constable where fraud is more likely to occur?</p>	<p>There have been no specific areas identified. Quarterly meetings are held between the Head of Alliance Audit, Insurance and Strategic Risk Management and Professional Standards Department to look at themes and where process can be implemented to mitigate these risks. However, there have been no areas identified as material.</p> <p>No</p> <p>No</p>
<p>5. What processes do Dorset Police and Crime Commissioner and Chief Constable have in place to identify and respond to risks of fraud?</p>	<p>Financial regulations in place. Robust recruitment processes in place. Invoices are paid through financial system and two step process. Majority of supplier detail confirmed prior to use. For commissioned services there is a tender process with support from Force procurement specialist team. Professional Standards / internal audit information sharing arrangement. Routinely participate in the National Fraud Initiative exercise, with detailed analysis of any matches.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Dorset Police and Crime Commissioner and Chief Constable, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example, because of undue pressure to achieve financial targets)?</p>	<p>The Internal Audit plan is the prime method used to gain assurance on internal control processes. The procedure for setting the internal audit plan includes liaison with key staff including s151s, and the draft is taken to the Independent Audit Committee before being finalised. There is a process to allow it to be changed during the year to reflect changing circumstances. SWAP report quarterly to IAC and provide an overall audit opinion. The Annual Governance Statement (AGS) also considers the adequacy of internal control and the process for producing it considers all forms of assurance available.</p> <p>Reviewing effectiveness is considered in terms of the “3 lines of defence model”:</p> <p>1 – direct management of financial processes and internal control measures- relate to the Force and reliance is therefore placed on the Force s151 officer for assurance.</p> <p>2 – CFO’s , risk management and compliance – robust procedures are in place as described in the AGS.</p> <p>3 – Internal Audit and Independent Audit Committee – processes exist to ensure internal controls are kept under review, weaknesses are identified and actions taken are monitored.</p> <p>There are effective counter fraud and corruption procedures in place across both organisations with cohesive working arrangements between Professional Standards, Audit, Finance and Legal Services. Regular reports are provided to the executive on the effectiveness of arrangements with independent scrutiny provided by the internal auditors on any weaknesses identified, including regular review of the controls in place to prevent financial error or fraud.</p> <p>No – segregation is strictly maintained. Financial forecasts are reviewed by the Executive of the Force and OPCC</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any</p>

Fraud risk assessment

Question	Management response
<p>8. How do Dorset Police and Crime Commissioner and Chief Constable communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Ethical standards required for contractors is covered within the financial regulations. Due diligence is undertaken for all significant contracts and all contractors are expected to sign up to ethical standards. Commissioned Services contain standard within contract documentation. Theft and Fraud (by employee) is a priority risk for the Counter Corruption Unit. Required compliance with policing Code of Ethics for officers and staff. Ethics Committee sits monthly to debate “ethical dilemmas”.</p> <p>There is also a Force Disclosure Policy (Whistleblowing Policy) which is published by the Counter Corruption Unit.</p> <p>All new employees are provided with inputs explaining our principles and the Code of Ethics and training is reinforced at departmental meetings and away days and is also included in our recruitment process.</p> <p>Learning the lesson bulletins and the outcomes of ethical discussions at the Ethics Committee and Ethics & Appeals Committee are also shared with OPCC employees.</p> <p>Monitoring of the Police and Crime Plan and associated performance data is undertaken on a weekly basis, with the participation of the PCC every four weeks, to ensure good practise is shared. Promotion and compliance with College of Policing’s Code of Ethics</p> <p>Promotion and compliance of force values</p> <p>Regular updates to all officers and staff via the Force intranet on expected standards of behaviour, including updates on issues dealt with by the Professional Standards Department</p> <p>There are a variety of ways that concerns can be reported, include the whistleblowing line.</p> <p>No significant issues reported</p>

Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>None specifically identified.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Police and Crime Commissioner and Chief Constable as 'those charged with governance'?</p> <p>How does the Police and Crime Commissioner and Chief Constable as 'those charged with governance' exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The risk register is discussed at the OPCC Strategic Update Meeting at least quarterly. This ensures that the PCC and the Senior Leadership Team formally consider risks. Risk considerations are intrinsic to all discussions at the weekly SUMs.</p> <p>The Force risk registers are also considered at the Deputy's Board, which includes Chief Officers, Commanders and Heads of Departments</p> <p>There is a direct link to the OPCC Monitoring Officer via the financial regulations. A quarterly update report on Fraud & Corruption is presented to the Independent Audit Committee.</p> <p>Risk management is considered by the Joint Leadership Board regularly.</p> <p>The risk of material misstatement is low. No fraud identified</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No whistleblowing complaint received</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Police and Crime Commissioner and Chief Constable as 'those charged with governance', is responsible for ensuring that Dorset Police and Crime Commissioner and Chief Constable's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Police and Crime Commissioner and Chief Constable as 'those charged with governance' as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance, we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Dorset Police and Crime Commissioner and Chief Constable have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the regulatory environment that may have a significant impact on the financial statements?</p>	<p>Governance, financial regulations, professional codes of practice. The Director of Legal Services attends the Joint Leadership Board, which considers strategy for the Force and OPCC.</p> <p>Robust governance structure which is tested via internal audits.</p> <p>No</p>
<p>2. How is the Police and Crime Commissioner and Chief Constable as 'those charged with governance' provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Annual Governance Statement and internal audit reports. Involvement of the Director of Legal Services in decision-making meetings</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None – other than those outlined in the notes to the accounts.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Dorset Police and Crime Commissioner and Chief Constable have in place to identify, evaluate and account for litigation or claims?</p>	<p>Litigation and claims dealt with by the Legal department.</p> <p>A litigation report is presented to the Resource Control Board (which is joint between the PCC and CC) on a quarterly basis. There is also a detailed confidential meeting to look at the individual ongoing live cases.</p> <p>Every year we write to Senior Staff to ask for details of matters that might require provision or disclosure in our published accounts. The responses are discussed with the CFO and the accounting treatment agreed (e.g. accrual, provision, contingency, no action).</p> <p>Throughout the year, the PCC, CX and CFO are kept informed of the progress of potential and actual claims through a formal meeting with the Legal dept. to discuss the “sensitive issues log”.</p>
<p>6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>No</p>

Related Parties

Issue

Matters in relation to Related Parties

Dorset Police and Crime Commissioner and Chief Constable are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Dorset Police and Crime Commissioner and Chief Constable;
- associates;
- joint ventures;
- an entity that has an interest in the entity that gives it significant influence over Dorset Police and Crime Commissioner and Chief Constable;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Dorset Police and Crime Commissioner and Chief Constable, or of any entity that is a related party of the Dorset Police and Crime Commissioner and Chief Constable.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Dorset Police and Crime Commissioner and Chief Constable's perspective but material from a related party viewpoint then Dorset Police and Crime Commissioner and Chief Constable must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Dorset Police and Crime Commissioner and Chief Constable's 2019/20 financial statements?</p> <p>If so, please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Dorset Police and Crime Commissioner and Chief Constable whether Dorset Police and Crime Commissioner and Chief Constable has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions. 	No
<p>2. What controls does Dorset Police and Crime Commissioner and Chief Constable have in place to identify, account for and disclose related party transactions and relationships?</p>	The Chief Executive of the OPCC writes to the Senior Management Team, Force Chief Officers and IAC members requesting them to complete a declaration for related parties.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	Financial regulations require all significant transactions to be signed off by OPCC or the CFO to enable scrutiny and consideration of related parties issues if applicable
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	See 3

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Police and Crime Commissioner and Chief Constable as 'those charged with governance':

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Police and Crime Commissioner and Chief Constable as 'those charged with governance' to satisfy themselves that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Pensions liability for the Police Pension Scheme and the LGPS scheme. The liability figures disclosed in the accounts are estimated figures that have been calculated by our pension actuaries using source data held by the Accounts Department and pension administrators.</p> <p>Asset valuation of the land and building assets held by the PCC. These figure are based on the condition of the properties and the market conditions in the area. These figures are provided by valuers that are independent to the PCC.</p> <p>There is uncertainty around the provision set aside for self insured motor claims, which is based on an estimate. The nature of the claims is that the amounts involved may fluctuate.</p>
<p>2. How does the risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Valuations are calculated by professional advisors, such as actuaries and valuers where appropriate. These valuations are subject to scrutiny to ensure robustness.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Valuations are calculated by professional advisors in accordance with the applicable accounting standards, using their assessment of the most appropriate method.</p> <p>Pension assumptions are reviewed and confirmed by Chief Financial Officers. Professional advisors on pensions also provide independent review of the source data.</p> <p>The basis for asset valuations is checked to ensure consistency with prior years as applicable.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>A year on year comparison is carried out to highlight and understand in year movement.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>Pension assumptions from the actuaries have been updated to reflect the current situation as at the 31st March.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Areas of clear specialism, such as premises valuation, valuation of financial instruments, and pensions valuation, are referred to professional experts in these areas
7. How does the management of the Police and Crime Commissioner and Chief Constable determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	High level checks are applied to all external valuations provided to ensure that a degree of challenge is applied, and that the figures appear consistent and reasonable
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Chief Financial Officers provide high level review to key assumptions, valuations and provisions.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements. 	<p>Significant accounting estimates are reviewed within Finance before being considered by Chief Financial Officers.</p> <p>Changes to methods and models would be considered by Resource Control Board – attended by both Chief Constable and PCC.</p> <p>Changes in accounting methods such as depreciation would also be considered by IAC.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	The split between the PCC Group and the CC
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How are the Police and Crime Commissioner and Chief Constable as 'those charged with governance' provided with assurance that the arrangements for accounting estimates are adequate?	Those charged with governance are supported by professionally qualified Chief Finance Officers who provide assurance on arrangements. This is supported by the Independent Audit Committee who also receive reports from Internal Audit regarding the controls in place around source data, for example asset registers. IAC reports any issues directly to those charged with governance after each meeting.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>The majority of the properties were inspected either internally or externally with the exception of 5 properties which were valued on a desktop basis. Measurement basis is dependent on the type of property: Operational property – carried at current value in their existing use. Surplus Assets – Fair Value Assets Held for Sale – Fair Value less costs to sell.</p>	<p>The valuation has been carried out in accordance with the RICS Valuation – Global Standards.</p> <p>A year on year comparison of the figures, life and basis of valuation has been undertaken with significant variances and changes questioned.</p>	NPS South West Limited	<p>The 2019/20 valuations were subject to material uncertainty due to the impact of Covid-19. An assessment by the valuers of whether material uncertainty existed as at 31st March 2021 was specifically requested. This year the valuation has been reported as being subject to material uncertainty.</p> <p>The valuations were performed as at 31st March 2021.</p> <p>Assets useful lives are dependent on assumptions about the level of repairs and maintenance. The Police and Crime Commissioner Group have assessed that the repairs and maintenance is sustainable at the current level of spending.</p> <p>A review of the basis of valuation has also been undertaken to determine its appropriateness against the asset in question.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Assets are depreciated monthly over their useful lives.	Useful lives are estimates, provided by experts. These are considered as part of the Capital MTFS. In addition the valuers provide the useful lives at every valuation.	NPS South West Limited And budget holders.	When assets are purchased a number of possible purchase options are considered which includes estimation on costs and life of the asset. All business cases are considered by the appropriate board.	No
Valuation of defined benefit net pension fund liabilities	Barnett Waddingham provide a standard set of assumptions both demographic and financial.	<p>The valuation figures are prepared in accordance with IAS19 which complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work.</p> <p>Additional checks have been introduced including a year on year check of the figures and a comparison of the reports.</p>	Barnett Waddingham	<p>The assumptions have been accepted following consideration by the S151's.</p> <p>The 2019/20 pension valuation for Police Staff was subject to material uncertainty due to the impact of Covid-19. An update on the position as at the 31st March 2021 was specifically requested. The valuation has not been reported as being subject to material uncertainty.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	Accounting models for each PFI are used to estimate the liabilities over the life of the arrangements.	<p>A review of the estimated liability has been undertaken before year end.</p> <p>An overstated liability has been identified. Discussions with Grant Thornton are currently taking place.</p>	No	The arrangements and models have been in place since 1999 and 2006 and assumed to be correct when inherited. The models show the revenue costs and liabilities for each year over the term of the arrangements. The revenue costs are updated annually with the actual unitary charges. An assessment of the liability has been undertaken and an overstated position identified.	No – the accounting method has remained the same but a proposal made to adjust the liability.
Finance lease liabilities	An accounting model is used to estimate the liability over the life of the arrangement.	A review of the model against the balance sheet has been undertaken.	No	The degree of uncertainty has been assessed as low as the arrangements in place have not changed since it's agreement in 1994.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Fair value templates are provided by Arlingclose and are used to assess the fair value of the financial instrument.	<p>These are standard templates shared to all clients by Arlingclose who are authorised and regulated by the Financial Conduct Authority.</p> <p>The accounting treatment of each instrument has been established with reference to the IFRS 9 Code and consultation with the Treasury Advisor.</p> <p>A reasonableness check on the outcome of the FV is undertaken using knowledge from the quarterly benchmarking meetings with Arlingclose and in year performance of returns.</p>	Arlingclose	The market volatility present during the year due to Covid-19 has had an impact on the fair value. However, due to the type of investments and the level of balances held, the fair value calculation is not material. Therefore the degree of uncertainty is assessed as low.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Information is received on new and paid transactions from the relevant departments. These figures are compared with the provision held as at 31 st March 2020. A check is also completed against general ledger where possible. Explanations for large variances are sought from the appropriate departments.	Estimations are provided by Departments independent of the Alliance Finance team. A year on year comparison is undertaken and significant changes questioned. The S151's are also engaged in reviewing the provision made.	Legal Department	The Legal Team review the likelihoods and estimated cost throughout the year on a case by case basis using their knowledge of the case.	No
Accruals	Commitments shown in Agresso are used to inform the year end accruals. Information is also sought from the budget holders.	The forecasting during the year is used as a measure against the outturn position. Variances are reviewed and explained through individual department narrative reports and the outturn report.	Budget Holders	Commitments are based on orders for goods and services from other organisations. These commitments are monitored through the year by the Alliance Finance Lead and Budget Holder. Any variations to the estimates are captured through the forecasting process.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	<p>Credit loss on investments is calculated using templates provided by Arlingclose.</p> <p>Impairment allowances are calculated using other trade receivables as any default is likely to be with this debtor class as opposed to Central Government, Local Authorities or the NHS. The calculation is performed using knowledge from previous years on bad debts as well as the current environment.</p>	<p>Credit loss: A reasonableness check is undertaken using knowledge from the quarterly benchmarking meetings with Arlingclose and in year performance of returns.</p> <p>Impairment allowances: A reasonableness check is undertaken by comparing to the previous year and the bad debt provision made in the year.</p>	<p>Arlingclose for the credit loss calculation.</p> <p>Impairment allowances are calculated internally.</p>	<p>Credit loss: The market volatility present during the year due to Covid-19 has had an impact on the fair value. However, due to the type on investments and the level of balances held, the fair value calculation is not material. Therefore the degree of uncertainty is assessed as low.</p> <p>Impairment allowances: As at 31st March 2020, it was estimated that 2% of other trade receivables may default on paying their invoices due to the impact of Covid-19. This level of default was not seen in the year and so the loss allowance was reduced to 1%.</p>	No



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Joint Audit Plan

Year ending 31 March 2021

Police and Crime Commissioner for
Devon and Cornwall

Chief Constable for Devon and
Cornwall

April 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Police and Crime Commissioner and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

New Code of Audit Practice

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money (VFM). These changes are explained in more detail on p.14 but the main points are that there is a new set of key criteria, there is more extensive reporting requirements and the replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Adoption of new auditing standards - Estimates

ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures, which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail on p.9 this will require greater disclosure by the entity as well as additional work by the auditor.

Covid-19

Public Sector funding continues to be stretched with increasing cost pressures and demand and the outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of a large number of public sector organisations. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far as we can, our aim is to work with you in these unprecedented times, ensuring there is up to date communication and flexibility where possible in our audit procedures.

Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing.

Our work in 2019/20 highlighted areas where financial reporting in the public sector, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the sector which require greater audit scrutiny.

Our response

As part of our planning work, we considered whether there were any risks of significant weakness in both the Chief Constable's and the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on.

The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.

At this time we have not identified a specific Covid-19 significant audit risk (as we did for all Local Government and Police audits in 2019-20 which covered a number of risks including the availability of the entity's staff to produce accounts, valuation uncertainties in relation to land and buildings and valuation of pension fund assets). We will revisit this assessment should the current pressures the sector faces continue and impact year-end accounting and auditing processes.

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fees, as set further in this Audit Plan, have been discussed with the Section 151 Officers.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for Devon and Cornwall ('the PCC') and the Chief Constable for Devon and Cornwall ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the PCC and the Chief Constable. We *draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the PCC, Chief Constable and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable).

We are also responsible for undertaking sufficient work to be able to satisfy ourselves as to whether, in our view, the CCG has put arrangements in place that support the achievement of value for money.

The audit of the financial statements does not relieve management or the PCC and the Chief Constable of your responsibilities. It is the responsibility of the PCC and the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of land and buildings
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £8.2m (PY £5.379m) for the group, the PCC and the Chief Constable, which equates to 1.8% of the Chief Constable's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £410k (PY £269k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have not identified any risks of significant weakness at this time. We will keep this under review as our audit progresses.

Audit logistics

Our interim visit will take place in March/April and our final visit will take place in June/July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £38,542 (PY: £30,722) for the PCC and £21,538 (PY: £16,208) for the Chief Constable, subject to the bodies delivering good sets of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police and Crime Commissioner for Devon and Cornwall (Parent)	Yes		<ul style="list-style-type: none"> See pages 6 and 7 	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for Devon and Cornwall (Subsidiary)	Yes		<ul style="list-style-type: none"> See pages 6 and 7 	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group, PCC and Chief Constable	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including the PCC and the Chief Constable for Devon and Cornwall, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Group, PCC or Chief Constable.</p>
Management over-ride of controls	Group, PCC and Chief Constable	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group, and PCC	<p>The PCC (and Group) revalues its land and buildings on a three-yearly basis. In the intervening years, to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the group requests a desktop valuation from its valuation expert to ensure that there is no material difference. A full revaluation is scheduled for 2020/21. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	Group, PCC and the Chief Constable	<p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the PCC and the Chief Constable:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audits for the year ended 31 March 2021.

Based on our knowledge of the PCC and the Chief Constable, we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Valuation of defined benefit net pension fund liabilities

The PCC and the Chief Constable's Information systems

In respect of the PCC and the Chief Constable's information systems, we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the bodies use management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures enquiries have been made to management as a separate exercise.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Reports and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and the Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020-21 financial statements, consider and decide upon any objections received in relation to the 2020-21 financial statements;
 - issuing a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audits.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the PCC and the Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 13).

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality figures, which is £8.2m (PY £5.379m), which equates to 1.8% of the Chief Constable's prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 1.8% of the value of the Senior officer remuneration note. This amount will be calculated based on the note in the draft 2020/21 statements.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the PCC and the Chief Constable

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and the Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £410k (PY £269k).

If management have corrected material misstatements identified during the course of the audits, we will consider whether those corrections should be communicated to the PCC and the Chief Constable to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£468m group

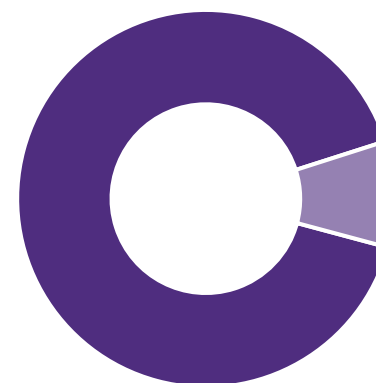
(PY: £378m)

£468m PCC

(PY: £378m)

£459m Chief Constable

(PY: £371m)



■ Prior year gross operating costs

Materiality

£8.4m

group financial statements materiality

(PY: £5.483m)

£8.4m

PCC financial statements materiality

(PY: £5.483m)

£8.2m

Chief Constable financial statements materiality

(PY: £5.379m)

£410k

Misstatements reported to the PCC and Chief Constable

(PY: £269k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audits.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our Auditor's Annual Report.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the bodies arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the right hand column below.

Risks of significant weakness

These would be risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

At this stage of our audit work we have not identified any significant weaknesses. However, under the new VFM arrangements we will be considering the bodies arrangements in place across the three criteria areas of finance, governance and performance. To be clear, this represents a more detailed level of audit work required under the new VFM Code than previously. We will be commenting on the bodies arrangements across the three criteria in our Auditor's Annual Report – again a new requirement for this year.

We will keep the possibility of a significant weakness arising and/or an existing risk increasing to a significant weakness as part of our ongoing 2020-21 VFM review.

Our findings will be summarised in the Auditor's Annual Report, to be agreed with management later this year.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

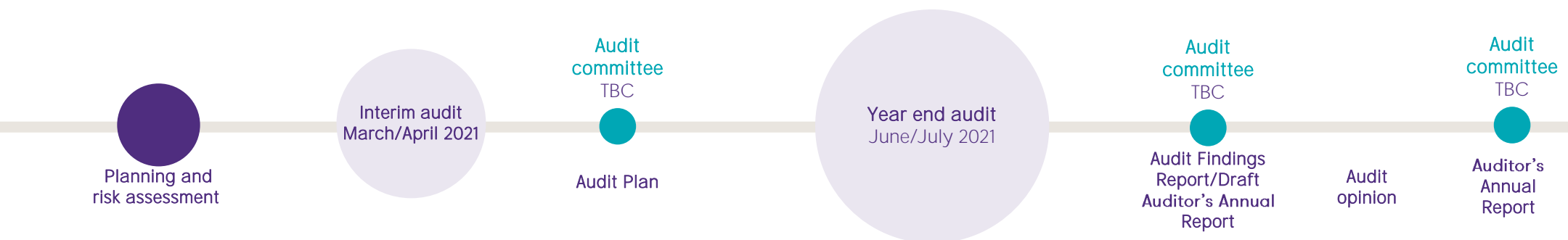
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Alex Walling, Key Audit Partner

Alex is responsible for the overall delivery of the audit. She will meet regularly with senior management of the PCC and Chief Constable and will attend Audit Committee meetings.



Mark Bartlett, Audit Manager

Mark oversees day to day planning and manages the work of the Audit Incharge and associates to ensure that the audit work is focused on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.



Rory Mulgrew, Audit Incharge

Rory is responsible for the on-site delivery of the audit work. He assigns activities across the team and ensures it is completed satisfactorily.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Reports and the Annual Governance Statements
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the financial statements, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audits
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for the Police and Crime Commissioner for Devon and Cornwall and the Chief Constable for Devon and Cornwall to begin with effect from 2018-19. The fee agreed in the contract was £27,992 for the PCC and £14,438 for the Chief Constable. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee for the VFM work of £7,000 for the PCC and £3,000 for the Chief Constable. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fees for 2020-21, as set out below, is detailed overleaf and have been discussed with the Section 151 officers.

	Actual Fee 2018-19	Actual Fee 2019-20	Proposed fee 2020-21
PCC Audit	£30,722	£38,542	£43,142
Chief Constable Audit	£16,208	£21,538	£22,038
Total audit fees (excluding VAT)	£46,930	* £60,080	** £65,180

* 19/20 fee still be approved by PSAA

** Any changes to scale fees need to be approved by PSAA

Assumptions

In setting the above fees, we have assumed that the PCC and Chief Constable will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	PCC	Chief Constable
Scale fee published by PSAA	£27,992	£14,438
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£1,650	£850
Enhanced audit procedures for Property, Plant and Equipment	£2,500	
Enhanced audit procedures for Pensions		£1,750
Audit fee 2019/20	£32,142	£17,038
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£7,000	£3,000
Increased audit requirements of revised ISAs	£4,000	£2,000
<i>Proposed increase to 2019/20 fee</i>	£11,000	£5,000
Total audit fees (excluding VAT)	£43,142	£22,038

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audits.








Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



Joint Audit Plan

Year ending 31 March 2021

Police and Crime Commissioner for
Dorset

Chief Constable for Dorset

April 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Police and Crime Commissioner and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

New Code of Audit Practice

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money (VFM). These changes are explained in more detail on page 13 but the main points are that there is a new set of key criteria, there is more extensive reporting requirements and the replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Adoption of new auditing standards - Estimates

ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures, which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail on p.9 this will require greater disclosure by the entity as well as additional work by the auditor.

Covid-19

Public Sector funding continues to be stretched with increasing cost pressures and demand and the outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of a large number of public sector organisations. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far as we can, our aim is to work with you in these unprecedented times, ensuring there is up to date communication and flexibility where possible in our audit procedures.

Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing.

Our work in 2019-20 highlighted areas where financial reporting in the public sector, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the sector which require greater audit scrutiny.

Our response

As part of our planning work, we considered whether there were any risks of significant weakness in both the Chief Constable's and the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on.

The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.

At this time we have not identified a specific Covid-19 significant audit risk (as we did for all Local Government and Police audits in 2019-20 which covered a number of risks including the availability of the entity's staff to produce accounts, valuation uncertainties in relation to land and buildings and valuation of pension fund assets). We will revisit this assessment should the current pressures the sector faces continue and impact year-end accounting and auditing processes.

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fees, as set further in this Audit Plan, have been discussed with the Section 151 Officers.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for Dorset ('the PCC') and the Chief Constable for Dorset ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the PCC and the Chief Constable. We *draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the PCC, Chief Constable and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable).

We are also responsible for undertaking sufficient work to be able to satisfy ourselves as to whether, in our view, the CCG has put arrangements in place that support the achievement of value for money.

The audit of the financial statements does not relieve management or the PCC and the Chief Constable of your responsibilities. It is the responsibility of the PCC and the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of land and buildings
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £4.4m (PY £3.379m) for the group, the PCC and the Chief Constable, which equates to 1.9% of the Chief Constable's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £221k (PY £169k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have not identified any risks of significant weakness at this time. We will keep this under review as our audit progresses.

Audit logistics

Our interim visit will take place in March/April and our final visit will take place in September/October. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £36,494 (PY: £31,993) for the PCC and £17,910 (PY: £27,797) for the Chief Constable, subject to the bodies delivering good sets of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police and Crime Commissioner for Dorset (Parent)	Yes		<ul style="list-style-type: none"> See pages 6 and 7 	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for Dorset (Subsidiary)	Yes		<ul style="list-style-type: none"> See pages 6 and 7 	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group, PCC and Chief Constable	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including the PCC and the Chief Constable for Dorset, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Group, PCC or Chief Constable.</p>
Management over-ride of controls	Group, PCC and Chief Constable	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group, and PCC	<p>The PCC (and Group) revalues its land and buildings on a rolling three-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>The PCC uses an external valuer for the majority of the valuations, however a proportion of the valuations are carried out by a second management expert, the internal valuer.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation experts • write to the valuers to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	Group, PCC and the Chief Constable	<p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the PCC and the Chief Constable:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audits for the year ended 31 March 2021.

Based on our knowledge of the PCC and the Chief Constable, we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Valuation of defined benefit net pension fund liabilities
- PFI liability

The PCC and the Chief Constable's Information systems

In respect of the PCC and the Chief Constable's information systems, we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the bodies use management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures enquiries have been made to management as a separate exercise.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Reports and Annual Governance Statements and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and the Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020-21 financial statements, consider and decide upon any objections received in relation to the 2020-21 financial statements;
 - issuing a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audits.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the PCC and the Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 13).

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality figures, which is £4.4m (PY £3.379m), which equates to 1.9% of the Chief Constable's prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 1.9% of the value of the Senior officer remuneration note. This amount will be calculated based on the note in the draft 2020-21 statements.

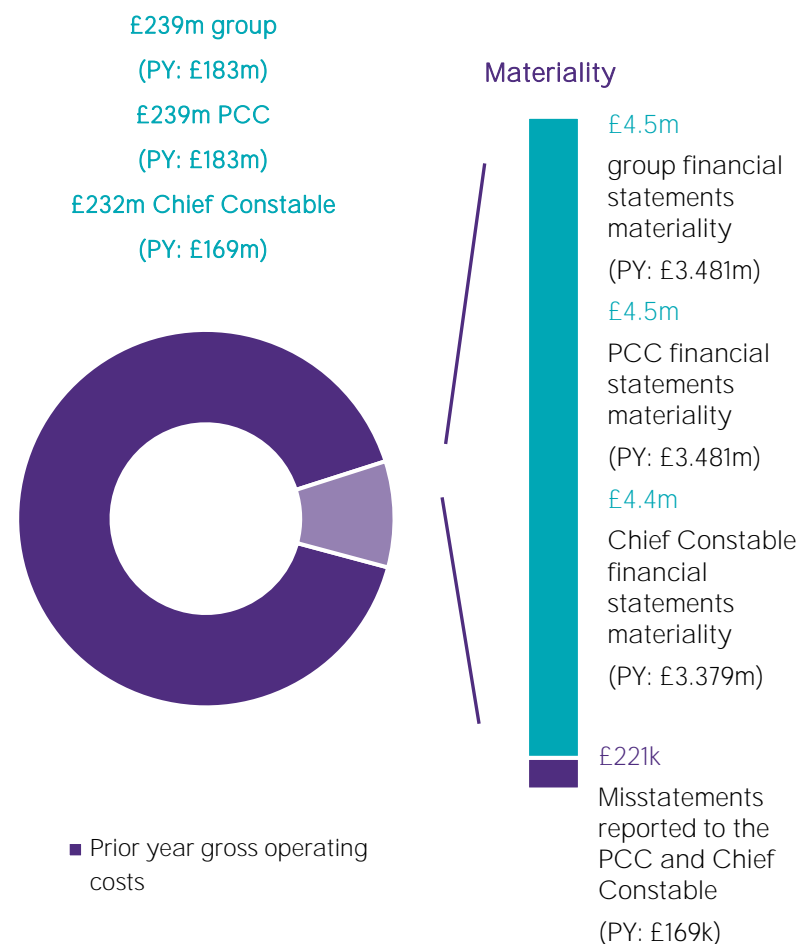
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the PCC and the Chief Constable

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and the Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £221k (PY £169k).

If management have corrected material misstatements identified during the course of the audits, we will consider whether those corrections should be communicated to the PCC and the Chief Constable to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs



Value for Money arrangements

Revised approach to Value for Money work for 2020-21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audits.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our Auditor's Annual Report.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the bodies arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the right hand column below.

Risks of significant weakness

These would be risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

At this stage of our audit work we have not identified any significant weaknesses. However, under the new VFM arrangements we will be considering the bodies arrangements in place across the three criteria areas of finance, governance and performance. To be clear, this represents a more detailed level of audit work required under the new VFM Code than previously. We will be commenting on the bodies arrangements across the three criteria in our Auditor's Annual Report – again a new requirement for this year.

We will keep the possibility of a significant weakness arising and/or an existing risk increasing to a significant weakness as part of our ongoing 2020-21 VFM review.

Our findings will be summarised in the Auditor's Annual Report, to be agreed with management later this year.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

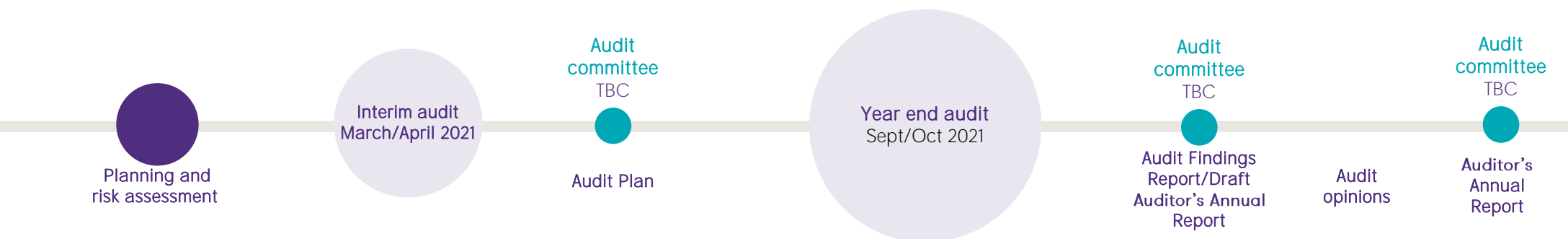
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Alex Walling, Key Audit Partner

Alex is responsible for the overall delivery of the audit. She will meet regularly with senior management of the PCC and Chief Constable and will attend Audit Committee meetings.



Mark Bartlett, Audit Manager

Mark oversees day to day planning and manages the work of the Audit Incharge and associates to ensure that the audit work is focused on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.



Rory Mulgrew, Audit Incharge

Rory is responsible for the on-site delivery of the audit work. He assigns activities across the team and ensures it is completed satisfactorily.

Following the completion of the audit fieldwork, the conclusion of the audit is dependent on receipt of the assurance letter from the auditor of the Dorset Pension Fund. We will not be able to issue our audit opinions until this has been received and any issues arising have been satisfactorily resolved.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Reports and the Annual Governance Statements
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the financial statements, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audits
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for the Police and Crime Commissioner for Dorset and the Chief Constable for Dorset to begin with effect from 2018-19. The fee agreed in the contract was £22,554 for the PCC and £11,550 for the Chief Constable. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020-21 audit.

As referred to on page 13, the 2020-21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee for the VFM work of £7,000 for the PCC and £2,000 for the Chief Constable. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fees for 2020/21, as set out below, is detailed overleaf and has been discussed with the Section 151 officers.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
PCC Audit	£23,304	£31,993	£36,494
Chief Constable Audit	£12,300	£27,797	£17,910
Total audit fees (excluding VAT)	£36,604	* £59,790	** £54,404

* 19/20 fee still be approved by PSAA

** Any changes to scale fees need to be approved by PSAA

Assumptions

In setting the above fees, we have assumed that the PCC and Chief Constable will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	PCC	Chief Constable
Scale fee published by PSAA	£22,554	£11,550
<i>Ongoing increases to scale fee first identified in 2019-20</i>		
Raising the bar/regulatory factors	£1,190	£610
Enhanced audit procedures for Property, Plant and Equipment	£1,750	
Enhanced audit procedures for Pensions		£1,750
Audit fee 2019-20	£25,494	£13,910
<i>New issues for 2020-21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£7,000	£2,000
Increased audit requirements of revised ISAs	£4,000	£2,000
<i>Proposed increase to 2019-20 fee</i>	£11,000	£4,000
Total audit fees (excluding VAT)	£36,494	£17,910

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audits.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓



DRAFT PROSPECTUS

**Your chance to help
us shape the national
scheme for local
auditor appointments
from April 2023**

All eligible bodies

June 2021

www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Context: changes in the audit market

During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

In relation to appointing auditors local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

This draft prospectus provides an introduction to the PSAA national scheme, and discusses and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Through this process we want to give you the opportunity to help us shape some of the important features of the scheme ahead of issuing formal invitations to opt in to all eligible bodies in the Autumn.

However, before we look forward, we need to look back. In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, we did not know at the time that this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession we have then had the results of four independent reviews commissioned by Government:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now in various stages of consideration by Government with the clear implication that a series of significant reforms will follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place to respond to a more focused regulator, determined to achieve change, were clearly visible. In order to deliver the necessary improvements in audit quality firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It is deep-seated and has a range of causes. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure and of a local audit system which is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this draft prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

In our view the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews - Kingman, CMA, Brydon, and

Redmond; as further regulatory pressure is applied; and as firms respond and adapt. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that bodies which opt into PSAA's national scheme will be in a better position than those which choose to make their own separate arrangements. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

The national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;
- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

However, the challenge for 2023 and beyond is to develop the scheme further, by listening to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience. This work is already firmly underway. During the past three years we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- proactively and constructively engaging with the numerous high-profile industry reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- commissioning an independent review undertaken by Cardiff Business School of the design and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- the establishment of a Local Audit Quality Forum, which is free of charge to opted-in bodies and has to date held five well attended events on relevant topics;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

Importantly, we are also currently working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, and the LGA to help identify and develop further initiatives to strengthen the local audit. In many cases desirable improvements are not within PSAA's sole gift and accordingly it is essential that this work is undertaken collaboratively with a common aim to ensure that local government continues to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body, we have fallback options to extend one or more existing contracts for the period spanning 2023/24 and 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

Prior to initiating the procurement we will set out the detailed basis on which, if necessary, the fallback decision to extend one or more current contracts will be taken. One of the objectives of our approach will be to encourage firms to participate in the procurement and in doing so to ensure that their tenders reflect realistic market bid prices.

The MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. Subject to its outcome and the approval of relevant changes to the regulations, we are minded to set the length of the next compulsory appointing period as the five consecutive financial years commencing 1 April 2023.

In late September we plan to formally invite all eligible bodies to opt into the scheme for the second appointing period. We intend that bodies will be able to commit to join the scheme until the end of January 2022.

IMPORTANT TO NOTE: A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.

We hope you will be interested in the development of the national scheme for the second appointing period. We are keen to hear your views to help us shape our approach. Details of how you can send us your views are set out on page 16.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

"The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market."

James Jamieson. Chairman of the Local Government Association

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context of a highly regulated service and profession which is subject to dynamic pressures for change.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money compared to alternative approaches and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014), and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution

to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO¹), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and plans which firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance

¹ MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility of and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent less than 5% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling, sometimes referred to as 'Post Office pricing', means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the legal framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

If the changes that relate to audit fees, proposed in MHCLG's recent consultation on the Appointing Person Regulations, are ultimately approved and implemented, PSAA will be able to manage the scale of fees and fee variations more flexibly. This will enable scale fees to be determined taking into account the outcome of more recently completed audits, and fee variations to be managed differently depending on whether they are driven by national or local factors.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact.

Scale audit fees are rising in response to the volume of additional audit work now required. However, in the case of audits which currently attract relatively modest scale fees, we are concerned that these may be insufficient to cover the actual cost of the audit. We therefore plan to carry out research to explore this risk more fully and to consider the possibility of introducing a minimum scale fee, to ensure that all fees are sufficient to cover the actual costs of a Code-compliant audit. Striving to ensure realistic fee levels is a vital prerequisite in relation to achieving a more sustainable local audit market.

If we decide to introduce a minimum fee, we would do so at the outset of the next appointing period in respect of the audit of 2023/24 accounts. We anticipate that the introduction of a minimum fee would be likely to lead to an increase in fees for a relatively small number of local bodies. It may also impact the scale fees of some pension fund audits.

Procurement Strategy

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;

- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

Aligned to setting the duration of the compulsory appointing period as five years, our current thinking is to set a **contract duration of five years** with the option to extend for a further one or two years with the supplier's agreement. We have considered other options which, for completeness, are explained in the annex to this prospectus together with our reasons for rejecting them.

Our initial thinking is to follow the **restricted procedure** (rather than the open procedure) in accordance with the current Public Contract Regulations given the current requirement that in order to undertake local audit work **firms must be registered with an RSB**. This could include a non-accredited firm working with an accredited firm we appoint as the auditor.

One of the proposed changes to the Appointing Person Regulations would enable PSAA to exercise greater flexibility in relation to the term of auditor appointments. In this context we are considering whether to establish a dynamic purchasing system (DPS) in parallel to the main procurement. Our thinking is that a DPS could provide the option for some or all subsequent auditor appointments, e.g. to newly established bodies, to be the subject of mini-procurements. It would also mitigate the risk that some audit firms might be "locked out" of the market for the new contract term if they are unsuccessful in the procurement.

Our initial thinking is that there could be **between seven and ten contract lots** with the aim of entering into contracts with a larger number of registered local public auditors than the current five. We feel this could contribute to longer-term market sustainability as well as helping us to manage any auditor independence issues.

Our current thinking is **contract lots should be graduated in size**. The **largest lot** would probably represent **around 20-25%** of the market compared to the 40% and 30% largest lots offered in 2017. As a consequence there are likely to be an **increased number of smaller lots** available. The exact number and size of lots will be influenced by the number of bodies that decide to opt into the scheme.

Our initial thinking is that, with the exception of the very smallest lots, each lot, in its final form, would reflect a **sensible balance of geography and a blend of the different authority types**.

At this stage we envisage that the value of each lot would be expressed in terms of the "audited body notional value" (ABNV), which would comprise the published scale fees for 2021/22. Recognising the potential for scale fees at individual bodies to change between the completion of the procurement process and the contract

commencement date, we envisage the inclusion of mechanisms to adjust scale fees transparently (either up or down) to ensure that both opted-in bodies and our contracted suppliers are neither advantaged nor disadvantaged by such changes. Importantly we hope this will avoid contingency provisions being built into firms' bids to mitigate risk.

We feel it would be beneficial to provide bidders with relevant information on each audit including the recent history of approved fee variations and the nature of any recurring fee variations that have already been incorporated into the scale fee. In this way we aim to establish a consistent and informed basis for the submission of tenders.

We envisage applying an evaluation ratio at tender stage that is significantly weighted towards quality. In 2017 we adopted a 50% quality: 50% price model. However, the market expectation has clearly shifted over recent years in response to the requirement for auditors to deliver higher quality audits. Recent similar public audit procurements indicate that anything less than an 80% weighting for quality would be viewed as being out of touch with the market and risk not attracting a sufficient range of suppliers.

Our current thinking is therefore to adopt **an 80% quality: 20% price weighting** which would align with recent similar public sector audit procurements. However, we recognise that this is an issue on which eligible bodies may also have strong views so are keen to hear bodies' thoughts.

Our current thinking is to test the following areas to assess the quality of tender responses: audit approach, quality assurance arrangements, resourcing, capacity & capability, management of the transition between audit firms and client relationship management and communication. We propose to underpin our more heavily weighted emphasis on quality with a series of KPIs derived from these areas.

One of the most concerning features of the local audit system since 2018 has been the large number of audit opinions which have been delayed beyond the target timetable set out in the Accounts & Audit Regulations, and the disruption and reputational damage that results for all parties as a result of those delays. The [NAO published a report](#) on this matter in March, 2021. The report concludes "The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention. This will require cooperation and collaboration by all bodies involved in the local audit system, together with clear leadership from government." We agree and we are working with partners on what actions PSAA and other market participants can take to avoid delayed opinions becoming a feature of the next appointing period. We know that there are no quick fixes, but we are determined to do all we can to bring about improvements, whilst recognising the importance of striking the right balance in relation to audit quality.

To support the drive for market sustainability, we are considering the following possible options:

- 1) accepting consortia bids including those that involve firms which are seeking to enter the market by gaining experience working in partnership with an existing registered supplier;
- 2) accepting bids from firms that are currently proceeding through the local audit registration process; and
- 3) inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market, mostly likely through some form of joint working arrangement between more experienced suppliers and new entrants or less experienced suppliers.

Additional costs may arise as an inevitable consequence of striving to bring new suppliers into the market. If additional costs were to occur, they would be borne by the scheme as a whole rather than by an individual audited body or a sub-set of bodies.

Social value

The Social Value Act 2012 applies to PSAA, therefore we must consider (a) how the audit services might “improve the social, economic and environmental well-being” of England and (b) how in conducting the process of procurement of those services we might act with a view to securing that improvement.

The collective, national nature of our contracts for audit services, which cover a significant number of diverse bodies do not easily provide scope for such improvement arising solely from procuring audit services.

As such we are considering whether to focus our approach to social value solely on audit apprenticeships which demonstrate a commitment to local audit and are awarded to residents of deprived areas. We feel this focus, whilst narrow, would deliver a tangible, measurable outcome for the long-term benefit of the sector. It would also build on the significant number of apprenticeships (137 to date) created as a result of our 2017 procurement.

Our initial thinking is to attach a **4% evaluation weighting to social value** (that equates to 5% of the quality score). However, we recognise that this is an issue on which eligible bodies may have views so are keen to hear bodies’ thoughts.

Scope of the procurement

The scope of the procurement will be the delivery of audit services for eligible bodies that decide to accept the invitation to opt into PSAA’s scheme.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in during the appointing period only, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused.

Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Evolution of the procurement strategy

Your feedback will inform our work to finalise the development of the procurement strategy, which we expect to issue with the formal opt-in invitation during September 2021. In parallel to this consultation, we are also undertaking an engagement exercise to seek to understand the views of the market.

Following the conclusion of the opt-in invitation period (likely to be during January 2022) there may be one further limited revision of the procurement strategy, depending upon the number of bodies that decide to opt-in and the impact of any potential changes to regulations or other environmental factors. We anticipate initiating the procurement for new audit services contracts in February 2022, culminating in contracts being awarded in June 2022.

Consultation: Tell us your views

We are keen to receive your feedback concerning our plans for the future scheme.

We welcome comments on the proposals contained in this draft prospectus. Please respond to the set of questions shown below via our [online survey](#). The consultation will close on **Thursday 8 July 2021**.

We will also be holding two interactive Q&A webinars to provide an overview of the draft prospectus and answer any questions that you may have on [16 June 10am to 11:15am](#) and [22 June 3pm to 4:15pm](#). You can book a place by clicking on the date and time links.

- Is PSAA right to prioritise the awarding of new longer term contracts with firms, based on realistic market bid prices, mitigating the risks of a less than fully successful procurement by holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required?
- Is five years an appropriate term for bodies to sign up to scheme membership?
- Is five years with the option to extend for up to two years subject to the supplier's agreement an appropriate term for the next audit services contracts?
- Is PSAA right to evaluate tender submissions on the basis of 80% quality and 20% price to align with market expectations and other recent public sector audit procurements?
- Is PSAA right to seek to encourage market sustainability within the local audit market by accepting bids from firms that are currently proceeding through the local audit registration process; by accepting consortia bids which may involve an unregistered firm gaining experience by working alongside a registered firm; and

by considering the inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market?

- Is PSAA's proposed approach to social value appropriate given the services to be procured will be delivered across the whole of England? Are there any alternative approaches that should be considered?
- Is PSAA right to carry out research and to consider setting a minimum audit fee in the next appointing period, recognising the increasing level of audit work now required and the risk that smaller scale fees may not be sufficient to cover the actual cost of the audit? What would be the key issues for PSAA to consider in the event that it opts to set a minimum fee for a Code-compliant audit?
- In the context of the recent NAO report, should PSAA and other market participants strive to prioritise the timeliness of audit opinions in the next appointing period? What actions should PSAA or other market participants take in order to avoid delayed opinions blighting the next period?
- Which specific benefits of the national scheme are most valuable to you? Are there other benefits we should strive to develop?
- What are the key issues which will influence your decision about scheme membership for the second appointing period?
- To inform the further development of our procurement approach, please indicate whether or not you anticipate that your organisation is likely to opt into our scheme?

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE CA

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at
<https://www.psaa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at
<https://www.psaa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.



AGENDA NO: **12**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 JULY 2021

FOIA OPEN

TITLE OF REPORT: PSAA CONSULTATION UPDATE

REPORT BY: Karen James Head of Audit, Insurance and Strategic Risk Management

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	
Internal Audit	
External Audit	X
Financial reporting	
Other matter <i>(please specify here)</i>	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	X
Other <i>(please specify here)</i>	

1. BACKGROUND INFORMATION

Public Sector Audit Appointments (PSAA) have been confirmed in their role as an Appointing Person by the Ministry of Housing, Communities & Local Government (MHCLG) and have commenced the consultation process with the market and eligible bodies for the next procurement and appointment of External Auditors, to audit the accounts for 5 years commencing from 2023/24. (2023/24 to 2027/28)

- 1.1 The consultation document attached at Appendix A was forwarded to Chair of the Independent Audit Committee and S151's of Devon & Cornwall and Dorset to solicit feedback on the proposals for the procurement process.
- 1.2 The specific question that the PSAA were seeking feedback on are detailed on pages 16 and 17 of Appendix A.
- 1.3 The period of consultation closes on the 8th July 2021.

2. NEXT STEPS

- 2.1 Whilst invited to provide feedback on the PSAA proposal, the Force and OPCC will be required to formally opt-in to the PSAA for them to act on their behalf as an Appointing Body.
- 2.2 The alternative to opting-in to the PSAA is to undertake an individual auditor procurement and appointment exercise or a joint exercise with other bodies.
- 2.3 The PSAA will be sending out their opt-in invitations in September 2021, although the Chief Constables and PCCs have until January 2022 to make their decision.
- 2.4 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulation 2015, the decision to opt-in to the PSAA lays with the Corporation Sole, and so much be made by the PCC and Chief Constable.
- 2.5 The draft procurement strategy will be published in the Autumn of 2021, by the PSAA.
- 2.6 Following the procurement exercise the external auditor must be appointed by the 31 December in the financial year preceding the financial year of the accounts being audited. This means appointments must be made by the 31 December 2022.

9 July 2021



AGENDA NO: 13

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 July 2021

FOIA OPEN

TITLE OF REPORT: FINANCIAL REPORTS

REPORT BY: JULIE STRANGE, CHIEF FINANCIAL OFFICER TO THE DORSET PCC AND STEVEN MACKENZIE, CHIEF FINANCIAL OFFICER TO THE DORSET CHIEF CONSTABLE

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	YES
Internal Audit	-
External Audit	-
Financial reporting	YES
Other matter (please specify here)	-

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Reports	YES
Consider the Reports	-
Note the reports	-
Other (please specify here)	-

1. BACKGROUND INFORMATION

- 1.1 The financial reports covered in this agenda item are the Police and Crime Commissioner narrative report; the Chief Constable narrative report; and the Going Concern report.

2. NARRATIVE REPORTS

- 2.1 The Chartered Institute of Public Finance and Accountancy Code of Practice requires that a narrative report is published with the financial statements. In terms of the Police and Crime Commissioner Group, a separate narrative report is required for the Police and Crime Commissioner (PCC) and the Chief Constable (CC).
- 2.2 The aim of the narrative report is to provide information on the PCC and CC main objectives, strategies and risks, as well as providing a commentary on how the PCC and CC have used the resources available to achieve the outcomes in line with the objectives and strategies.

- 2.3 The Code provides guidance on subject areas to disclose within the narrative report but makes it clear that the content and style of the report is a matter of local judgement.
- 2.4 The narrative reports can be found at Appendices A and B.

3. GOING CONCERN REPORT

- 3.1 The Code of Practice on Local Authority Accounting as published by the Chartered Institute of Public Finance and Accountancy requires that the presentation of the financial statements should be prepared on a “going concern” assumption.
- 3.2 Consideration of: the 2020/21 financial position; the projected financial position; the strength of the balance sheet; cashflow; corporate governance arrangements; and the external regulatory and control environment have been used to assess the “going concern” assumption with the conclusion reached that the financial statements have been prepared on a “going concern” basis.
- 3.3 The Going Concern report can be found at Appendix C.

4. INDEPENDENT AUDIT COMMITTEE

- 4.1 The Independent Audit Committee (IAC) is responsible for reviewing the reports and making recommendations to the PCC and CC, before they are finalised as part of the Statement of Accounts.

Author:
Lucinda Hines
Head of Technical Accounting

Sponsors:
Julie Strange
Chief Financial Officer to the OPCC

Steven Mackenzie
Chief Financial Officer to the CC

Date:
24 June 2021

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER

1. INTRODUCTION

- 1.1 This narrative report aims to provide the context for the Police and Crime Commissioner and Group financial statements and to demonstrate how the Police and Crime Commissioner has allocated its resources in line with intended outcomes for the 2020/21 financial year.
- 1.2 The Financial Statements provide information on the Police and Crime Commissioner's (PCC) and the Group's (incorporating the Chief Constable) financial activities for the year ending 31 March 2021. They are prepared in accordance with proper accounting practices (as defined in the Code of Practice on Local Authority Accounting in the United Kingdom) and are published in accordance with the Accounts and Audit Regulations 2015.
- 1.3 The Chief Constable has prepared a separate statement of accounts reflecting how the resources provided by the PCC have been used to deliver operational policing services. These are published separately.

2. EXPLANATION OF THE PCC AND GROUP

- 2.1 The Police and Crime Commissioner and the Chief Constable are separate legal entities. The PCC is elected by the public every four years with a responsibility to secure the maintenance of an efficient and effective police force and to hold the Chief Constable to account for the exercise of operational policing duties under the Police Act 1996. The Chief Constable has a statutory responsibility for the control, direction and delivery of operational policing services in Dorset.
- 2.2 The Chief Constable is accountable to the PCC for the delivery of efficient and effective policing, the delivery of the PCC priorities and the management of resources and expenditure by the Force.
- 2.3 The PCC for Dorset during the 2020/21 year was Martyn Underhill. He stepped down as PCC at the elections on 6 May 2021, and was replaced by David Sidwick, who took office on the 13 May 2021. The priorities for the 2020/21 year were set out in the 2017- 2021 Police and Crime Plan. The Police and Crime Plan for 2021 onwards is currently being prepared by the new PCC and will be published in due course.
- 2.4 The [Police and Crime Plan](#) is a statement of strategic intent for policing in Dorset, set around four key themes:
 - Protecting People at Risk of Harm
 - Working with our Communities
 - Supporting Victims, Witnesses and Reducing Reoffending
 - Transforming for the Future
- 2.5 The PCC is scrutinised by the [Police and Crime Panel](#). The Panel's primary focus is on important strategic actions and decisions made by the PCC. These include whether they have:
 - achieved the aims set out in the Police and Crime Plan and the Annual Report
 - considered the priorities of community safety partners
 - consulted appropriately with the public and victims of crime
- 2.6 The PCC provides an Annual Report to the Police and Crime Panel in the Summer each year which provides more detailed performance information in relation to the financial year just ended.

3. RESOURCES AVAILABLE IN 2020/21

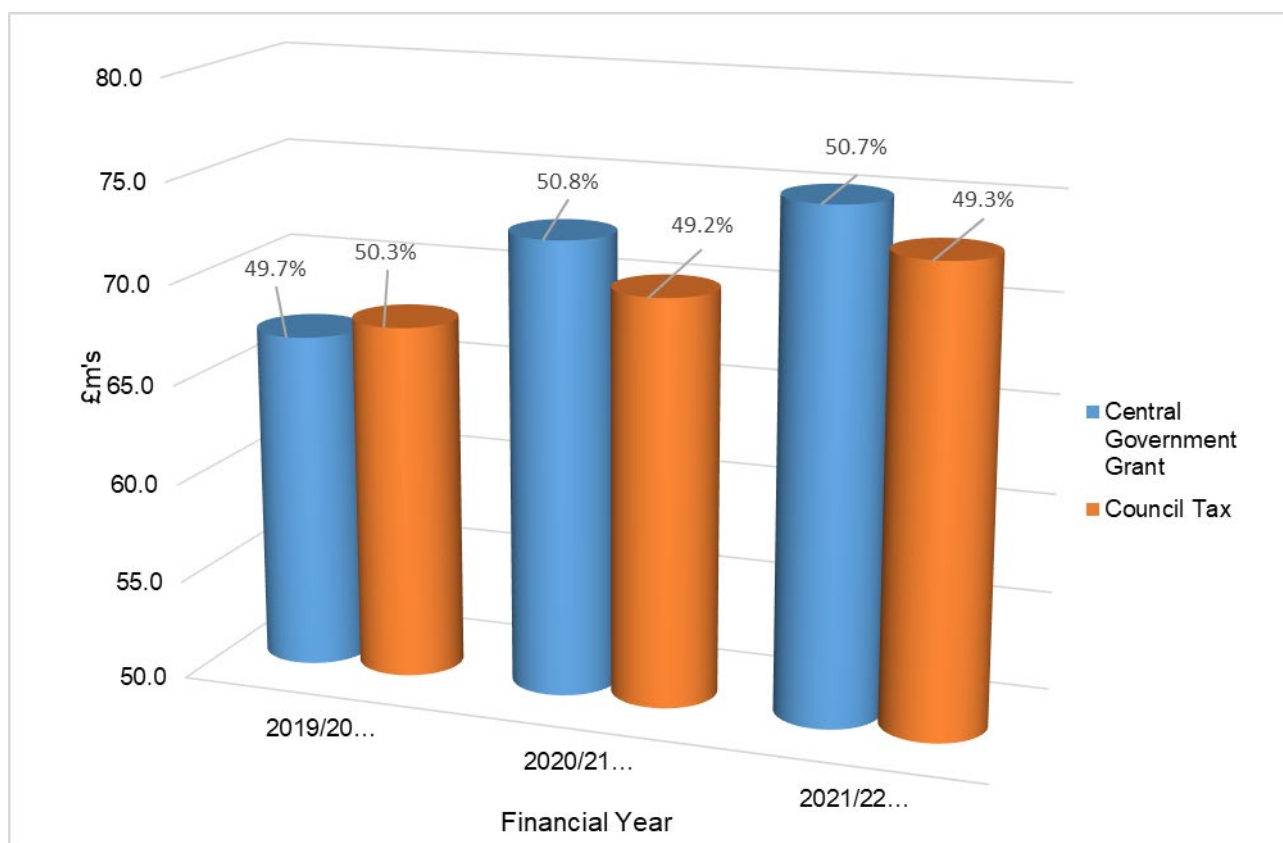
- 3.1 The budget for 2020/21 included additional central Government funding towards the recruitment of additional police officers. The Police Officer Uplift programme is designed to deliver an additional 20,000 officers nationally by the end of 2022/23, and the first phase was to deliver an additional 6,000 officers by the end of 2020/21. Dorset received funding for 50 of these officers, and associated infrastructure, in 2020/21.
- 3.2 The Commissioner, after public consultation, and ratified by the Police and Crime Panel, increased the council tax element for policing by 4.3%, which included provision for unavoidable cost increases such as inflation, but also to provide investment and innovation to improve services further in a number of key areas.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

Council tax was set at £240.58 for a band D property. The overall impact of this Home Office grant position and Council Tax increase was that overall funding in 2020/21 was £8.3m more than it was in 2019/20.

- 3.3 The revenue budget income graph below shows main funding sources in 2020/21 as well as the funding in the previous and following year for comparative purposes. In 2019/20 central government grant was 49.7% of revenue funding, in 2020/21 it increased to 50.8% and in 2021/22 it reduced again, only slightly, to 50.7%.

Revenue Budget funding 2019/20 – 2021/22



- 3.4 The 2020/21 budget was set before the first Covid-19 lockdown commenced in March 2020, and with little understanding of the implications of the pandemic for policing during the year. Additional funding was made available by Central Government to address the physical requirements, and the exceptional operational demands experienced during the year.

4. SETTING THE FINANCIAL STRATEGY FOR 2020/21 AND BEYOND

- 4.1 The Police and Crime Commissioner takes a multi-year approach to financial planning, considering the budget year and the subsequent three years.
- 4.2 One of the most significant issues in setting the 2020/21 budget was understanding the financial implications of the national Police Officer Uplift programme. This programme has just entered its second year and is ultimately expected to deliver in excess of 160 additional police officers for Dorset.
- 4.3 The additional funding, and costs, of this programme was central to the Medium Term Financial Strategy (MTFS), alongside unavoidable cost pressures such as inflation, and the increasing cost of pension schemes and capital investment requirements. The budget therefore continued to deliver efficiencies and innovation to ensure that maximum value is derived from existing resources. The Police and Crime Commissioner's decision to increase the Council Tax by 4.3%, alongside the delivery of efficiencies, enabled a number of key areas to be addressed, including:

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

- Establishment of a dedicated missing people team aimed at reducing the number of missing people in Dorset, protecting vulnerable people from harm, reducing the time people are missing, and supporting the families of missing people during that period.
- Investment in the Force's intelligence capacity and capability, specifically around high risk incidents, crimes, victims and offenders, to improve the effectiveness of response to dynamic serious crime, firearms incidents and missing people.
- Investment in the development of online statements and signatures, allowing statements to be taken at the witnesses' convenience. This delivers a significant efficiency in officer time with an average saving of two hours of officer time for each statement taken. Over 850 statements are now being taken each month online.
- Investment in neighbourhood policing, in particular in a vulnerability team who are involved in complex problem solving with those people who suffer or cause the greatest harm in the communities of Dorset.
- Further investment in forensic collision investigation, with the provision of a specialist scanner for use at the sites of collisions.
- Transformation of domestic abuse services, taking a whole system approach which involves training to all frontline officers and staff, a programme for perpetrators, and working with schools of children in families when there has been an instance of domestic abuse.
- Continued delivery of innovative solutions and developments to key policing issues through a dedicated Innovation Fund. Key successes during the year included:
 - Development of the use of process automation and artificial Intelligence, creating efficiencies.
 - Creation of a Joint Response Unit with the South Western Ambulance Service Trust to deal effectively and sympathetically with people suffering mental health episodes.
 - Introduction of legal support to investigators in obtaining protection orders and other civil sanctions to help protect vulnerable victims from the most serious offenders.
- Significant investment in the force estate, to ensure all premises remain fit for the future, and provide the necessary infrastructure required for the modern operational delivery of Police services.
- Further innovation and investment in technology, including:
 - Investment in a new Command and Control system, allowing improved deployment of resources
 - Digital Speed Cameras, providing a more robust deterrent for, and enforcement of, speeding offences
- Covid resilience
 - Investment in new ways of working
 - Savings achieved and planned into the future

4.4 Due to its timing the impact of the Covid-19 pandemic was not taken into account in the 2020/21 budget or the longer-term financial strategy but did have a considerable impact on finances during the year. In addition to delivering the planned investment and innovation, as set out above, the Force also delivered initiatives such as agile and mobile working, which not only enabled working in the Covid-19 environment, but delivered opportunities which are being built on to improve delivery of services in the future.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

- 4.5 The 2020/21 MTFS projected a continued tough financial outlook, with the years beyond 2020/21 showing continued pressure, and further savings being required:

	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Projected Funding	141.6	144.9	148.3	151.9
Projected Budget Requirement	141.6	147.0	153.1	158.7
Projected Shortfall	0.0	(2.1)	(4.8)	(6.8)

- 4.6 The 2021/22 budget settlement, with the increased central Government funding, and the ability of Police and Crime Commissioners to increase their precept by up to £15 for a Band D property (without a referendum), has subsequently fully mitigated the above projected shortfalls. The 2021/22 MTFS presents a forecast balanced budget position until at least 2024/25, although this is subject to numerous assumptions and the financial outlook will be monitored closely and revised as necessary.

5. ACTUAL EXPENDITURE IN 2020/21

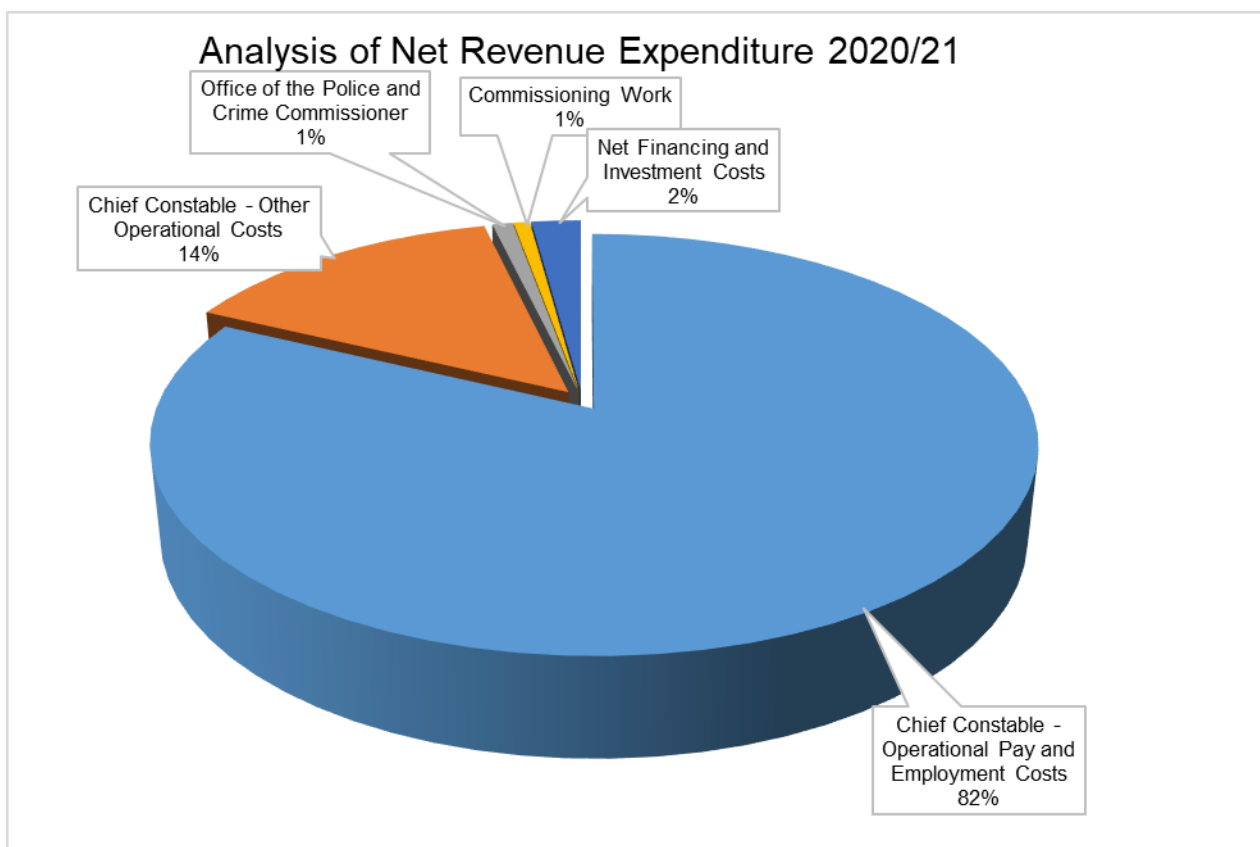
- 5.1 The final outturn position for the Police and Crime Commissioner Group for 2020/21 is a breakeven position. This is following year end transfer to reserves of £760,100 including £420,000 to provide for the 2021 Summer Policing operations.
- 5.2 It has been a challenging and unpredictable year as the pandemic continued. The overtime budget has had different pressures this year with the requirement to deliver 'business as usual' in the context of Covid-19. There were particular pressures as lockdowns were eased and subsequently re-introduced, creating spikes in demand. There were also significant demands during the summer period as international travel was reduced and more people spent the summer in this country, in holiday destinations like Dorset. This is expected to continue in 2021/22, hence the requirement for a carry forward of some budget from this year to meet this exceptional demand.
- 5.3 In previous years the most significant underspends occurred in police staff pay, this year however has seen a change in this with turnover reducing reflecting the changes in the employment market during the year.
- 5.4 Underspends however have been reported in premises related costs, supplies and services and transport related costs. Reduced occupation of buildings has seen a reduction in expenditure on utilities as well as reduced spend on photocopying, stationery and postage as staff continue to work from home. Reduced travelling on non-operational business during the pandemic as well as the free fuel offer from BP also contributed to fuel savings and reduced travel costs.
- 5.5 Income budgets overall exceeded the anticipated income, mainly due to grants received in relation to Covid-19. A summary of these is given below. The Income Loss grant provided partial reimbursement for the shortfall in Sales, Fees and Charges which is due predominately to the reduction in road safety education provided by the Driver Awareness Scheme (DAS), as well as reduced income from Firearms certificates and Foreign Nationals Registration.

Covid Funding	£
Personal Protective Equipment Re-imbursement	50,951
Income Loss	994,744
Surge Grant	248,842
General Pressures	481,094
Total	1,775,631

The final income loss claim is due to be paid in June 2021 but is included in the figure above.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

- 5.6 The OPCC outturn for the year was on budget, after allowing for two transfers to reserves. The first was a transfer of £96,000 to a new OPCC Legal Reserve to cover future costs of legal support to officers. These costs have been deferred to future years as a result of the pandemic. The second transfer was in relation to underspends within the commissioning and core budget areas totalling just over £141,000, which have been transferred to the Police and Crime Plan reserve to fund existing commitments and to provide additional commissioning budget for the new Commissioner.
- 5.7 As part of the Local Government Covid support package for 2021/22 a 75% Tax Income Guarantee compensation scheme was announced. The income will be paid in the form of a grant which is included in 2020/21 and transferred to the budget management fund reserve for use in 2021/22 in accordance with the Code of Practice. The grant to Dorset Police is £140,673.
- 5.8 The chart below shows a breakdown of actual net revenue expenditure for 2020/21 by category of spend.



6. NATIONAL TRANSFORMING FORENSICS PROGRAMME

- 6.1 Dorset Police is the financial lead for the National Transforming Forensics programme and in 2020/21 the grant and expenditure for the programme is accounted for within the Group Accounts. Revenue and Capital expenditure is fully funded by the grant received and therefore does not affect the overall variance.
- 6.2 Total grant funding received and spent in 2020/21 totalled £24.220m

7. RESERVES

- 7.1 The PCC maintains reserves for 3 main purposes:
- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general fund balance;
 - As a contingency to cushion the impact of unexpected events or emergencies: also part of the general fund balance;
 - As a means of building up funds to meet known or predicted requirements; earmarked reserves.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

- 7.2 The PCC's Policy for the maintenance of reserves includes the following key principles:

General Balances - The PCC will seek to maintain a general reserve at between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment which will also identify the need for any specific earmarked reserves.

Earmarked Reserves - The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

- 7.3 Total Usable Reserves at 31 March 2021 amounted to £9.364m comprising; General Fund Balance £5.699m and Earmarked Reserves £3.665m. These balances are in line with the policy on reserves.
- 7.4 During 2020/21 the decision was taken to close the Major Operations reserve after £250,000 was used to support Summer Policing with the remaining £738,000 transferred to the General Fund.

8. CAPITAL PROGRAMME

- 8.1 The table below shows the Police and Crime Commissioner's capital expenditure, and funding, during 2020/21. This consists of an ongoing programme of rationalisation, replacement and enhancement of property and other assets, all with an expected life of more than one year, and with an individual or programme value in excess of £10,000.
- 8.2 Work commenced this year on the Ferndown re-investment project, and this will continue into 2021/22 with a total budget of £1.4m. This work is part of the Estates futures programme which also includes the A10 project.
- 8.3 Spend within Equipment and ICT included the replacement of the Command and Control system (STORM), PC replacement scheme and digital camera upgrades. This excludes the expenditure and funding of the Transforming Forensics Programme.

	£'m
Capital Programme	
Land and Buildings	1.103
Vehicles and Other Transport	1.853
Equipment and ICT	3.334
Intangible Assets	0
Total Expenditure	6.290
Funded by	
Grants	1.034
Capital Receipts reserve	0.226
Revenue Funding	2.432
Borrowing	2.598
Total Funding	6.290

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

9. WORKFORCE RESOURCES

- 9.1 Workforce costs make up 82% of the annual expenditure of the Group. The full-time equivalents (FTE) of officers and staff employed by Dorset Police at the beginning and end of the year were:

31/03/20 (FTE)		31/03/21 (FTE)
1,223	Police Officers	1,275
1,166	Police Staff (Force)	1,154
31	Police Staff (Transforming Forensics)	46
123	PCSO's	126
18	Office of the Police and Crime Commissioner	16
2,561	Total	2,617

- 9.2 There was budgeted growth of 33 officers during the year funded through the Police Officer Uplift Programme. However, the actual number of officers at year end was higher than this as the conditions of the Uplift grant were based on headcount of officers as opposed to FTE. This meant that the Force was required to increase its year-end FTE by an extra 19 officers to comply. The national uplift programme is expected to fund a further 50 officers in 2021/22.

10. PERFORMANCE INDICATORS

External Indicators

- 10.1 The principal independent financial indicators available to Police and Crime Commissioner are as follows:
- HMICFRS PEEL Report – Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) review each Force to examine their Efficiency, Effectiveness and Legitimacy. The 2018/19 concluded that Dorset Police was graded 'Good' for all three areas reviewed:
 - The extent to which the force is effective at keeping people safe and reducing crime is "Good".
 - The extent to which the force is efficient at keeping people safe and reducing crime is "Good".
 - The extent to which the force is legitimate at keeping people safe and reducing crime is "Good".
 - Auditors Value for Money Opinion – The external auditors last provided a Value for Money conclusion for both the PCC and the Chief Constable for the year ending 31 March 2020. This audit concluded that the Police and Crime Commissioner and Chief Constable have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.
 - HMICFRS Value for Money Profile 2020 – this report does not provide an opinion but states key financial and performance information of Dorset Police in comparison to other forces. The report did not indicate any significant areas where Dorset Police is more expensive than other Forces.

Operational Performance of the Force

- 10.2 The 2020/21 year was particularly challenging due to the exceptional demands of the Covid-19 pandemic. The effect on operational performance was considerable, as the country experienced a number of lockdowns, with different pressures on the Force before, during and after each one. As such, the performance for the year was markedly different than the preceding year.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

10.3 The following table sets out the key movement in activity in 2020/21 when compared to the previous year.

Contact		
999 Calls	-4.9%	↓
Non-Emergency Calls	-26.3%	↓
Emails and Callbacks	+25.8%	↑
Incidents		
Incidents Recorded	-10.7%	↓
Of which, Anti-Social Behaviour *	+37.4% (+7.0%)	↑
Crime		
All Crime Recorded	-12.8%	↓
Sexual Offences	-16.3%	↓
Of which, Serious Sexual Offences	-17.1%	↓
Violence Against the Person	-5.4%	↓
Of which, Most Serious Violence	-11.7%	↓
Domestic Abuse Crime	-0.3%	↓
Theft	-24%	↓
Other		
Arrests Made	-17.6%	↓
Positive Outcomes	-0.4%	↓
Missing Persons	-24% (High Risk -10%)	↓
Public Protection Notices Issued	+2%	↑

* Anti-social Behaviour (ASB) includes Covid-19 related ASB. The year on year comparator excluding Covid-19 ASB related was +7.0%.

11. FUTURE FINANCIAL OUTLOOK

- 11.1 The Police and Crime Commissioner formally updates its MTFS annually during the budget setting process. The 2021/22 MTFS reflected a significantly improved outlook when compared with the 2020/21 forecasts, with the central case forecast showing a balanced position for all future years of the MTFS. The forecasts rely heavily on estimates and assumptions, reflected in the best and worst case scenarios to give context to the potential future position, and these assumptions will be regularly reviewed.
- 11.2 The 2021/22 MTFS is designed to support the delivery of the Police and Crime Plan which is in its final year. The new Police and Crime Commissioner will develop a new Plan during 2021 which will be used to drive the budget in future years.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

- 11.3 The Financial Strategy, including the Capital Strategy, Reserves Strategy and Treasury Management Strategy are used to translate the vision of the Police and Crime Plan into the detailed budget, with the MTFS setting out what this looks like for future years.
- 11.4 The strategic approach taken to balancing the 2021/22 budget was to take a longer term view to ensure decisions taken are sustainable and that the budget starts the decade on firm foundations, to build greater financial resilience and delivering value for money for Dorset residents.
- 11.5 For 2022/23 and beyond there is a great deal of uncertainty around funding levels, as central Government funding is agreed for only one year at a time, as is the precept flexibility provided to the Police and Crime Commissioner. This impacts on the future planning process, and wider economic uncertainty, particularly that arising from the Covid-19 pandemic, exacerbate the planning challenges.
- 11.6 Key areas of uncertainty are:
- The next Comprehensive Spending Review, which the Government had planned to undertake during 2020, has been delayed. It is currently expected that this will be carried out in 2021 when some of the uncertainty facing the national economy may have become clearer.
 - The anticipated changes to the formula by which Home Office funding is allocated to forces. The timescale for this review is not confirmed, and it is not yet clear whether this may impact on the 2022/23 funding position.
 - Future cost of pension schemes. These schemes have seen increased pressure in recent years, and this pressure is expected to continue at the next triennial valuations due, in part, to changes required to comply with the court's finding of age discrimination in the way changes to public sector pension schemes were implemented in 2015.
 - The impact of any future recession associated with Covid, including the potential local implications on precept, Collection Funds and taxbase.
- 11.7 The continuing pandemic has made the Police and Crime Commissioner adapt quickly to new ways of working using new technology. Working from home has continued for many staff during the lockdown and the Police and Crime Commissioner continues to explore and build on opportunities for the future.

12. GOVERNANCE ARRANGEMENTS

- 12.1 The Annual Governance Statement is published alongside this document. The Annual Governance Statement describes the internal control environment for the Police and Crime Commissioner. It also comments on the effectiveness of the governance arrangements and identifies issues that require further work.
- 12.2 The Police and Crime Commissioner and the Chief Constable have an effective joint process for managing risk and the details are also provided in the Annual Governance Statement.

13. THE STATEMENT OF ACCOUNTS

- 13.1 A brief explanation of the purpose of each of the four primary statements is provided below together with a high-level summary.

Movement in Reserves Statement for the Group and for the Police and Crime Commissioner as a single entity - shows the changes in the Police and Crime Commissioner's financial resources over the year. The statement shows the different reserves held which have been analysed into "Usable" and "Unusable" Reserves. Usable reserves can be used to fund expenditure during the year and in future years or to reduce the amount that needs to be raised in council tax. Unusable reserves are technical accounting adjustments that are required to be reported at year end.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

The table below is a summary of the movement in reserves:

Summary Movement in Reserves	Balance as at 31/03/2020 £'m	Movements £'m	Balance as at 31/03/2021 £'m
General Fund	4.746	0.953	5.699
Earmarked Reserves	4.152	(0.487)	3.665
Capital Receipts	0.955	(0.199)	0.756
Capital Grants	0	0	0
Total Usable Reserves	9.853	0.267	10.120
Unusable Reserves	(1,428.013)	(447.774)	(1,875.787)
Total Reserves	(1,418.160)	(447.507)	(1,865.667)

The significant movements during the year have been within unusable reserves, specifically for pensions and revaluation. The accounting adjustments applied have been prepared in accordance with generally accepted accounting practices and are not chargeable against council tax for the year.

Comprehensive Income and Expenditure Statement for the Group and for the Police and Crime Commissioner as a single entity – this statement shows the accounting cost in the year of providing services in accordance with accounting standards. This amount is different to the amount funded by taxation due to the accounting treatment of certain costs such as depreciation and pensions.

The table below is a summary of the Comprehensive Income and Expenditure Statement:

Summary Comprehensive Income and Expenditure Statement	Gross Expenditure 2020/21 £'000	Gross Income 2020/21 £'000	Net Expenditure 2020/21 £'000
Net Cost of Services	213.996	(47.672)	166.324
Other Operating Income and Expenditure	4.670	(23.026)	(18.356)
Financing and Investment Income and Expenditure	37.698	(3.526)	34.172
Taxation and Non-Specific Grant Income	0	(146.323)	(146.323)
(Surplus)/Deficit on Provision of Services	256.364	(220.547)	35.817
Other Comprehensive Income and Expenditure	411.690	0	411.690
Total Comprehensive Income and Expenditure	668.054	(220.547)	447.507

The statement highlights that the expenditure is dominated by the net cost of providing services which is predominantly the costs of policing. The other most significant cost is shown in the Financing Investment Income and Expenditure section and relates to pensions interest cost and expected return on pension assets (£34.170m). This cost is calculated in accordance with generally accepted accounting practices and reflects the cost of the pensions at the time employees earn their retirement benefits even though the benefits will not actually be payable until employees retire.

A further accounting adjustment of £411.690m is shown under “Other Comprehensive Income and Expenditure” which reflects the net movement in the revaluation of assets and the valuation of the pension liabilities.

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER CONTINUED

Balance Sheet as at 31 March 2021, shows how the resources available to the Group and the Police and Crime Commissioner are held in the form of assets and liabilities.

The table below is a summary of the balance sheet:

Summary Balance Sheet	Balance as at 31/03/2020 £'000	Balance as at 31/03/2021 £'000	Movement £'000
Long Term Assets	65.832	65.927	0.095
Current Assets	37.160	41.875	4.715
Current Liabilities	(29.993)	(38.828)	(8.835)
Long Term Liabilities	(1,491.159)	(1,934.641)	(443.482)
Net Liabilities	(1,418.160)	(1,865.667)	(447.507)
Unusable Reserves	(1,428.013)	(1,875.787)	(447.774)
Usable Reserves	9.853	10.120	0.267
Total Reserves	(1,418.160)	(1,865.667)	(447.507)

The significant movements in the balance sheet correspond to the areas highlighted above. The total reserves deficit is mainly due to the police officer and staff pension liabilities. In practice, in year pension costs for police officers are being met by the Home Office.

Cash Flow Statement, shows how the movement in resources has been reflected in cash flows.

The table below is a summary of the cash flow position:

Summary Cash Flow Statement	Cash Flows 2019/20 £'000	Cash Flows 2020/21 £'000	Movement £'000
Cash and Cash Equivalents as at 01 April 2020	(2.052)	(9.355)	(7.303)
Net Cash Flow from:			
Operating Activities	(2.217)	(4.524)	(2.307)
Investing Activities	0.296	7.781	7.485
Financing Activities	(5.382)	(7.029)	(1.647)
Movement	(7.303)	(3.772)	3.531
Cash and Cash Equivalents as at 31 March 2021	(9.355)	(13.127)	(3.772)

- 13.2 The notes to the accounts include the accounting policies and gives further information on the entries within the main statements as well as supplementary information. All notes relate to the Group Statements unless it is otherwise specified. These are further supplemented by a glossary of terms.

Julie Strange, CPFA
Chief Financial Officer

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER

10. INTRODUCTION

- 10.1 Welcome to the Chief Constable's Statement of Accounts for 2020/21. This narrative report aims to provide the context for the Chief Constable's financial statements and to demonstrate how the resources have been allocated in line with intended outcomes for the 2020/21 financial year.
- 10.2 The Financial Statements provide information on the Chief Constable's financial activities for the year ending 31 March 2021. They are prepared in accordance with proper accounting practices (as defined in the Code of Practice on Local Authority Accounting in the United Kingdom) and are published in accordance with the Accounts and Audit Regulations 2015.
- 10.3 The primary function of the Chief Constable is to provide an efficient and effective police service in Dorset, ensuring that the county remains one of the safest in the country in which to live, work and play. The Chief Constable has a number of operational priorities which are based on today's risks, and on what the local communities and the Police and Crime Commissioner have raised as areas of concern. Each year these priorities are reviewed and throughout the year the Chief Constable works with the Police and Crime Commissioner to ensure the Force is focused on them. The current priorities are:
- Protecting People at Risk of Harm
 - Working with our Communities
 - Supporting Victims, Witnesses and Reducing Reoffending
 - Transforming for the Future
- 10.4 The Police and Crime Commissioner for Dorset during the 2020/21 year was Martyn Underhill. He stepped down as Police and Crime Commissioner at the elections on 6 May 2021, and was replaced by David Sidwick, who took office on the 13 May 2021. The priorities for the 2020/21 year were set out in the 2017- 2021 Police and Crime Plan. The Police and Crime Plan for 2021 onwards is currently being prepared by the new Police and Crime Commissioner and will be published in due course.
- 10.5 The coronavirus pandemic continued to be a priority for the Chief Constable and the Police and Crime Commissioner in 2020/21. The pandemic resulted in business continuity plans being implemented. Despite the fears of widespread sickness, Dorset Police were able to respond effectively to the pandemic, maintaining most services as normal and taking on the additional emergency powers put in place by the Government.
- 10.6 The Police and Crime Commissioner and the Chief Constable form an accounting group for reporting purposes. These accounts are the Chief Constable's single entity accounts. The single entity accounts for the Police and Crime Commissioner and the accounts for the Group are presented together in a separate booklet.

11. RESOURCES AVAILABLE

- 11.1 The Police and Crime Commissioner for Dorset allocates the majority of the available annual funding to the Chief Constable. In 2020/21, the allocation to the Chief Constable was £139.4m out of the total Police and Crime Commissioner funding of £141.6m.
- 11.2 The Chief Constable works with the Commissioner in agreeing a Medium Term Financial Strategy (MTFS), identifying the budget requirement for the following year and for the subsequent three years.
- 11.3 One of the most significant issues in setting the 2020/21 budget was understanding the implications of the national Police officer uplift programme. This programme has just entered its second year and is ultimately expected to deliver in excess of 160 additional police officers for Dorset.
- 2.4 The additional funding, and costs, of this programme were central to the MTFS, alongside unavoidable cost pressures such as inflation, the increasing costs of pension schemes and capital investment requirements. The budget therefore continued to deliver efficiencies and innovation to ensure maximum value is derived from existing resources. The Police and Crime Commissioner's decision to increase the precept by the maximum £15 (4.3%) enabled a number of key areas to be addressed, including:

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

- Establishment of a dedicated missing people team aimed at reducing the number of missing people in Dorset, protecting vulnerable people from harm, reducing the time people are missing, and supporting the families of missing people during that period.
- Investment in the Force's intelligence capacity and capability, specifically around high risk incidents, crimes, victims and offenders, to improve the effectiveness of response to dynamic serious crime, firearms incidents and missing people.
- Investment in the development of online statements and signatures, allowing statements to be taken at the witnesses' convenience. This delivers a significant efficiency in officer time with an average saving of two hours of officer time for each statement taken. Over 850 statements are now being taken each month online.
- Investment in neighbourhood policing, in particular in a vulnerability team who are involved in complex problem solving with those people who suffer or cause the greatest harm in the communities of Dorset.
- Further investment in forensic collision investigation, with the provision of a specialist scanner for use at the sites of collisions.
- Transformation of domestic abuse services, taking a whole system approach which involves training to all frontline officers and staff, a programme for perpetrators, and working with schools of children in families when there has been an instance of domestic abuse.
- Continued delivery of innovative solutions and developments to key policing issues through a dedicated Innovation Fund. Key successes during the year included:
 - Development of the use of process automation and artificial Intelligence, creating efficiencies.
 - Creation of a Joint Response Unit with the South Western Ambulance Service Trust to deal effectively and sympathetically with people suffering mental health episodes.
 - Introduction of legal support to investigators in obtaining protection orders and other civil sanctions to help protect vulnerable victims from the most serious offenders.
- Significant investment in the force estate, to ensure all premises remain fit for the future, and provide the necessary infrastructure required for the modern operational delivery of Police services.
- Further innovation and investment in technology, including:
 - Investment in a new Command & Control system, allowing improved deployment of resources
 - Digital Speed Cameras, providing a more robust deterrent for, and enforcement of, speeding offences
- Covid resilience
 - Investment in new ways of working
 - Savings achieved and planned into the future

2.5 Due to its timing, the impact of the Covid-19 pandemic was not taken into account in the 2020/21 budget or the longer term financial strategy but did have a considerable impact on finances during the year. In addition to delivering the planned investment and innovation, as set out above, the Force also delivered initiatives such as agile and mobile working, which not only enabled working in the Covid-19 environment but delivered opportunities which are being built on to improve delivery of services in the future.

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

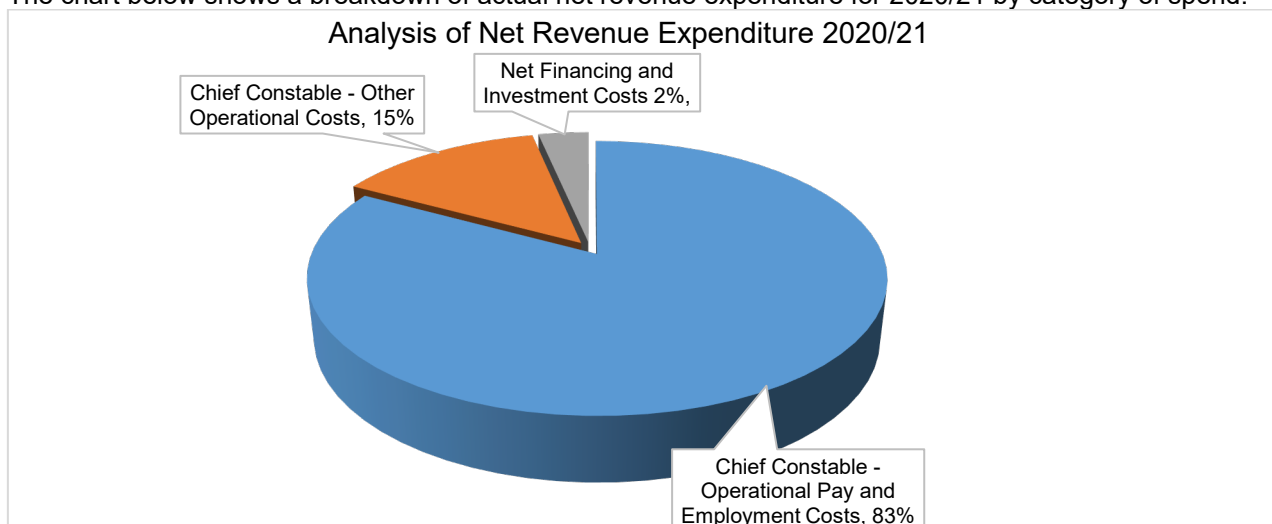
12. ACTUAL EXPENDITURE IN 2020/21

- 3.1 The Chief Constable spent £139.4m against the budget allocation of £139.4m, a breakeven position. This final spend is reflected in the Expenditure and Funding Analysis in the accounts.
- 3.2 It has been a challenging and unpredictable year as the pandemic continued. The overtime budget has had different pressures this year with the requirement to deliver 'business as usual' in the context of Covid-19. There were particular pressures as lockdowns were eased and subsequently re-introduced, creating spikes in demand. There were also significant demands during the summer period as international travel was reduced and more people spent the summer in this country, in holiday destinations like Dorset. This is expected to continue in 2021/22, hence the requirement for a carry forward of some budget from this year to meet this exceptional demand.
- 3.3 In previous years the most significant underspends occurred in police staff pay, this year however has seen a change in this with turnover reducing reflecting the changes in the employment market during the year.
- 3.4 Underspends however have been reported in premises related costs, supplies and services and transport related costs. Reduced occupation of buildings has seen a reduction in expenditure on utilities as well as reduced spend on photocopying, stationery and postage as staff continue to work from home. Reduced travelling on non-operational business during the pandemic as well as the free fuel offer from BP, also contributed to fuel savings and reduced travel costs.
- 3.5 Income budgets overall exceeded the anticipated income, mainly due to grants received in relation to Covid-19. A summary of these is given below. The Income Loss grant provided partial reimbursement for the shortfall in Sales, Fees and Charges which is due predominately to the reduction in road safety education provided by the Driver Awareness Scheme (DAS), as well as reduced income from Firearms certificates and Foreign Nationals Registration.

Covid Funding	£
Personal Protective Equipment Re-imburement	50,951
Income Loss	994,744
Surge Grant	248,842
General Pressures	481,094
Total	1,775,631

The final income loss claim is due to be paid in June 2021 but is included in the figure above.

- 3.6 As part of the Local Government Covid support package for 2021/22 a 75% Tax Income Guarantee compensation scheme was announced. The income will be paid in the form of a grant which is included in 2020/21 and transferred to the budget management fund reserve for use in 2021/22 in accordance with the Code of Practice. The grant to Dorset Police is £140,673.
- 3.7 The chart below shows a breakdown of actual net revenue expenditure for 2020/21 by category of spend.



NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

13. CAPITAL PROGRAMME

- 4.1 The table below shows the Chief Constable's capital expenditure, and funding, during 2020/21. The majority of the assets used by the Chief Constable, most significantly its buildings, are owned by the Police and Crime Commissioner. However certain items of equipment, ICT and vehicles are considered to be under the ownership and control of the Chief Constable. Capital expenditure in this respect consists of an ongoing programme of rationalisation, replacement and enhancement of assets, all with an expected life of more than one year, and with an individual or programme value in excess of £10,000.

	£'m
Equipment	0.611
ICT	2.605
Vehicles	1.772
	<u>4.988</u>
<u>Funded by</u>	
Advance from Police and Crime Commissioner	<u>(4.988)</u>
	(4.988)

- 4.2 ICT and equipment across the Force area is replaced when necessary to ensure officers and staff have the most appropriate access to technology and equipment to support them in their roles. Notable expenditure this year includes replacement of the Command and Control system, a Gazetteer, an E-recruitment system in conjunction with Devon and Cornwall Police Force and the upgrade of digital speed cameras.

14. WORKFORCE RESOURCES

- 5.1 Workforce costs make up 83% of the annual expenditure of Dorset Police. The full-time equivalents (FTE) of officers and staff employed by Dorset Police at the beginning and end of the year were:

31/03/20 (FTE)		31/03/21 (FTE)
1,223	Police Officers	1,275
1,166	Police Staff (Force)	1,154
31	Police Staff (Transforming Forensics)	46
123	PCSO's	126
2,543	Total	2,601

- 5.2 There was budgeted growth of 33 officers during the year funded through the Police Officer Uplift Programme. However, the actual number of officers at year end was higher than this as the conditions of the Uplift grant were based on headcount of officers as opposed to FTE. This meant that the Force was required to increase its year-end FTE by an extra 19 officers to comply. The national uplift programme is expected to fund a further 50 officers in 2021/22.

15. PERFORMANCE INDICATORS

External Indicators

- 15.1 The principal independent financial indicators available to the Chief Constable and Police and Crime Commissioner are as follows:
- HMICFRS PEEL Report – Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) review each Force to examine their Efficiency, Effectiveness and Legitimacy. The 2018/19 report concluded that Dorset Police was 'Good' for all three areas reviewed:
 - The extent to which the force is effective at keeping people safe and reducing crime is "Good".
 - The extent to which the force is efficient at keeping people safe and reducing crime is "Good".
 - The extent to which the force is legitimate at keeping people safe and reducing crime is "Good".

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

- Auditors' Value for Money Opinion – The external auditors last provided a Value for Money conclusion for both the Police and Crime Commissioner and the Chief Constable for the year ending 31 March 2020. This audit concluded that the Police and Crime Commissioner and Chief Constable have, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.
- HMICFRS Value for Money Profile 2020 – this report does not provide an opinion but states key financial and performance information of Dorset Police in comparison to other forces. The report did not indicate any significant areas where Dorset Police is more expensive than other Forces.

Operational Performance of the Force

15.2 The 2020/21 year was particularly challenging due to the exceptional demands of the Covid-19 pandemic. The effect on operational performance was considerable, as the country experienced a number of lockdowns, with different pressures on the Force before, during and after each one. As such, the performance for the year was markedly different than the preceding year.

15.3 The following table sets out the key movement in 2020/21 when compared to the previous year.

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Public Protection Notices Issued	+2%	↑

* Anti-social Behaviour (ASB) includes Covid-19 related ASB. The year on year comparator excluding Covid-19 related ASB was +7.0%.

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

16. FUTURE FINANCIAL OUTLOOK

- 16.1 Dorset Police formally updates its MTFS annually during the budget setting process. The 2020/21 MTFS reflected a significantly improved outlook when compared with the 2020/21 forecasts, with the central case forecast showing a balanced position for all future years of the MTFS. The forecasts rely heavily on estimates and assumptions, reflected in the best and worst case scenarios to give context to the potential future position, and these assumptions will be regularly reviewed.
- 16.2 The 2020/21 MTFS is designed to support the delivery of the Police and Crime Plan which runs until 2021. The new Police and Crime Commissioner will develop a new plan during 2021 which will be used to drive the budget in future years.
- 16.3 The Financial Strategy, including the Capital Strategy, Reserves Strategy and Treasury Management Strategy are used to translate the vision of the Police and Crime Plan into the detailed budget, with the MTFS setting out what this looks like for future years.
- 16.4 The strategic approach taken to balancing the 2021/22 budget was to take a longer term view to ensure decisions taken are sustainable and that the budget starts the decade on firm foundations, to build greater financial resilience and delivering value for money for Dorset residents.
- 16.5 For 2022/23 and beyond there is a great deal of uncertainty around funding levels which will impact on our planning process. This uncertainty is exacerbated by the economic impact of the current coronavirus pandemic, and the effect that this may have on future funding and costs. In addition to this fundamental issue, key areas of uncertainty are:-
- The next Comprehensive Spending Review, which the Government had planned to undertake during 2020, has been delayed. It is currently expected that this will be carried out in 2021 when some of the uncertainty facing the national economy may have become clearer.
 - The anticipated changes to the formula by which Home Office funding is allocated to forces. The timescale for this review is not confirmed, and it is not yet clear whether this may impact on the 2022/23 funding position.
 - Future cost of pension schemes. These schemes have seen increased pressure in recent years, and this pressure is expected to continue at the next triennial valuations due, in part, to changes required to comply with the court's finding of age discrimination in the way changes to public sector pension schemes were implemented in 2015.
 - The impact of any future recession associated with Covid, including the potential local implications on precept, Collection Funds and taxbase.
- 16.6 The continuing pandemic has made the force adapt quickly to new ways of working using new technology. Working from home has continued for many staff during the lockdown and the force continues to explore and build on opportunities for the future.

17. GOVERNANCE ARRANGEMENTS

- 17.1 The Annual Governance Statement is published alongside this document. The Annual Governance Statement describes the internal control environment for the Chief Constable. It also comments on the effectiveness of the governance arrangements and identifies issues that require further work.
- 17.2 The Police and Crime Commissioner and the Chief Constable have an effective joint process for managing risk and the details are also provided in the Annual Governance Statement.

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCE OFFICER CONTINUED

18. THE STATEMENT OF ACCOUNTS

18.1 A brief explanation of the purpose of each of the four primary statements is provided below:

- **Movement in Reserves Statement** - shows the changes in the Chief Constable's financial resources over the year.
- **Comprehensive Income and Expenditure Statement** - shows the gains and losses that contributed to the changes in resources.
- **Balance Sheet as at 31 March 2021** - shows how the resources available to the Chief Constable are held in the form of assets and liabilities.
- **Cash Flow Statement** - shows how the movement in resources has been reflected in cash flows.

18.2 The notes to the accounts include the accounting policies and give further information on the entries within the main statements as well as supplementary information. These are further supplemented by a glossary of terms.

Steven Mackenzie MBA FCPFA
Chief Financial Officer to the Chief Constable

Dorset Police

Name of Meeting: Joint Leadership Board		Agenda item Number:
Date of Meeting: 21 June 2021		
Title of Paper: Going Concern Assessment		
Freedom of Information Classification: FOIA - Open		
Prepared By: Steve Mackenzie – Interim Chief Finance Officer Julie Strange - Treasurer		
For Decision: Yes	For Information:	Appendices Attached: 0

1. Executive Summary

Public sector organisations have always been assumed to be a “going concern” because they are financed by taxation. However, austerity over the last decade has started to throw doubt on that assumption because a couple of large local authorities have taken urgent measures to stop non-essential spending following the preparation of Section 114 reports. Other local authorities have apparently also considered whether a Section 114 report should be issued.

These developments have caused external auditors to query whether the PCC Group is a going concern. This report aims to demonstrate that the Group is a going concern.

The sections which follow show the Group has a balanced budget and a history of underspending its budget. This has allowed it to build its earmarked reserves to over £3.5m and increase the General Fund balance to nearly £5.7m, which represents 4% of the net revenue budget.

The pandemic brought many challenges in 2020/21, including to the budget. During the year significant overspends were projected but the robust challenge and prompt action by the Resource Control Board meant that these challenges were addressed and a breakeven position achieved by year end.

The Medium Term Financial Strategy adopted in February 2021, shows a balanced position as its central case forecast. This is after taking into account the borrowing requirements of the capital programme, which is also projecting a sustainable position, funding all recurring spend from revenue resources. This is a significant improvement from the previous plan although, as always, it is reliant on a number of assumptions. Work continues by the Force to identify efficiencies either to address changes in assumptions as we move forward or enable reinvestment in new capabilities.

The Balance Sheet is strong with a net worth (excluding pension deficits) of £10m. Debtors and creditors are broadly in balance and, at the end of the last financial year, the PCC had cash and short term investments of £17.1m. External borrowing stood at £39.5m but £22.6m of this relates to PFI schemes for which early redemption of the debt cannot be requested.

The PCC Group has a strong control environment, as demonstrated in the Annual Governance Statement. It also operates within a very strong external regulatory and control environment, overseen by the Home Office, inspected by HMICFRS and subject to independent external and internal audit.

2. Recommendation

The Joint Leadership Board notes the contents of the report and agrees with the assessment that the PCC Group represents a “Going Concern”.

3. Background

The Statement of Accounts for Dorset Police and the Group, including the Office of the Police and Crime Commissioner for Dorset (OPCC), are required to be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code). The Code has been prepared under International Financial Reporting Standards, which have been adopted as the basis for public sector accounting in the UK. The Code is prepared and published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In accordance with the Code, the Statement of Accounts are prepared on the basis that Dorset Police and the OPCC are going concerns. This assumes that the two organisations will have the resources to continue to deliver their respective functions and services for the foreseeable future.

The assumption that public sector organisations would continue to deliver their functions and services was always considered to be a reasonable assumption because they are financed from taxation and the first call on their income is to settle their debts and obligations. However, a decade of austerity has resulted in some local authorities struggling to deliver their services because of a lack of resources. When it appears to a Section 151 Officer that the organisation does not have sufficient resources to meet its proposed expenditure in a financial year the Section 151 Officer must make a report under Section 114(3) of the Local Government Finance Act 1988. To date, only two local authorities have issued a Section 114 report but several have been reported as considering whether to issue such a report.

In auditing the Statement of Accounts, external auditors are placing greater emphasis on considering an organisation’s ability to operate as a going concern. They are now looking for a clear demonstration that an organisation has actively considered whether it has the resources to continue to deliver its services and functions for the foreseeable future.

The main factors which underpin an assessment of “going concern” are:

- The current financial position;
- The projected financial position;
- The strength of the Balance Sheet;
- Cash flow;
- Corporate governance arrangements
- The external regulatory and control environment.

Each of these is considered in the sections below.

4. The Current Financial Position

In 2020/21 the Chief Constable and the PCC Group’s spend was in line with their respective budgets. This was after the agreed carry forwards of £0.7m for the Chief Constable and contributions to earmarked reserves of £0.2m for the PCC. These transfers represent 0.7% of the total annual budget of £141.6m.

The Major Operations Reserve was transferred to the General Fund balance during the year. Other earmarked reserves increased from £3.164m at 31 March 2020 to £3.665m at 31 March 2021, primarily as a result of Uplift funding.

The increase in the General Fund balance from the Major Operations Reserve and the budgeted contributions brought the balance to £5.7m. The General Fund balance represents 4% of the net revenue budget, which is within the target range of 3% - 5%. The level of the balances and reserves is risk assessed as part of the annual accounts preparation and again when the budget is finalised.

A balanced budget was set for the 2021/22 financial year, although it includes an unallocated savings target of £0.5m. This has consistently been delivered in previous years through procurement and other actions therefore does not cause any concern.

Early reviews of the budget position in the first 2 months of the financial year have identified some emerging risks such as summer policing and the Police Officer recruitment programme. These will be actively managed on a monthly basis through Resource Control Board in order to remain within the budget for the year. Indeed, nearly £0.5m of funding was brought forward from 2020/21 to meet the expected costs associated with covid surge policing and summer policing.

5. The Projected Financial Position

The Group Medium Term Financial Strategy (MTFS) was refreshed as part of the budget preparation for 2021/22, which is common practice for the Group. Over the five years covered by the MTFS the net revenue expenditure of the Group is expected to increase from £141.6m in 2020/21 to £162.4m in 2024/25, an increase of nearly 15% due, in part, to an increase of 169 in officer numbers as part of the Government's uplift of 20,000 officers nationally.

Over the same period funding is also expected to increase by the same amount leading to a central case of a balanced budget. This position has improved as a result of growing confidence in the level of funding for Uplift and the continued flexibility provided within the precept referendum limits.

Whilst the central case is for a balanced budget over the medium term, the alternative scenarios range from a best case of a surplus of £4.5m by 2024/25 to the worst case of a £5m deficit by the end of the MTFS. This is a significant range as a result of the large number of assumptions but still shows a marked improved position from the previous year.

Policing has only ever received annual funding settlements therefore the above MTFS is reliant on a number of assumptions around funding. A move to multi-year settlements would significantly improve the ability to produce financial plans with greater certainty.

The significant pressure on the budget is as a result of the Group's approach to financing capital expenditure. The financing strategy recognises that Dorset has exhausted its capital reserves and capital receipts and so needs to rely on borrowing and revenue contributions. The aim over the next few years is to increase the use of revenue contributions to fund short-life non-current assets such as vehicles, equipment and ICT. Longer life non-current assets such as property and plant would be funded from borrowing. The current MTFS and Capital Programme show that this can be achieved by 2024/25.

The PCC Group agreed a capital programme over the next four years up to and including 2024/25 which totals £39.5m. It is envisaged that borrowing of up to £25.6m will be required for the full programme with revenue costs rising as a result.

There are a number of changes expected over the next few years for which the financial impact on the Group is unknown:

- A Comprehensive Spending Review (CSR) has been anticipated for some time but its timing remains unclear. The CSR will determine the size of the funding pot available to the Police nationally;
- Anticipated changes to the formula by which the Home Office funding is allocated to forces. Again, the timescale for the implementation of the results of the review is unclear;
- The future cost of pension schemes remains unclear. The Government's response to the McCloud/Sergeant cases will increase the cost of the pension schemes but the extent to which the increases are funded by the Government is unknown;

- The impact of large national ICT projects such as the ESN and the extent to which they are funded by the Government;
- The impact of the expected recession following the pandemic, including the potential implications on precept, Collection Funds and the council taxbases;
- Changes in working practices as a result of the pandemic have reduced the need for travel, with many meetings taking place over the internet with staff working from home.

Throughout the years of austerity the Group has developed a track record of responding to reductions in its funding. Consequently, there is a high level of confidence that the Group will respond appropriately to any changes to funding which may occur as a result of the above issues.

Work on revising the MTFS has started as part of the preparation of the 2022/23 budget. Current indications are that the overall impact of the assumptions made regarding the 2022/23 budget when the MTFS was developed is proving to be in line with expectations.

6. The Balance Sheet at 31 March 2021

The Balance Sheet of the Group shows it has a net worth of minus £1,866m due to the pensions liabilities. A more realistic assessment of the net worth of the Group is given by the value of the usable reserves. At 31 March 2021 these totalled £10m.

At 31 March 2021 the short term debts outstanding amounted to £21.4m of which £16.2m related to central government, other police forces and local authorities leaving £5.2m related to the private sector. The Resource Control Board regularly receives reports on the aged debts owed to the Group and ensures that recovery action is being taken where appropriate.

At 31 March 2021 the short term creditors totalled £22.2m of which £8.6m related to other parts of the public sector, including central government.

7. Cash Flow

The Treasurer manages the cash flows of the Group in accordance with the approved Treasury Management Strategy. At 31 March 2021 the PCC held short-term investments of £4m and cash balances of £13.1m, meaning all of the available resources could be turned into cash at short notice. The Strategy envisages moving some funds into longer term investments in order to improve yield but the uncertainties caused by the corona virus pandemic mean now is not the right time to do this.

As interest rates are low, the Group is currently using cashflow to fund internal borrowing for the capital programme (£6.3m up to 2020/21). This will likely be externalised using PWLB debt when rates are more affordable compared to investments.

The Group had external borrowing of £39.5m at the 31 March 2021. However, £22.6m of this is linked to PFI schemes and so cannot be recalled by the lenders. A further £0.9m was long term, leaving £16m as short-term borrowing.

8. Corporate Governance

The Annual Governance Statement is reviewed on an annual basis taking account of external and internal audit reviews. The Governance Statement summarises the nature of corporate governance in the organisation and identifies any significant weaknesses in the Code of Corporate Governance and its implementation. The Governance Statement is reviewed by the Independent Audit Committee.

The Annual Governance Statement for 2020/21 does not identify any significant weaknesses in the Corporate Governance Framework or its application.

9. The External Regulatory and Control Environment

Dorset Police and the OPCC are required to operate within a highly legislated and controlled environment and their relationship is governed by legislation supplemented by Codes of Practice issued by the Home Office. They are subject to inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services to ensure services are of a high standard. The Home Office also monitors the efficiencies achieved by police forces via annual returns.

The Group is subject to an audit regime controlled by the National Audit Office in terms of the standards of audit, set out in the Audit Code of Practice. The external auditors are appointed independently, by Public Sector Audit Appointments and the standards of their work are reviewed by the Financial Reporting Council. The contents of the financial statements are governed by the Code of Practice on Local Authority Accounting. Failure to comply with its provisions would be a breach of the Local Government Finance Act 1988.

The Chief Finance Officer has to provide assurance that the annual budget is robust and based on reasonable assumptions. Similarly, the Treasurer has to provide the same assurance to the PCC and the Police and Crime Panel.

Like all public sector organisations the Group has to operate its systems and processes with adequate internal controls, which are subject to internal audit review, with the results reported to an Independent Audit Committee. Furthermore, the Group takes part in national data matching exercises designed to identify and investigate potential fraud.



AGENDA NO: 15A

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 July 2021

FOIA OPEN

TREASURY MANAGEMENT OUTTURN 2020/21

REPORT BY: Nicola Allen, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	Yes
Internal Audit	-
External Audit	-
Financial reporting	Yes
Other matter	-

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	Yes
Consider the Report	-
Note the report	-
Other	-

1.0 Background Information

- 1.1 The purpose of this report is to present the 2020/21 treasury management outturn for Devon and Cornwall, for comment prior to approval by the Police and Crime Commissioner (PCC).

2.0 Introduction

- 2.1 The Treasury Management Strategy for 2020/21 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

2.2 This report sets out the performance of the treasury management function for the period from 1 April 2020 to 31 March 2021 and fulfils the requirements of the Code which recommends a report on Treasury Management activities at least twice a year; a mid-year, and a year-end (outturn) report. In addition, monitoring reports for Quarter 1 (April – June) and Quarter 3 (April to December) are reported to the Resources Board.

2.3 Treasury management is defined 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”.

2.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Finance Officer (Treasurer), and in accordance with the strategy and practices approved by the PCC.

2.5 As at 31 March 2021, all treasury activity complied with the PCC’s Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards.

2.6 However, during the year there were a total of five breaches against the Treasury Management Strategy operational bank account limit of £1.250m, of which one occurred earlier in the financial year and could have been avoided. The underlying issues were immediately addressed through changes in processes. The remaining four breaches were not in the control of the Treasury Management Team. All breaches have been previously reported with the exception of one which occurred in February.

3.0 External Context

3.1 The Bank of England held the Base Rate at 0.1% throughout the year. In its March 2021 interest rate announcement, the Bank of England noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast. A fuller explanation of the external context, as provided by the Treasury Management Advisors, Arlingclose Limited, is provided in Appendix 4.

4.0 Investment Activity

4.1 At 31 March 2021 short term investments and cash equivalents were £27.675m. In the year to March balances ranged between £0.068m and £41.608m. The period-end investment position and the year-to-date change is shown at Appendix 1 Table 2.

4.2 Both the CIPFA Code and government guidance require funds to be invested prudently, with regard to the security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Ltd. The outturn benchmarking is provided at Appendix 1 - Table 3. The total return on Devon and Cornwall balances was lower (0.34%) compared with the average of

Police and Fire Authorities (0.71%). Market volatility as a result of the coronavirus pandemic was prominent during most of the year. The money market fund rates remained in positive territory throughout albeit still around the bank base rate. Through quarters 1 to 3, Devon and Cornwall benchmark performance was reported as being higher than its comparators. This changed in quarter 4, as a result of the comparators different investment strategies which involve greater reliance upon capital based investments; longer duration investments; and externalised borrowing. The use of our own funds to fund the capital programme is still more cost effective than borrowing funds externally. The internal borrowing balance as at 31 March 2021 was £37.077m.

You will also see that 98% of the funds are held in money market funds which have reasonable diversification particularly the cash plus funds. This is in line with Arlingclose's advice.

5.0 Borrowing Activity

- 5.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.
- 5.2 At 31 March 2021 the underlying need to borrow for capital purposes /CFR was £67.477m which was £1.046m more than forecast. This increase was not as a result of an increase in capital spend but a change to how the capital spend is funded. The decision was made to increase the use of internal borrowing as the anticipated capital receipt for 2020/21 did not occur.
- 5.3 All long term external borrowing has been arranged with PWLB. The next loan to mature will be in 2025.
- 5.4 On the 31 March 2021, short term borrowing of £18m (£6m as at 31 March 2020) was arranged to cover fluctuations in cashflow. The requirement to borrow is mainly due to internal funds being used to support the capital programme.

6.0 Performance Report

- 6.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 2 Table 3.
- 6.2 Interest receivable for the year to March was £88k compared to a budgeted amount of £242k. The budget which was calculated in November 2019 was based on an interest rate of 0.75%. This quarter we saw MMF rates averaging 0.00% - 0.01%. We also saw negative rates during the year with the Debt Management Office. These low interest rates, together with the advice of more diversification has impacted on the investment income received.

7.0 Independent Audit Committee

- 7.1 The Independent Audit Committee (IAC) is asked to review the report and make recommendations to the PCC before being finalised.

Appendices

Appendix 1 – Investments

Appendix 2 – Treasury Management Indicators

Appendix 3 – Prudential Indicators

Official
Freedom of Information Classification – Open

Appendix 4 – Economic Update provided by Arlingclose Ltd

INVESTMENTS

Appendix 1

Table 1: Investment Limits

	2020/21 Cash Limit	31/03/21 Actual	Complied?
Any single organisation, except the UK Government	£12m each (£6m unsecured funds)	£6m unsecured	Yes
Any group of organisations under the same ownership	£12m per Group (£6m unsecured funds)	£6m unsecured	Yes
Any group of pooled funds under the same management	£6m per manager	£6m unsecured	Yes
Negotiable instruments held in a broker's nominee account	£24m per Broker	£0	Yes
Limit per non-UK country	£12m per country	£0	Yes
Registered providers	£20m in Total	£0	Yes
Unsecured investments with building societies	£12m in Total	£0	Yes
Money Market Funds	£32m in Total	£9.65m	Yes
Bank Account	£1.25m	£1.13m	Yes

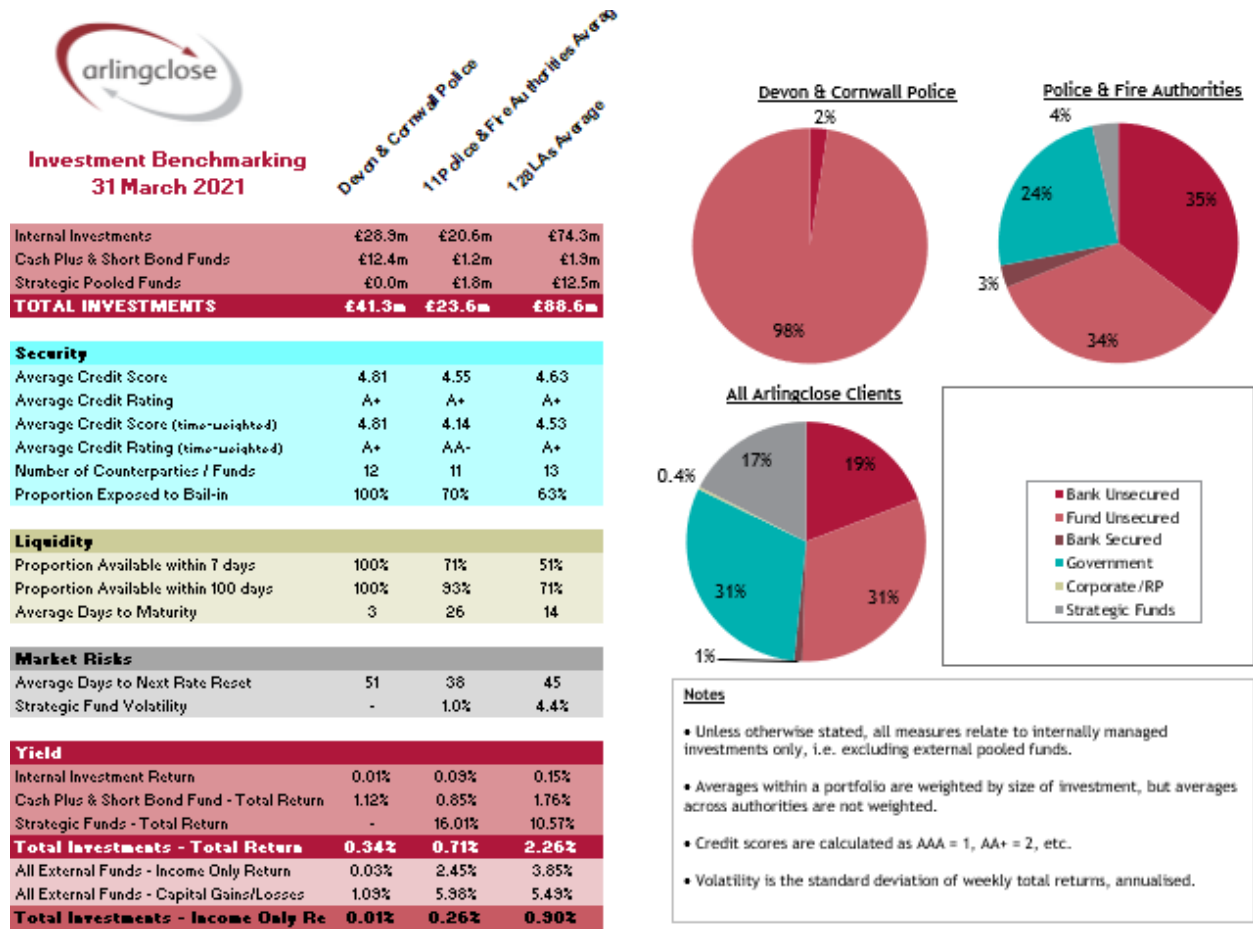
Table 2: Investment Position

	31/03/20 Actual Portfolio £'000	31/03/21 Actual Portfolio £'000	Movement £'000
External Borrowing - Long Term	(30,277)	(30,277)	0
External Borrowing - Short Term	(6,000)	(18,000)	(12,000)
Finance Leases	(166)	(123)	43
Total Gross External Debt	(36,443)	(48,400)	(11,957)
Treasury Investments:			
Short Term Investments	12,063	18,157	6,094
Cash and Cash Equivalents	3,168	9,518	6,350
Total Treasury Investments	15,231	27,675	12,444
Net Investments/(Debt)	(21,212)	(20,725)	487

TREASURY MANAGEMENT INDICATORS

Appendix 2

Table 3: Benchmarking Information



PRUDENTIAL INDICATORS

Appendix 3

Table 4: Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2020/21	31/03/2021	Complied ?
	Target	Actual	
Portfolio average credit rating	A+	A+	Yes

Table 5: Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk.

	2020/21	31/03/2021	Complied ?
	Limit	Actual	
Upper limit on 1 year revenue impact of a 1% rise in interest rates	£145k	(£107k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£365k	£107k	Yes

Fixed rate borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Table 6: Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2020/21	31/03/2021	Complied?
	Target	Actual	
Minimum limit at less than 31 days duration	£7m	£28.6m	Yes

The £28.6m is mainly held with money markets which are very liquid in nature as funds can be accessed the next day. However, of this amount, £18m is held with enhanced cash plus money market funds for the long term as advised by Arlingclose. We therefore do not draw on these funds unless the cost of borrowing funds externally is in excess of the interest rate of return on these enhanced funds.

PRUDENTIAL INDICATORS

Appendix 3

Table 7: Maturity Structure of Borrowing

This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2020/21		31/03/2021	Complied?
	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	37%	Yes
12 months and within 24 months	100%	0%	0%	Yes
24 months and within 5 years	100%	0%	0%	Yes
5 years and within 10 years	100%	0%	13%	Yes
10 years and above	100%	0%	50%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21
Limit on principal invested beyond year end	£5m
Actual principal invested beyond year end	£0m
Complied?	Yes

PRUDENTIAL INDICATORS

Appendix 3

Table 9: Debt Limits

	2020/21	31/03/2021	Operational Boundary	Authorised Limit
	Estimate	Actual		
	£'000	£'000		
External Borrowing	50,756	48,277	60,891	70,891
Finance Leases	134	123		
Total External Liabilities	50,890	48,400	Complied	Complied
Internal Borrowing	15,540	37,077		
Total Debt	66,430	85,477		

Table 10: Capital Financing Requirement (CFR)

	2020/21	2020/21	2020/21
	Estimate	Actual	Variance
	£'000	£'000	£'000
Opening CFR	64,576	64,532	44
Capital expenditure to be funded by borrowing	3,495	4,671	(1,176)
Finance Leases	0	0	0
Less: Minimum Revenue Provision	(1,567)	(1,683)	116
Less: Finance Leases	(73)	(43)	(30)
Closing CFR	66,431	67,477	(1,046)

Table 11: Capital Expenditure and Financing

	2020/21	2020/21
	Estimate	Actual
	£'000	£'000
Capital Expenditure	19,032	17,469
REFCUS	0	95
Total Expenditure	19,032	17,564
Capital Receipts	7,320	173
Government Grants	746	1,512
Reserves	3,781	6,922
Revenue	3,690	4,287
Borrowing	3,495	4,670
Total Financing	19,032	17,564

External Context

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have helped protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

ECONOMIC UPDATE provided by Arlingclose Ltd.

Appendix 4

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and

ECONOMIC UPDATE provided by Arlingclose Ltd.

Appendix 4

revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.



AGENDA NO: 15B

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 July 2021

FOIA OPEN

TREASURY MANAGEMENT OUTTURN 2020/21

REPORT BY: Julie Strange, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	Yes
Internal Audit	-
External Audit	-
Financial reporting	Yes
Other matter	-

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	Yes
Consider the Report	-
Note the report	-
Other	-

1.0 Background Information

- 1.1** The purpose of this report is to present the 2020/21 treasury management outturn for Dorset, for comment prior to approval by the Police and Crime Commissioner (PCC).

2.0 Introduction

- 2.1** The Treasury Management Strategy for 2020/21 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on

Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

- 2.2 This report sets out the performance of the treasury management function for the period from 1 April 2020 to 31 March 2021 and fulfils the requirements of the Code which recommends a report on Treasury Management activities at least twice a year; a mid-year, and a year-end (outturn) report. In addition, monitoring reports for Quarter 1 (April – June) and Quarter 3 (April to December) are reported to the Resource Control Board.

- 2.3 Treasury management is defined 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.”

- 2.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Finance Officer (Treasurer), and in accordance with the strategy and practices approved by the PCC.
- 2.5 As at 31 March 2021, all treasury activity fully complied with the PCC’s Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards.
- 2.6 However, during the year there were a total of two breaches against the Treasury Management Strategy operational bank account limit of £1.250m. The two breaches were not in the control of the Treasury Management Team. Both breaches were reported to the Treasurer at the time of their occurrence.

3.0 External Context

- 3.1 The Bank of England held the Base Rate at 0.1% throughout the year. In its March 2021 interest rate announcement, the Bank of England noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast. A fuller explanation of the external context, as provided by the Treasury Management Advisors, Arlingclose Limited, is provided in Appendix 4.

4.0 Investment Activity

- 4.1 At 31 March 2021 short term investments and cash equivalents were £17.127m. In the year to March balances ranged between £3,867 and £25.393m. A Treasury Management summary showing the investment and borrowing position and the year-to-date change is shown at Appendix 1 - Table 2.
- 4.2 Both the CIPFA Code and government guidance require funds to be invested prudently, with regard to the security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Ltd. The outturn benchmarking is provided at Appendix 1 - Table 3. The total return of Dorset balances was lower (0.15%) compared with the average of Police and Fire

Authorities (0.71%). Market volatility as a result of the coronavirus pandemic was prominent during most of the year. The money market fund rates remained in positive territory throughout albeit still around the bank base rate. Through quarters 1 to 3, Dorset's benchmark performance was reported as being higher than its comparators. This changed in quarter 4, as a result of the comparators different investment strategies which involve greater reliance upon capital based investments; longer duration investments; and externalised borrowing. The use of our own funds to fund the capital programme is still more cost effective than borrowing funds externally. The internal borrowing balance as at 31 March 2021 was £6.232m.

You will also see that 94% of the funds are held in money market funds which have reasonable diversification particularly the cash plus funds. This is in line with Arlingclose's advice.

5.0 Borrowing Activity

- 5.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.
- 5.2 At 31 March 2021 Dorset's underlying need to borrow for capital purposes / CFR was £29.803m. This is a net reduction of £999,000, comprising of increases in internal borrowing, repayments of borrowing and an adjustment to the PFI liability.
- 5.3 Most of the CFR at the year-end relates to debt in respect of two schemes under the government's Private Finance Initiatives (PFI). The first was for the replacement of the Western Division HQ and certain section stations. Occupation of the facilities and payments commenced in 2001 and will continue for 30 years. The closing balance at 31 March 2021 was £4.629m. The second relates to the provision of a new facility at Poole as part of a joint PFI between Dorset Police and Dorset Fire and Rescue Services. Occupation was in 2009 and payments will continue for 25 years. The closing balance at 31 March 2021 was £18.024m. Government grants are received annually towards the costs of these schemes.
- 5.4 The accounting models for both PFI arrangements have undergone a review after transferring to the technical accounting team. This review has identified that the DESPI PFI liability shown on the balance sheet is overstated by £2.148m. This overstatement is the result of not accounting for the cash payment made to the operator at the outset of the arrangement. This overstatement is present on the balance sheet and in the capital adjustment unusable reserve. There is no impact on the revenue or capital outturns. This report and the 2020/21 draft accounts shows the balances after the adjustment has been made. This issue has been brought to Grant Thornton's attention.
- 5.5 On the 31 March 2021, short term borrowing of £16m (£5.5m as at 31 March 2020) was arranged to cover fluctuations in cashflow. The requirement to borrow is mainly due to internal funds being used to support the capital programme.

6.0 Performance Report

- 6.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 2 Table 3.
- 6.2 Interest receivable for the year to March was £36k compared to a budgeted amount of £80k. The budget which was calculated in November 2019 was based on an interest rate of 0.75%. This quarter we saw MMF rates averaging 0.01%. We also saw negative rates

during the year with the Debt Management Office. These low interest rates, together with the advice of more diversification has impacted on the investment income received.

- 6.3 Interest payable for the year to March was £12k compared to a budgeted amount of £76k. The budget included an estimated cost for borrowing funds from external sources to fund the capital programme. The decision to use internal borrowing to fund the capital programme during the year resulted in a saving of £64k.
- 6.4 The resulting net position as at 31 March 2021 is interest receivable of £24k which is £20k greater than the net interest receivable budget of £4k.

7.0 Independent Audit Committee

- 7.1 The Independent Audit Committee (IAC) is asked to review the report and make recommendations to the PCC before being finalised.

Appendices

Appendix 1 – Investments

Appendix 2 – Treasury Management Indicators

Appendix 3 – Prudential Indicators

Appendix 4 – Economic Update provided by Arlingclose Ltd

INVESTMENTS

Appendix 1

Table 1: Investment Limits

	2020/21 Revised Cash Limit	31/03/2021 Actual	Complied?
Any single organisation, except the UK Government	£3m each	£3m unsecured	Yes
Any group of organisations under the same ownership	£3m each	£3m unsecured	Yes
Any group of pooled funds under the same management	£3m per manager	£3m per manager	Yes
Negotiable instruments held in a broker's nominee account	£12m per Broker	£0 per Broker	Yes
Limit per non-UK country	£1m per country	£0m per country	Yes
Registered providers	£3m in Total	£0m in Total	Yes
Unsecured investments with building societies	£3m in Total	£0m in Total	Yes
Money Market Funds	£15m in Total	£11.5m in Total	Yes
Bank Account	£1.25m in Total	£1.17m in Total	Yes

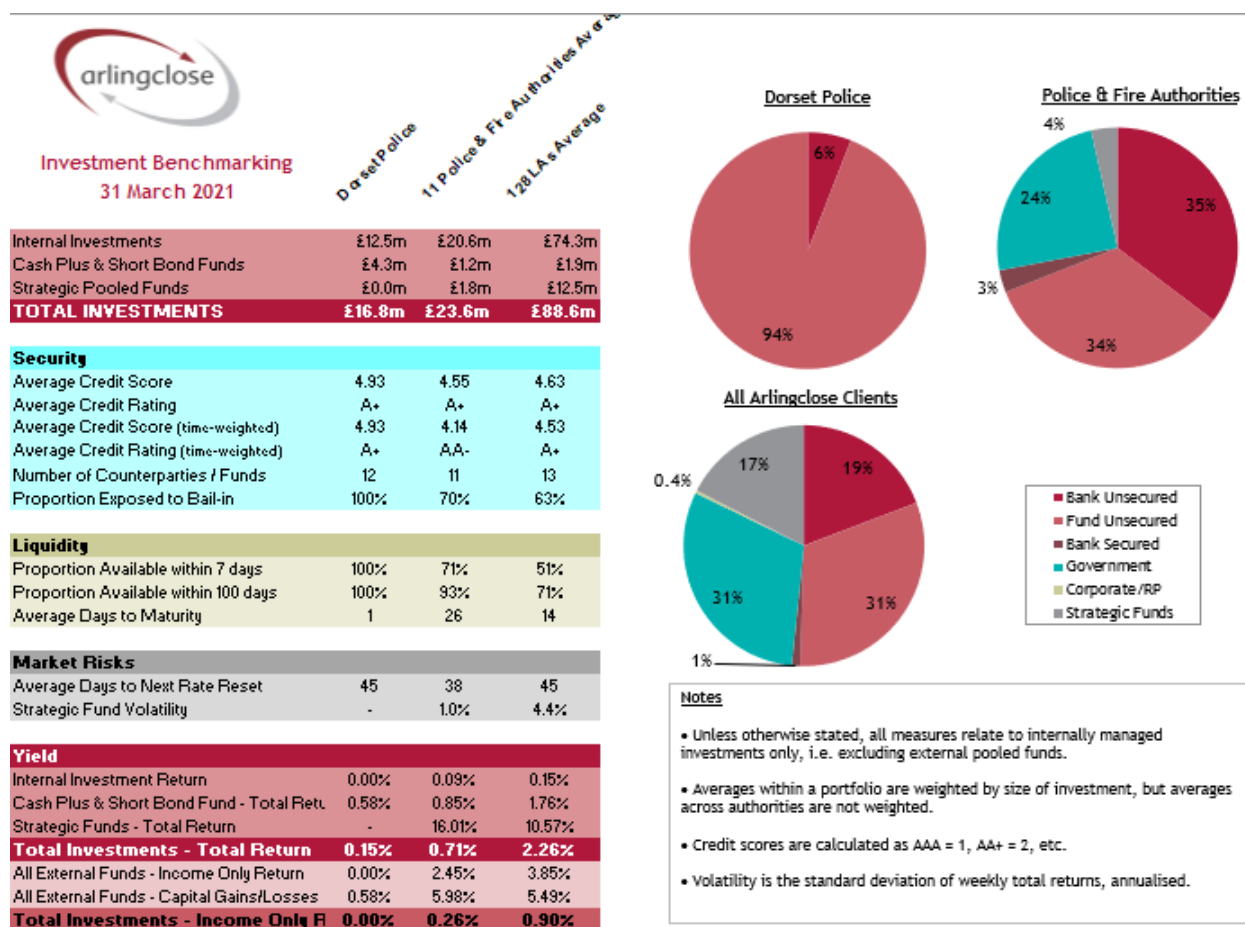
Table 2: Treasury Management Summary

	31/03/2020 Actual Portfolio £'000	31/03/2021 Actual Portfolio £'000	Movement £'000
External Borrowing:			
Short Term Borrowing	(5,500)	(16,000)	(10,500)
Private Finance Initiatives	(25,974)	(22,653)	3,321
Other Long Term Liabilities	(966)	(846)	120
Finance Leases	(118)	(72)	46
Total Gross External Debt	(32,558)	(39,571)	(7,013)
Treasury Investments:			
Short Term Investments	3,001	4,000	999
Cash and Cash Equivalents	9,355	13,127	3,772
Total Treasury Investments	12,356	17,127	4,771
Net Investments/(Debt)	(20,202)	(22,444)	(2,242)

TREASURY MANAGEMENT INDICATORS

Appendix 2

Table 3: Benchmarking Information



PRUDENTIAL INDICATORS

Appendix 3

Table 4: Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of the investment portfolio.

	2020/21	31/03/2021	Complied?
	Target	Actual	
Portfolio average credit rating	A+	A+	Yes

Table 5: Interest Rate Exposures

This indicator is set to control the exposure to interest rate risk.

	2020/21	31/03/2021	Complied?
	Limit	Actual	
Upper limit on 1 year revenue impact of a 1% rise in interest rates	£75k	(£107k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£110k	£107k	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Table 6: Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2020/21	31/03/2021	Complied?
	Target	Actual	
Minimum limit at less than 31 days duration	£5m	£16.5m	Yes

The £16.5m is mainly held with money markets which are very liquid in nature as funds can be accessed the next day. However, of this amount, £4m is held with enhanced cash plus money market funds for the long term as advised by Arlingclose. We therefore do not draw on these funds unless the cost of borrowing funds externally is in excess of the interest rate of return on these enhanced funds.

PRUDENTIAL INDICATORS

Appendix 3

Table 7: Maturity Structure of Borrowing

This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2020/21		31/03/2021	Complied?
	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	100%	Yes
12 months and within 24 months	100%	0%	0%	Yes
24 months and within 5 years	100%	0%	0%	Yes
5 years and within 10 years	100%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	31/03/2021
Limit on principal invested beyond year end	£4m
Actual principal invested beyond year end	£0m
Complied?	Yes

Table 9: Debt Limits

	2020/21	31/03/2021	Operational Boundary	Authorised Limit
	Estimate	Actual		
	£'000	£'000		
PFI Liabilities	24,802	22,653	50,777	55,777
Other Long Term Liabilities	846	846		
Finance Leases	0	72		
External Borrowing	15,129	16,000		
Total External Liabilities	40,777	39,571	Complied	Complied
Internal Borrowing	507	6,232		
Total Debt	41,285	45,803		

PRUDENTIAL INDICATORS

Appendix 3

Table 10: Capital Financing Requirement (CFR)

	2020/21	31/03/2021	
	Estimate	Actual	Variance
	£'000	£'000	£'000
Opening CFR	32,812	30,802	(2,010)
Capital expenditure to be funded by borrowing	9,888	2,598	(7,290)
Capital expenditure to be funded by PFI	0	1,461	1,461
Finance Leases	0	0	0
Less: Repayment of PFI	(1,173)	(4,782)	(3,609)
Less: Repayment of Other Long Term Liabilities	(120)	(120)	0
Less: Minimum Revenue Provision	(122)	(110)	12
Less: Finance Leases	0	(46)	(46)
Closing CFR	41,285	29,803	(11,482)

Table 11: Capital Expenditure and Financing

	2020/21	31/03/2021	
	Estimate	Actual	Variance
	£'000	£'000	£'000
Capital Expenditure	12109	6,074	(6,035)
PFI Expenditure	0	1,461	1,461
Finance Lease Expenditure	0	0	0
REFCUS - Force	0	216	216
REFCUS - Transforming Forensics	0	5,523	5,523
Total Expenditure	12,109	13,274	1,165
Capital Receipts	0	226	226
Government Grants	110	5,975	5,865
Reserves	0	0	0
Revenue	2,111	3,014	903
Borrowing	9,888	2,598	(7,290)
PFI	0	1,461	1,461
Finance Lease Liabilities	0	0	0
Total Financing	12,109	13,274	1,165

ECONOMIC UPDATE PROVIDED BY ARLINGCLOSE LTD

Appendix 4

External Context

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have helped protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

ECONOMIC UPDATE PROVIDED BY ARLINGCLOSE LTD

Appendix 4

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest

ECONOMIC UPDATE PROVIDED BY ARLINGCLOSE LTD

Appendix 4

at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.



AGENDA NO: **16**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 JULY 2021

FOIA OPEN

TITLE OF REPORT: ANNUAL REPORT ON THE TOTAL COST OF INSURANCE

REPORT BY: KAREN JAMES, HEAD OF AUDIT, INSURANCE AND STRATEGIC RISK MANAGEMENT

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	X
Internal Audit	
External Audit	
Financial reporting	X
Other matter (<i>please specify here</i>)	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	X
Other (<i>please specify here</i>)	

1. BACKGROUND INFORMATION

- 1.1 The Independent Audit Committee are required to seek assurance on the effectiveness of risk management arrangements. Risk financing through insurance is the last 'backstop' of risk management in Devon & Cornwall and Dorset. This paper provides a summary of the total cost of the insurance risk, over the past five insurance years.

2. INSURANCE DATA

- 2.1 Appendix A details the cost of insurance premiums and Appendix B classes of insurance, their excess levels and the value of retained insurance claims and financial recoveries over the last five insurance years.
- 2.2 Insurance underwriting is a specialist area of work in determining the insurance premium for any given line of insurance, however the following key factors will contribute to that calculation depending on the class of insurance:
- The number of assets such as buildings, vehicles, craft
 - The replacement value of those assets
 - The number of staff and officers
 - The value of the payroll
 - Our claims history
 - Trends in the wider insurance market
- 2.3 These numbers and values will vary from year to year, together with the number and severity of insurance claims experienced each year. In determining the insurance renewal each year, a 10-year history of claims is provided to the relevant insurer.
- 2.4 The premium figures shown in Appendix A include the Insurance Premium Tax (IPT). Unlike VAT this is not recoverable by the Force.
- 2.5 For comparative purposes given the combined nature of the insurance programme the premiums shown are for Dorset and Devon and Cornwall combined.
- 2.6 Members will see that overall the insurance premiums have been reasonably stable with the current premiums being like those enjoyed in 2018/19. However, this has been achieved by retaining higher levels of financial risk with increased excess levels for liability insurance and motor insurance. Moving to £500,000 excess for each and every claim.
- 2.7 For motor insurance members will see that there has been year on year increases in the premium charged. These increases relate to the change in the Ogden rates in 2019/20, affecting the level of interest calculated on claim settlements and the impact of the renewal of reinsurance treaties between insurers and their insurance underwriters affecting the 2021/22 insurance year premiums.
- 2.8 You will see in Appendix B that most insurance claims fall into the following classes of insurance: Public liability, Employers liability and Motor, although there have been some claims relating to property, marine and drones as well.

- 2.9 We do seek to recover monies owed to the Force, this mostly relates to motor insurance. Details of the recoveries made over the last 5 years are shown in Appendix B. The number and value of recoveries vary each year depending upon the value and nature of accidents that have taken place.
- 2.10 Most motor recoveries relate to accidents where we were not at fault. The money is returned to the owning department, such as Fleet for motor accidents.
- 2.11 Members will note that we have also made recovers relating to property damage claims, drones and marine, these recoveries are mainly where we have breached the insurance excess level.

3. TOTAL COST OF RISK

- 3.1 The total cost of financial risk to Devon and Cornwall and Dorset combined is summarised in the table below.
- 3.2 The total cost has been calculated using the premium spend, together with the additional money paid by the Force when settling claims, less any recoveries made.
- 3.3 The total cost of risk picture will continue to mature over the years as the open claims are settled and more recoveries made.

3.4 Total cost of Risk Summary table

Policy Year	Premium including IPT	Money Paid to date	Financial Recoveries	Total Cost of Risk
2020-21	£1,207,786	£469,311	£45,295	£1,631,802
2019-20	£1,406,357	£561,289	£134,177	£1,833,469
2018-19	£1,360,815	£842,345	£158,116	£2,045,044
2017-18	£1,316,015	£1,054,921	£119,184	£2,251,752
2016-17	£1,264,638	£810,374	£63,924	£2,011,088

4. REDUCING THE TOTAL COST OF INSURANCE RISK

- 4.1 The most effective way a Force can reduce the total cost of Insurance risk is with claims analysis to identify common themes together with maximising opportunities to recover money back to the Force.

- 4.2 The analysis findings are supported through the consistent use of Health and Safety risk assessments, policy, system controls, training or other interventions.
- 4.3 Whilst our claims are generally considered to be low, insurance motor claims data is regularly fed back to the transport department and driver training to support continuous learning and to improve officer driver safety. Similarly, lessons learned from litigated claims are also fed back to the Force by legal services, so any necessary changes to policy, practice and procedure can be made.
- 4.4 The Chief Financial Officers (CFO) continue to explore with other regional force CFO's, and our insurance brokers- AON, opportunities to further reduce insurance premiums at each insurance tender period.

7 July 2021

INSURANCE PREMIUMS

Policy	2016/17 Premiums	2017/18 Premiums	2018/19 Premiums	2019/20 Premiums	2020/21 Premiums	2021/22 Premiums
Liability	£526,914	£529,320	£538,272	£562,688	£448,000	£465,360
Motor	£444,066	£463,342	£465,086	£492,688	£534,660	£565,734
Material Damage/Property including Terrorism	£167,774	£201,100	£213,915	£201,096	£98,599	£119,927
Fidelity Guarantee/Crime	£38,325	£38,500	£39,200	£39,200	£41,440	£47,600
Drone	£6,825	£4,378	£20,140	£19,215	£24,869	£27,784
Marine	£11,593	£8,425	£12,045	£12,045	£12,045	£17,409
Airside Liability	£5,256	£5,280	£4,032	£3,920	£3,881	£4,463
Contractors All Risks & Terrorism	£548	£1,125	£1,145	£5,130	£588	5,959
Personal Accident & Travel	£26,958	£25,803	£25,582	£27,102	£4,667	£4,667
Engineering Inspection and Insurance	£36,379	£38,742	£41,398	£43,273	£39,037	£41,364
TOTAL	£1,264,638	£1,316,015	£1,360,815	£1,406,357	£1,207,786	£1,300,267

- All premiums are inclusive of Insurance Premium Tax

CLAIMS PROFILE FOR THE LAST FIVE COMPLETE POLICY YEARS

MOTOR CLAIMS

Policy Year	Force	Excess level	Number of claims for that year	Total money paid to date by the Force	Total Recoveries to date on Non-fault claims	Number of claims closed (open)
2020-21	Dorset	£500,000	140	£135,897	£10,491	118 (22)
	D&C	£500,000	288	£280,261	£18,891	229 (59)
2019-20	Dorset	£300,000	148	£156,486	£41,388	139 (9)
	D&C	£300,000	359	£374,733	£91,477	342 (17)
2018-19	Dorset	£300,000	161	£266,244	£22,602	158 (3)
	D&C	£300,000	361	£372,999	£51,368	358 (3)
2017-18	Dorset	£200,000	148	£234,775	£48,216	146 (2)
	D&C	£200,000	373	£419,057	£65,960	372 (1)
2016-17	Dorset	£200,000	119	£105,285	£26,814	118 (1)
	D&C	£200,000	407	£360,639	£37,110	405 (2)

EMPLOYERS LIABILITY CLAIMS

Policy Year	Force	Excess level	Number of claims for that year	Total money paid to date by the Force	Number of claims closed (open)
2020-21	Dorset	£500,000	0	£0	0 (0)
	D&C	£500,000	5	£1,295	1 (4)
2019-20	Dorset	£350,000	3	£5,938	2 (1)
	D&C	£350,000	4	£2,350	4 (0)
2018-19	Dorset	£350,000	0	£0	0 (0)
	D&C	£350,000	8	£8,338	6 (2)
2017-18	Dorset	£250,000	7	£42,590	5 (2)
	D&C	£250,000	19	£121,230	13 (6)
2016-17	Dorset	£250,000	9	£53,437	9 (0)
	D&C	£250,000	11	£86,609	9 (2)

PUBLIC LIABILITY CLAIMS

Policy Year	Force	Excess level	Number of claims for that year	Total money paid to date by the Force	Number of claims closed (open)
2020-21	Dorset	£500,000	8	£10,500	2 (6)
	D&C	£500,000	12	£0	1 (11)
2019-20	Dorset	£350,000	8	£438	3 (5)
	D&C	£350,000	31	£19,532	14 (17)
2018-19	Dorset	£350,000	24	£54,845	18 (6)
	D&C	£350,000	28	£29,923	22 (6)

CLAIMS PROFILE FOR THE LAST FIVE COMPLETE POLICY YEARS

2017-18	Dorset	£250,000	25	£163,848	20 (5)
	D&C	£250,000	36	£66,637	29 (7)
2016-17	Dorset	£250,000	17	£94,239	15 (2)
	D&C	£250,000	27	£26,903	24 (3)

PROPERTY DAMAGE CLAIMS

Policy Year	Force	Excess level	Number of claims for that year	Total money paid to date by the Force	Total Recoveries to Date	Number of claims closed (open)
2020-21	Dorset	£25,000	1	£40,579	£15,579	1 (0)
	D&C	£25,000	2	£778	£334	2 (0)
2019-20	Dorset	£25,000	1	£0	£0	0 (1)
	D&C	£250	0	£0	£0	0 (0)
2018-19	Dorset	£25,000	2	£45,281	£20,281	2 (0)
	D&C	£250	2	£56,715	£56,465	2 (0)
2017-18	Dorset	£25,000	4	£5,584	£3,928	4 (0)
	D&C	£250	0	£0	£0	0 (0)
2016-17	Dorset	£25,000	1	£5,217	£0	1 (0)
	D&C	£250	1	£78,045	£0	0 (1)

DRONE CLAIMS

Policy Year	Force	Excess	Total cost to Force	Total Recovery from Insurers	Claim Status
2018/19	D&C	£600 (7.5% of hull value)	£8,000	£7,400	Closed
2017/18	Dorset	£120 (10% of hull value)	£1,200	£1,080	Closed

MARINE CLAIMS

Policy Year	Force	Excess	Total cost to Force	Total Recovery from Insurers	Claim Status
2019/20	Dorset	£500	£1,812	£1,312	Closed

DEVON & CORNWALL**Fraud and Corruption summary risk assessment (version Nov 2019)**

Period under review:

from 01/04/2021 to 30/06/2021

Total value of actual fraud losses as identified this period (from closed cases - Table 2)

Less than £5.00

Risk self assessment tool to record the nature of fraud and corruption indicators

The table below sets out some of the main types of fraud and corruption risks, concerning staff, officers and volunteers, that relate to internal controls

There are five categories: accounting, spending, pay, claims and theft

Please completed the table by selecting the appropriate RAG status from each drop down in line with PSD's current assessment based on intel and work

Table 1 New cases / intelligence reported to Professional Standards Dept / Counter Corruption Unit

1. accounting	Tot	RAG	2. spending	Tot	RAG	3. pay	Tot	RAG	4. claims	Tot	RAG	5. theft	Tot	RAG
1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary	0		2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use	0		3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary	0		4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC	0		5.1 misuse of resources - using property of the Force/OPCC for personal purposes	1	
1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud	0		2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses	0		3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others	0		4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred	1		5.2 theft of resources - taking money or property of the Force/OPCC without permission	0	
			2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards	0					4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate	1				
			2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss)	0					4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work	0				

Table 2 Finalised cases (RAG assessment to be completed)

1. accounting	Tot	RAG	2. spending	Tot	RAG	3. pay	Tot	RAG	4. claims	Tot	RAG	5. theft	Tot	RAG
1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary	0		2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use	0		3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary	0		4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC	0		5.1 misuse of resources - using property of the Force/OPCC for personal purposes	1	
1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud	0		2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses	0		3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others	0		4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred	1		5.2 theft of resources - taking money or property of the Force/OPCC without permission	1	
			2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards	0					4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate	0				
			2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss)	0					4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work	0				

DORSET**Fraud and Corruption summary risk assessment (version Nov 2019)**

Period under review:

from 01/04/2021 to 30/06/2021

Total value of actual fraud losses as identified this period (from closed cases - Table 2)

£0.00

Risk self assessment tool to record the nature of fraud and corruption indicators

The table below sets out some of the main types of fraud and corruption risks, concerning staff, officers and volunteers, that relate to internal controls

There are five categories: accounting, spending, pay, claims and theft

Please completed the table by selecting the appropriate RAG status from each drop down in line with PSD's current assessment based on intel and work

Table 1 New cases / intelligence reported to Professional Standards Dept / Counter Corruption Unit

1. accounting	Tot		2. spending	Tot		3. pay	Tot		4. claims	Tot		5. theft	Tot	
1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary	0		2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use	0		3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary	0		4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC	0		5.1 misuse of resources - using property of the Force/OPCC for personal purposes	0	
1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud	0		2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses	0		3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others	0		4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred	0		5.2 theft of resources - taking money or property of the Force/OPCC without permission	0	
			2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards	0					4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate	0				
			2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss)	0					4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work	0				

Table 2 Finalised cases (RAG assessment to be completed)

1. accounting	Tot	RAG	2. spending	Tot	RAG	3. pay	Tot	RAG	4. claims	Tot	RAG	5. theft	Tot	RAG
1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary	0		2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use	0		3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary			4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC	0		5.1 misuse of resources - using property of the Force/OPCC for personal purposes	0	0
1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud	0		2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses	0		3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others			4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred	0		5.2 theft of resources - taking money or property of the Force/OPCC without permission	0	0
			2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards	0					4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate	1				
			2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss)	0					4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work	0				



AGENDA NO: **17**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 JULY 2021

FOIA OPEN

TITLE OF REPORT: FRAUD AND CORRUPTION MONITORING AND INVESTIGATION

REPORT BY: KAREN JAMES, HEAD OF AUDIT, INSURANCE AND STRATEGIC RISK MANAGEMENT

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	X
Internal Audit	
External Audit	
Financial reporting	
Other matter (<i>please specify here</i>)	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	X
Other (<i>please specify here</i>)	

1. BACKGROUND INFORMATION

- 1.1 The Independent Audit Committee are required to review the arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitoring the effectiveness of the counter-fraud strategy.
- 1.2 The Fraud and Corruption strategy was presented to Committee in April 2021.

2. MONITORING OF FRAUD AND CORRUPTION

- 2.1 Fraud and corruption is prevented and monitored in several ways.
- 2.2 Financial fraud prevention is primarily via the control mechanisms within the Force financial systems and processes. These are subject to continuous review by day to day supervision and by the annual key financial control audits. These audits form part of the internal audit programme each year.
- 2.3 The Treasurer also perform the role of the Money Laundering Officer in each Force, and the Chief Executive is the Monitoring Officer. Both roles can receive reports of financial irregularity or reports of suspected financial wrongdoing in the Force.
- 2.4 The Head of Internal Audit is also available to receive reports of potential fraud and financial irregularity.
- 2.5 These roles operate separately to the Force whistleblowing and other arrangements referred to in the Fraud and Corruption Policy.
- 2.6 In addition, the Force is mandated to participate in the National Fraud Initiative (NFI) which cuts across all public sector organisations.
- 2.7 Members will recall that separate reports are made to the Committee concerning the findings from NFI exercises, where incidents of process error have been found but no instances of fraud and corruption.
- 2.8 The Annual Governance Statement reviews the arrangements to ensure Chief Officers and Staff behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated. Part of this is evidenced by the existence of fraud and corruption arrangements referred to above.

3. INVESTIGATION OF FRAUD AND CORRUPTION

- 3.1 All incidents of suspected fraud and corruption are investigated by the Professional Standards Department.
- 3.2 Appendix A shows the outcome of their investigation over the last quarter for both forces. In the last quarter the finalised investigations have equated to a proven financial loss of:
 - Dorset Police £ 0.00
 - Devon & Cornwall Police Less than £5.00, which has resulted in reflective practice.

It should be noted that when each investigation begins, it is not known if Fraud & Corruption will be a proven outcome, so not all cases will have a monetary value when the case is closed.

- 3.3 Over the same period there have been no reports of alleged Fraud to the Treasurers and no reports to the Head of Internal Audit.
- 3.5 The following table sets out the grading levels applied in the two tables reported in Appendix A.

	incident value	number of perpetrators	how many incidents	seniority of those involved	period over which incident(s) took place	nature of incident	extent of impact
Red	over £10k	more than 10	more than 5	up to chief officer / PCC	more than three months	breach of legislation	external organisations
Amber	up to £10k	up to 10	up to 5	up to chief superintendent / head of department	up to three months	breach of policy	whole force / OPCC
Yellow	up to £1k	up to 2	up to 2	up to sergeant / manager	up to one month	breach of guidance	team / department
Green	Case Finalised – No Fraud or Corruption						

- 3.6 In applying a Red, Amber, Yellow or Green grading, not all the criteria in that line would have to be met. Only the most significant relating to that investigation. Eg the Financial value or the perhaps the seniority of those involved.

6th July 2021

Karen James – Head of Audit, Insurance and Strategic Risk



AGENDA NO: **18**

INDEPENDENT AUDIT COMMITTEE – 27 JULY 2021

HMICFRS VALUE FOR MONEY DASHBOARD

FOI: OPEN

REPORT BY NEAL BUTTERWORTH, ALLIANCE HEAD OF FINANCE

PURPOSE OF THE REPORT

Governance, Risk and Control	
Internal Audit	
External Audit	
Financial reporting	X
Other matter (please specify here)	

The purpose of this report is to provide members with an overview of the latest available Value for Money Dashboard information relating to Dorset Police and Devon & Cornwall Police.

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	X
Other (please specify here)	

1. INTRODUCTION

- 1.1 Each year the HMICFRS produces information relating to performance and spending of all police forces as an interactive Value for Money (VfM) Dashboard, available on the HMICFRS website. The latest update, based on 2020/21 budget information, was finalised at the end of April 2021.
- 1.2 The VfM Dashboard compare each Force with all forces nationally. It allows for comparison with other specific forces, which are set to default to show each forces Most Similar Group of Forces (MSG), but is fully customisable to allow comparisons with other forces. The default MSG for each Force is shown below:

Devon & Cornwall Police MSG	Dorset Police MSG
Norfolk	Cambridgeshire
North Wales	Gloucestershire
North Yorkshire	Surrey
Suffolk	Sussex
Warwickshire	Thames Valley
West Mercia	Warwickshire
Wiltshire	West Mercia

- 1.3 A link to the HMICFRS website is provided [here](#), and committee members are encouraged to access the site and explore the information available.

(<https://www.justiceinspectorates.gov.uk/hmicfrs/our-work/article/value-for-money-inspections/value-for-money-profiles/value-for-money-dashboards/>)

- 1.4 This report sets out key tables for each Force for information using extracts from the HMICFRS website, and considers future and current use of the information.

2. USE OF VALUE FOR MONEY DASHBOARDS

- 2.1 The latest VfM Dashboards were reported to the May 2021 Resources Board (Devon & Cornwall Police) and will be reported to the July 2021 Resource Control Board (Dorset Police). These reports focus on cost outliers, and provide the high level summary view of workforce and crime levels provided by the Dashboards.
- 2.2 The Dashboards provide a good analysis of expenditure by functional area, compared with other forces, and a view of the key financial outliers. Differences in structures between forces will inevitably lead to some variances, in particular where certain functions and services are centralised in some forces, devolved in others. However, the information has been refined over many years, and presents increasingly comparable information, increasing its usefulness in considering differences.
- 2.3 The VfM Dashboards are currently used primarily to inform business cases and saving plans, providing a useful reference point for investment and areas of focus for efficiencies. However, they have the potential for greater use informing the annual Force Management Statements (FMS), and future budgets and Medium Term Financial Strategies. The 2022/23 budget process is expected to incorporate greater use of the VfM information, aligned to the latest FMS and alongside the Police and Crime Plans to prioritise spending plans, and identify areas to explore efficiencies.
- 2.4 The timing of the dashboards will be key to this. The information was finalised in April 2021 for the 2020/21 budget information, which was unusually late. The underlying information relating to the 2021/22 budget is due to be submitted by

forces by the end of July this year, with the expectation that final updated VfM information will be made available towards the end of the calendar year. Significant slippage in this process would mean reliance on the previous year Dashboard, which is likely to prove insufficiently current to be used to inform the 2022/23 budget.

3. KEY INFORMATION

3.1 The VfM Dashboards interactive dashboard contains 27 pages, with the ability to 'drill down' on any area of interest within each page. As such, the volume of information is significant, and cannot be fully reproduced within this report. Financial and workforce information is based on the 2020/21 budget, crime information is based on 2019/20 actuals.

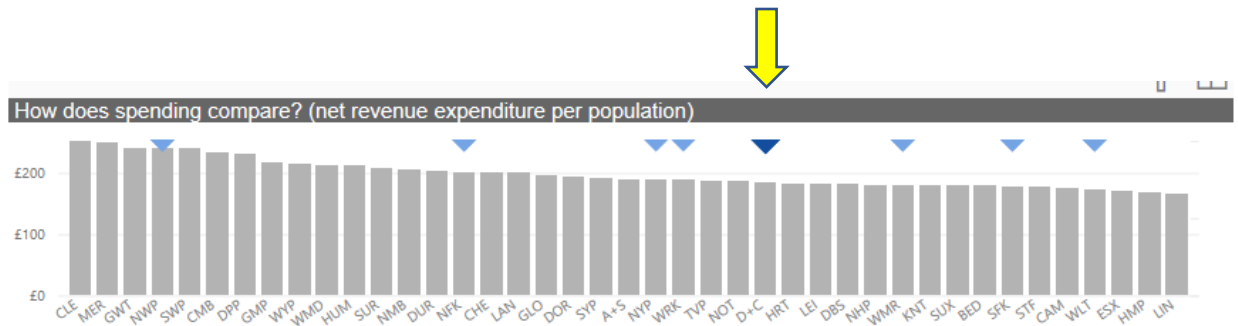
3.2 Key pages within the Dashboards are:



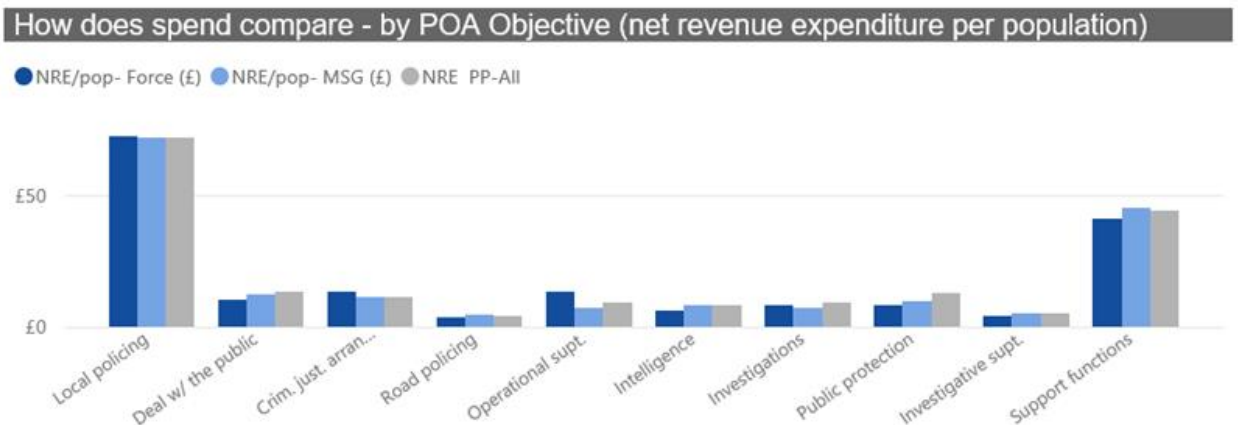
3.3 The following charts are taken directly from the HMICFRS Value for Money Dashboards on the website. The tables below are provided as a flavour of the information available, and an example from each, resources, staffing and crime levels have been selected. Each Force has been considered separately below

4. DEVON AND CORNWALL POLICE

4.1 The table below compares net revenue expenditure per population, across all forces (excluding London), and shows Devon & Cornwall placed 26th out of 41.

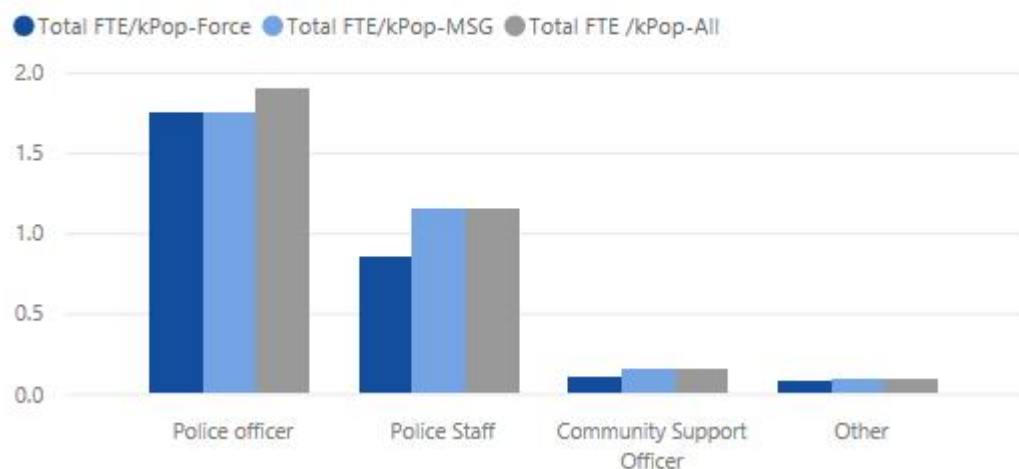


- 4.2 Analysis of spending by department shows general similarities across all forces, with Devon & Cornwall showing marginally higher spending on local policing, criminal justice arrangements and operational support; but less across support functions.



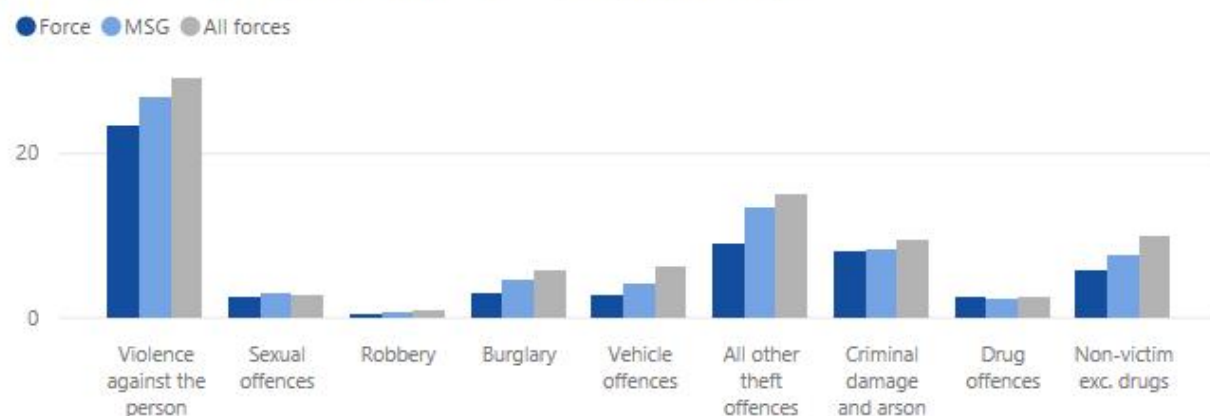
- 4.3 The dashboard also reviews cost outliers. Analysis of this data highlights some that are as a result of differing structures and cost collection across forces, which principally offset each other, whilst those remaining may warrant some further investigation and analysis. The table in Appendix A shows those areas.
- 4.4 The Firearms Unit shows higher costs than our comparators, this may be as a result of our policy on numbers of ARV's and/or as a result of our geography. Investigations around non staff costs of serious and organised crime also present as an outlier, however we know the contribution to the regional collaboration sits in this area.
- 4.5 There are a number of other areas which show lower costs than our comparators. This may be an indication of areas for potential investment, or evidence of good value for money services being provided. A deeper understanding of the drivers beneath this data is required.
- 4.6 The table below compares staffing levels per population. It shows Devon & Cornwall is comparable to its similar group when looking at police officers but reports less police staff per head of population against its similar group and all forces. This is likely to be as a result of the external contract to deliver ICT services, but further investigation will be undertaken to confirm this.

How do staff and officer levels compare (FTE per 1,000 population)

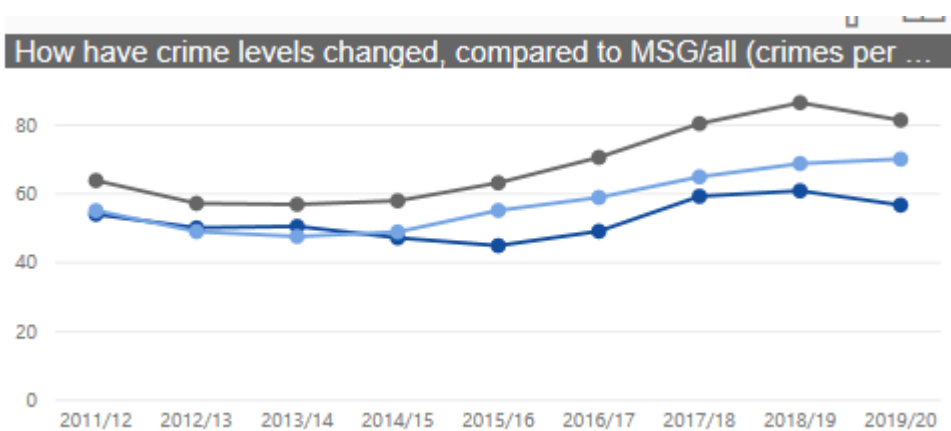


4.7 Crime levels are consistently lower in Devon & Cornwall than the average across the similar group and all forces.

Are crime levels high/low (crime per 1,000 population)

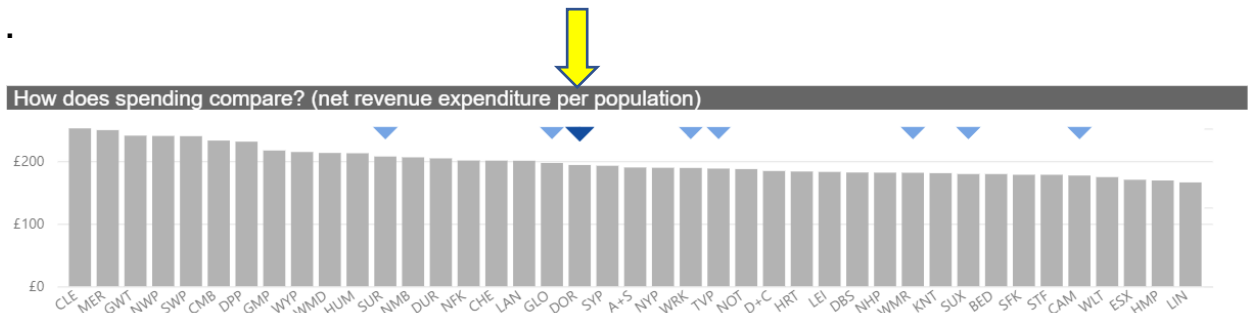


4.8 The chart below shows crime levels consistently lower across a number of years.

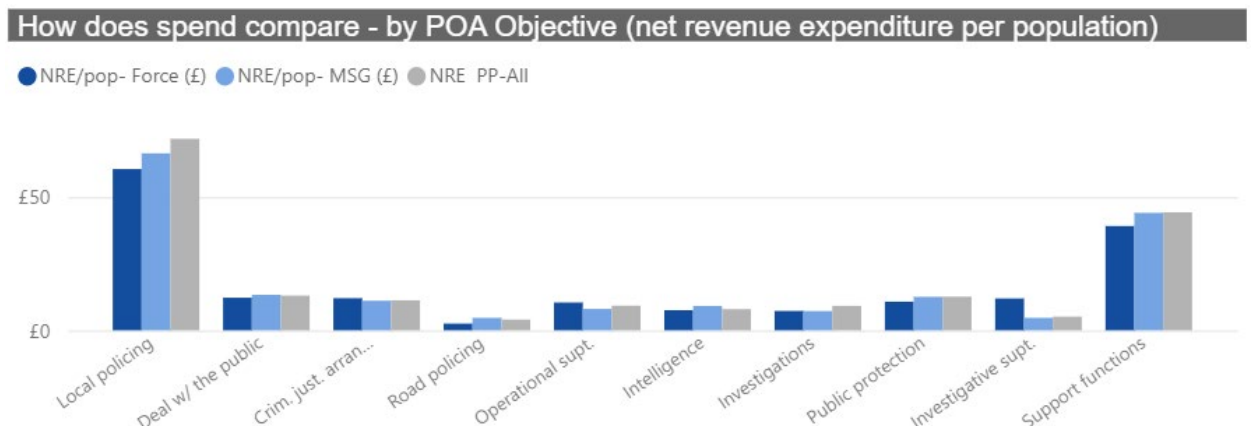


5. DORSET POLICE

- 5.1 The table below compares net revenue expenditure per population, across all forces (excluding London), and shows Dorset placed 19th out of 41.

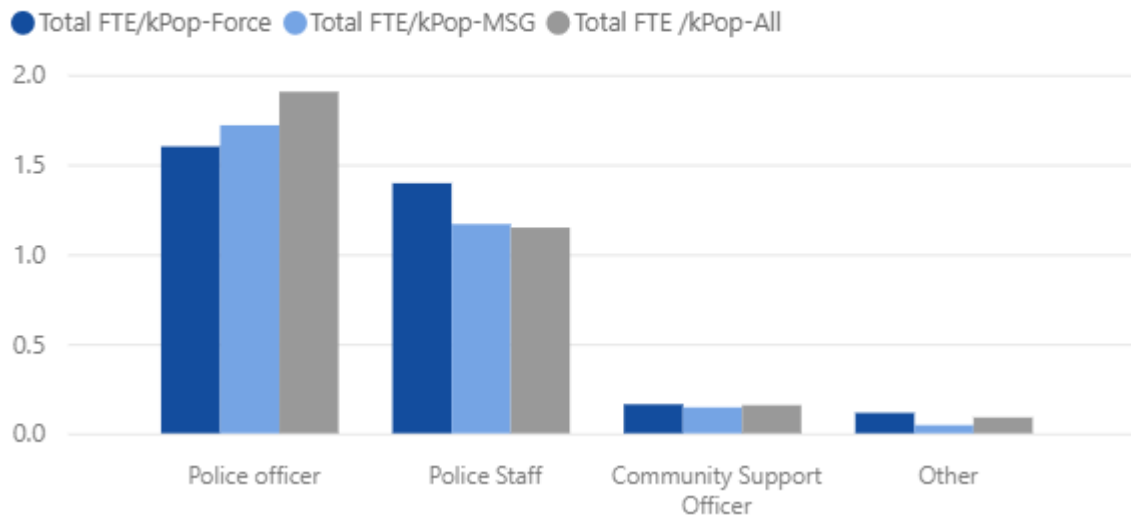


- 5.2 Analysis of spending by department shows general similarities across all forces, with Dorset showing lower than average spend on support functions and local policing, and higher spending on criminal justice arrangements and operational support, in particular marine and firearms. Investigative support shows as particularly high spending, as this includes costs, but not grant funding received for the Forensic Capability Network, for which Dorset is the national lead.



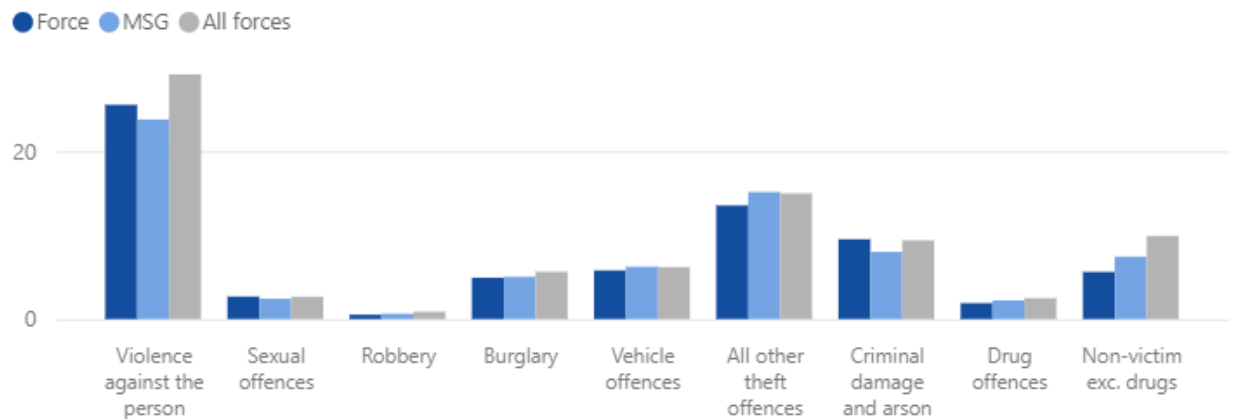
- 5.3 As with Devon and Cornwall, a schedule of cost outliers is also provided for Dorset. Differing structures and cost collection across forces are again a factor. The table in Appendix B shows those remaining areas that may warrant some further investigation and analysis.
- 5.4 A factor within the variances is the absence in these figures of Government Grant, for Forensic Capability Network and for PFI schemes, received as PFI Credits. These are noted within the Appendix. Income in respect of the Driver Awareness Scheme also shows as an outlier.
- 5.5 The table below compares staffing levels per population. It shows that Dorset Police has lower numbers of police officers than its similar group and all forces, but higher numbers of staff per head of population. The higher staff numbers are primarily in Investigative Support (FCN) and Roads Policing (Driver Awareness Scheme). The lower number of officers potentially relate to proportionately greater use of staff in areas such as Force Control Centre.

How do staff and officer levels compare (FTE per 1,000 population)

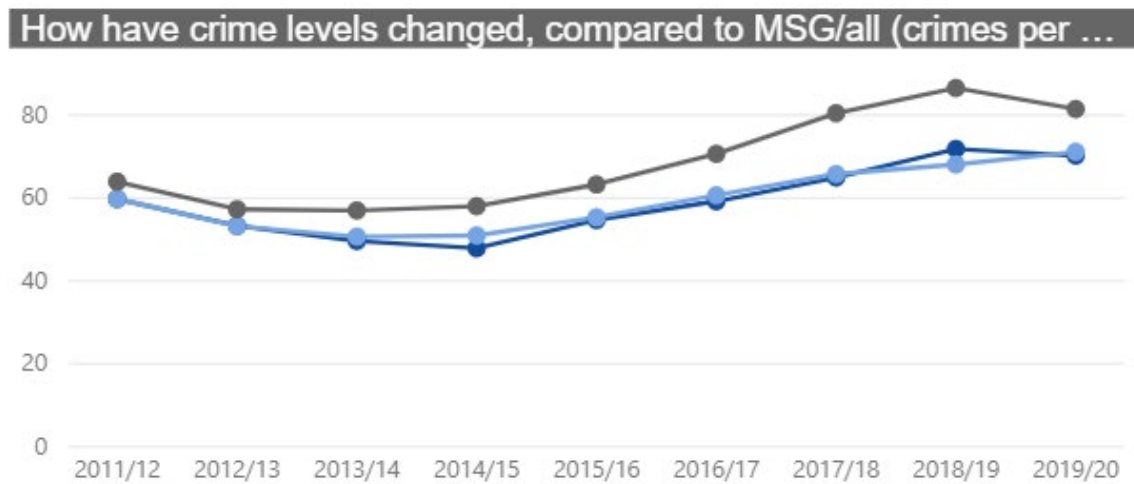


5.6 Crime levels, based on 2019/20 information, are lower in Dorset that the average across the similar group.

Are crime levels high/low (crime per 1,000 population)



5.7 The chart below shows crime levels broadly in line with national average, but consistently lower than the most similar group across a number of years.



6. CONCLUSION

- 6.1 The value for money Dashboards provide reassurance that both forces are providing overall good value for money.
- 6.2 The data within the outliers table will be further scrutinised to provide reassurance and an improved understanding of the figures.
- 6.3 The forces will both continue to consider ways to use the data to inform decision making, business planning and Medium-Term Financial Planning.

APPENDIX A**COST OUTLIERS – DEVON AND CORNWALL POLICE**

To identify an outlier a comparison is made of spend in each area “per population” compared to all forces and our most similar group. It highlights only areas where the differences are over £1 or under £1 per head of population.

The table below details outliers by objective area.

Objective	NRE/pop- Force (£)	NRE/pop - MSG (£)	Difference (v MSG) (£)	NRE/pop- all forces (£)	Difference (v all) (£)	Notes
Firearms unit - Police Officer costs	£6.90	£3.84	£3.06	£3.94	£2.95	Policy on ARV's, Geography? A Regional Collaboration
Investigations - Serious and organised crime - Non pay costs	£2.13	£0.43	£1.70	£1.01	£1.12	
Road policing - Police Officer Costs	£3.05	£4.08	-£1.03	£3.92	-£0.87	
Central comms. Unit - all costs	£8.96	£10.65	-£1.69	£11.04	-£2.08	
Intelligence - Gathering & analysis	£5.52	£7.48	-£1.95	£7.49	-£1.97	
Performance Review & Corporate Development	£1.46	£2.64	-£1.19	£1.90	-£0.44	
ICT - Support Functions	£9.78	£12.81	-£3.04	£11.45	-£1.67	
Other Central Costs- RCCO, Capital Financing, pension & exit costs)	£4.62	£9.92	-£5.31	£8.70	-£4.09	

APPENDIX A

COST OUTLIERS – DORSET POLICE

To identify an outlier a comparison is made of spend in each area “per population” compared to all forces and our most similar group. It highlights only areas where the differences are over £1 or under £1 per head of population.

The table below details outliers by objective area.

Objective	NRE/pop- Force (£)	NRE/pop - MSG (£)	Difference (v MSG) (£)	NRE/pop- all forces (£)	Difference (v all) (£)	Notes
Capital Financing	£13.93	£1.66	£12.27	£3.55	£10.37	} Includes PFI Capital charge, but } excludes PFI Credits FSN - Excludes Grant
Estates – non-employment costs / income	£3.09	£7.07	-£3.97	£7.56	-£4.47	
Investigative Support - Other Forensic Services	£8.90	£1.05	£7.85	£1.16	£7.74	
Custody – non-employment costs	£0.35	£1.98	-£1.63	£0.82	-£0.47	Driver Awareness Scheme
Public Protection – Police Officer Costs	£5.43	£8.15	-£2.72	£8.15	-£2.72	
Casualty Reduction Partnership – Income	-£4.39	-£1.21	-£3.19	-£1.49	-£2.90	
ICT - Support Functions	£9.03	£12.56	-£3.53	£11.01	-£1.98	
Local Policing – Police Officer Costs	£52.16	£56.37	-£4.20	£62.40	-£10.24	



AGENDA NO: 19

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 JULY 2021

FOIA : Open

TITLE OF REPORT: THE CODE OF CORPORATE GOVERNANCE FOR DORSET

REPORT BY: JULIE STRANGE, CHIEF FINANCIAL OFFICER, DORSET OPCC

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	X
Internal Audit	
External Audit	
Financial reporting	
Other matter <i>(please specify here)</i>	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	X
Note the report	
Other <i>(please specify here)</i>	

1. BACKGROUND INFORMATION

1.1 Members considered the first 2 elements of the Code of Corporate Governance at it's meeting in April 2021 and this report presents the remaining 3 parts.

- Part 3A – Schedule of Roles and Responsibilities
- Part 3B – Scheme of Delegation and Consent
- Part 3E – Committee Governance

- 1.2 Each part has been thoroughly reviewed, in particular, to be clear on the responsibilities of roles and those that are delegated, ensuring the two documents complement rather than duplicate each other.
- 1.3 Independent Audit Committee are asked to review the documents and provide feedback.

2. TIMESCALES

- 2.1 Comments on the initial elements are being incorporated into those documents and the attached documents will be updated following this Committee's feedback and is scheduled to be considered by the Joint Leadership Board in August for final adoption.

27 July 2021

Part 3A

Schedule of Roles and Responsibilities

Part 3A Schedule of Roles and Responsibilities

- **Part 3A – Schedule of Roles and Responsibilities**
- Part 3B – Scheme of Delegation and Consent
- Part 3C – Financial Regulations
- Part 3D – Contract Standing Orders
- Part 3E – Committee Governance

Introduction

3A.1 In recognition of the role of the Police and Crime Commissioner (PCC) for Dorset in holding the Chief Constable of Dorset Police to account the PCC and the Chief Constable agree that the PCC may request a briefing on any issues which relate to operational matters or any other matter. This will ordinarily take place through agreed governance arrangements. The PCC agrees not to use this right to interfere with the operational independence of the Chief Constable. The PCC and Chief Constable recognise there may be circumstances when, for reasons of urgency, these matters cannot be raised through the agreed governance arrangements and, in those circumstances, matters will need to be raised as a priority outside of this meeting structure and reported as a decision at a later date.

The Police and Crime Commissioner

3A.2 The PCC has the following responsibilities set out in the PRSRA:

- a. To secure the maintenance of the police Force for that area, and secure that the police Force is efficient and effective [Section 1(6)].
- b. To hold the Chief Constable to account for the exercise of the functions of the Chief Constable, and the functions of persons under the direction and control of the Chief Constable [Section 1(7)].
- c. In particular to hold the Chief Constable to account for:
 - i) the exercise of the duty under Section 8(2) of the PRSRA (duty to have regard to Police and Crime Plan);
 - ii) the exercise of the duty under Section 37A(2) of the PRSRA (duty to have regard to strategic policing requirement);
 - iii) the effectiveness and efficiency of the Chief Constable's arrangements for co-operating with other persons in the exercise of the Chief Constable's functions (whether under section 22A of the Police Act 1996 or otherwise);

- iv) the effectiveness and efficiency of the Chief Constable's arrangements under Section 34 of the PRSRA (engagement with local people);
- v) the extent to which the Chief Constable has complied with Section 35 PRSRA (value for money);
- vi) the exercise of duties relating to equality and diversity that are imposed on the Chief Constable by any enactment;
- vii) the exercise of duties in relation to the safeguarding of children and the promotion of child welfare that are imposed on the Chief Constable by Sections 10 and 11 of the Children Act 2004 [Section 1(8) of the PRSRA].

3A.3 Particular responsibilities of the Police and Crime Commissioner include:

- a. Issuing a Police and Crime Plan [Section 5].
- b. Determining police and crime objectives [Section 7].
- c. Setting a precept [Section 40 of the Local Government Finance Act 1992].
- d. Setting a budget.
- e. Awarding grants for crime and disorder reduction [Section 9].
- f. Approving an annual report [Section 12].
- g. Appointing the Chief Constable [Section 38].
- h. Suspending or requiring the resignation or retirement of the Chief Constable [Section 38].
- i. Appointing, suspending and dismissing the Chief Executive to the PCC [Schedule 1].
- j. Appointing, suspending and dismissing the Treasurer to the PCC [Schedule 1].
- k. Appointing and dismissing a Deputy Police and Crime Commissioner [Section 18].
- l. Attending meetings of the Police and Crime Panel.

3A.4 The PCC also has responsibility for the following functions:

- a. Within the terms of the Policing Protocol, to be consulted on any strategies which in the opinion of the PCC affect the resourcing of the Police and Crime Plan. This includes but is not limited to strategies for: estates, procurement, human resources, treasury management, equality and diversity and information and communications technology (ICT), value for money and income, provided that such a process does not interfere with the Chief Constable's operational independence.
- b. Taking and implementing decisions on procurement of services, supplies and works in accordance with procurement processes set out in the standing orders of the PCC and the Chief Constable and to meet requirements of public procurement legislation. This does not apply to the procurement of services, supplies and works for the Chief Constable and the Force but the PCC shall have the right to be informed of contract requirements identified by the Chief Constable and to have periodic updates through the governance arrangements of the relevant management boards on procurement activity identified as necessary.
- c. Commissioning of services supplies and works in accordance with standing orders.
- d. Subject to consultation with the Joint Leadership Board, the commissioning of and agreement to alternative service delivery arrangements; the PCC may request the Chief Constable to evaluate the risks and benefits of proposed alternative service delivery arrangements before the PCC takes a decision about them.
- f. To ensure their decisions and/or the decisions of the Chief Constable to enter into arrangements involving working with other persons shall be formalised by appropriate mechanisms.
- g. Ownership of specified assets for the use of the Chief Constable and taking decisions on the acquisition and disposal of those assets, subject to consultation with the Chief Constable. This includes any land or property, including the lease or rental of such land or property (except for covert operational reasons). When taking a decision to acquire or dispose of assets held by the PCC for the use of the Chief Constable, the PCC shall comply with the requirements of the Financial Regulations. As the owner of all land and buildings the PCC will indemnify the Chief Constable against any claims linked to the ownership and maintenance of land and property, subject to the activities carried out within the estate being compliant with the Chief Constable's obligations as an employer.
- h. Ownership of specified assets held by the PCC for the use of the PCC and taking decisions on the acquisition and disposal of those assets. When taking a decision to acquire or dispose of any such asset the PCC shall comply with the requirements of the Financial Regulations.

- i. Management of contracts relating to assets including Public Finance Initiatives (PFIs) arrangements.
- j. Dealing with civil claims directly against the office of PCC or his/her staff.
- k. Considering the risk registers of the Chief Constable and ensuring any mitigating actions are being pursued. Ensuring adequate insurance cover is arranged in liaison with the Chief Finance Officer (CFO).
- l. Employment of staff that report to the Chief Executive of the OPCC.
- m. Providing the Medium Term Financial Strategy, covering the financial scenario for at least the following four years and annual draft revenue and capital budgets, with associated savings plans to meet the scenario
- n. Following consultation with the Chief Constable, the Treasurer and the Chief Financial Officer, allocation of a budget to the Chief Constable divided between revenue and capital. The revenue budget will be divided between staff costs and non-staff costs.
- o. Increasing the budget allocation to the Chief Constable to allow the Chief Constable to manage one-off emergency situations.
- p. Receipt of all income eg. precepts and grants and all other income as detailed in financial regulations.
- q. In consultation with the Chief Constable and taking account of advice from the statutory officers of the PCC and the Chief Constable, allocating income received, including income received for special police services provided under section 25 of the Police Act 1996.
- r. Management of debtors
- s. Agreement of the treasury management strategy and the consequent management of investments and loans
- t. Agreement of the reserves strategy, covering all reserves, and contingencies within the budget, including the use of reserves.
- u. To appoint external auditors, as advised by the Treasurer.

- v. The granting of indemnities or guarantees to third parties.
- w. To provide a link between the police and community; obtaining and representing the views of local people, councils and other criminal justice organisations.
- x. Ensuring arrangements are in place for delivering victims care.
- y. Handling of complaints and conduct matters in relation to the Chief Constable and monitoring the Chief Constable's handling and investigation of complaints against police officers and police staff, undertaking reviews as determined by the appropriate authority and complying with the requirements of the Independent Office for Police Conduct (IOPC).
- z. To address the PCC's wider community safety, crime reduction and criminal justice responsibilities as described in Section 10.

3A.5 The PCC has power to delegate functions [Section 18] but this is subject to restrictions.

- a. The PCC may not delegate the following functions to any person other than his/her deputy: determining police and crime objectives; attendance at a meeting of a Police and Crime Panel in compliance with a requirement by the Panel to do so; preparing an annual report to a Police and Crime Panel [Section 18].
- b. The PCC may not delegate the following functions to any person: issuing a Police and Crime Plan; appointing the Chief Constable, suspending the Chief Constable, or calling upon the Chief Constable to retire or resign; calculating a budget requirement [Section 18(3)(b)].
- c. The PCC may not appoint any of the following as his deputy: (a) a constable; (b) a PCC; (c) the Mayor's Office for Policing and Crime; (d) the Deputy Mayor for Policing and Crime appointed by the Mayor's Office for Policing and Crime; (e) the Mayor of London; (f) the Common Council of the City of London; (g) any other person or body which maintains a police Force; (h) a member of the staff of a person falling within any of paragraphs (a) to (g) [Section 18(3)(a)].
- d. The PCC must approve statutory borrowing limits, which must be included in the annual treasury management strategy, therefore approval of the strategy cannot be delegated.

3A.6 When exercising their function and duties the PCC must have regard to the following:

- a. The views of the people in Dorset.
- b. Any report or recommendation made by the Police and Crime Panel in respect of the Police and Crime Plan, the proposed annual precept and the annual report for the previous financial year.
- c. The Police and Crime Plan and any guidance issued by the Secretary of State including specifically the Strategic Policing Requirement.

Deputy Police and Crime Commissioner (DPCC)

3A.7 Should the PCC choose to appoint a DPCC, they shall be appointed by the PCC under Section 18(1) of the PRSRA.

- a. The DPCC may be authorised by their PCC to exercise any functions of that PCC except for the following: issuing a Police and Crime Plan; appointing the Chief Constable, suspending the Chief Constable, or calling upon the Chief Constable to retire or resign; and calculating a budget requirement [Section 18(3)(b) of the PRSRA].
- b. The DPCC may delegate to other persons only those functions which have been delegated to him/her but this is subject to restrictions.
 - i) The DPCC may not delegate the following functions: determining police and crime objectives; attendance at a meeting of a Police and Crime Panel in compliance with a requirement by the Panel to do so; preparing an annual report to a Police and Crime Panel [Section 18(5)(b)].
 - ii) The DPCC may not delegate functions to the following persons: (a) a constable; (b) a PCC; (c) the Mayor's Office for Policing and Crime; (d) the Deputy Mayor for Policing and Crime appointed by the Mayor's Office for Policing and Crime; (e) the Mayor of London; (f) the Common Council of the City of London; (g) any other person or body which maintains a police Force; (h) a member of the staff of a person falling within any of paragraphs (a) to (g) [Section 18(5)(a)].

Chief Executive of the Police and Crime Commissioner

3A.8 The Chief Executive is appointed by the PCC under paragraph 6(1) of Schedule 1 to the PRSRA as the head of the staff of the PCC.

- a. The Chief Executive is the PCC's Monitoring Officer [Section 1(C) of the Local Government and Housing Act 1989] and in that role has a duty to prepare a report for the PCC if it at any time it appears to the Chief Executive that any proposal, decision or omission by the PCC, by any committee, or sub-committee of the PCC, by any person holding any office or employment under the PCC or by any joint committee on which the PCC is represented constitutes, has given rise to or is likely

to or would give rise to: (a) a contravention of any enactment or rule of law or any code of practice made or approved under any enactment; or any such maladministration or failure as is mentioned in Part 3 of the Local Government Act 1974.

- b. The Chief Executive has responsibility for the day to day management and running of the PCC's office.
- c. The Chief Executive is responsible for advising the PCC upon policy and strategy.
- d. The Chief Executive shall submit a report on governance in order to complete the Annual Governance Statement and this will be reviewed once a year by the Independent Audit Committee (IAC).
- e. The Chief Executive may make recommendations to the PCC with regard to staff terms and conditions of service, in relation to those staff who are not under the direction and control of the Chief Constable.
- f. The PCC may arrange for the discharge of any of the PCC's functions by the Chief Executive other than those functions specified at paragraphs 3A.5(a) and 3A.5(b) in respect of which it is prohibited.
- g. The Chief Executive also has the following general duties:
 - i) To oversee the development and implementation of performance monitoring and reporting arrangements.
 - ii) To consider whether, in consultation with the Treasurer, to provide indemnity to the PCC (and DPCC) in accordance with appropriate statutory provisions and to deal with or make financial provision to deal with matters arising from any proceedings.
 - iii) To consider and approve, in consultation with the Treasurer, provision of indemnity and/or insurance to individual staff of the PCC in accordance with appropriate statutory provisions and Home Office guidance [currently Home Office circular 10 of 2017].
 - iv) The financial management responsibilities of the Chief Executive as set out in the Financial Regulations.
 - v) To appoint, in consultation with the PCC, staff in the OPCC.
 - vi) To affix the common seal of the PCC to all relevant contracts, agreements or transactions, where sealing is necessary.
 - vii) To respond to formal consultations (eg. by central government) on proposals affecting their PCC, if necessary, after first taking

the views of the PCC, the Treasurer and/or their Chief Constable, as necessary and appropriate.

- viii) To obtain legal or other expert advice and to appoint legal professionals either internally or externally whenever this is considered to be in the PCC's best interests in the exercise of his/her functions.
- ix) To determine any reimbursement of exceptional expenses of the PCC in accordance with regulations.

Treasurer of the Police and Crime Commissioner

3A.9 The Treasurer is appointed by the PCC as the CFO of the PCC under paragraph 6(1)(b).

- a. As the Treasurer to the PCC the post-holder has a statutory responsibility to manage the PCC's financial affairs in accordance with Sections 112 and 114 of the Local Government Finance Act 1988 and the Accounts and Audit Regulations 2015 (as amended).
- b. The Treasurer is the PCC's professional adviser on financial matters and has the general duties to:
 - i) Provide financial advice to the PCC on all aspects of its activity including the strategic planning and policy making process.
 - ii) Assist the PCC in seeking to obtain the best value for money.
 - iii) Advise the PCC on financial probity.
 - iv) Ensure accurate, complete and timely financial management information is provided to the PCC, and the Chief Constable upon request.
 - v) Give assistance in providing safe and efficient financial arrangements.
 - vi) Advise, as appropriate, in consultation with the Chief Executive the CFO on the safeguarding of assets, including risk management and insurance.
 - vii) Advise on budgetary matters including any consequential long term implications.
- c. The Treasurer is responsible for the proper administration of the PCC's financial affairs.

- d. The Treasurer has statutory duties to:
- i) Make a report and send it to the PCC, each member of the Police and Crime Panel and the external auditor if it appears to the Treasurer that the PCC, a person holding any office or employment under the PCC or a joint committee on which the PCC is represented has made or is about to make a decision which involves or would involve the PCC incurring expenditure which is unlawful; or has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the PCC or is about to enter an item of account the entry of which is unlawful.
 - ii) Make a report and send it to the PCC, each member of the Police and Crime Panel and the auditor if it appears to the Treasurer that the expenditure of the PCC incurred (including expenditure he/she proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to the PCC to meet that expenditure.
 - iii) Prior to the report being sent it is expected the Treasurer will consult the CIPFA guidance.
- e. The Treasurer also has responsibility for the following:
- i) Ensuring the financial affairs of the PCC are properly administered and financial regulations are observed and kept up to date.
 - ii) Ensuring regularity, propriety and value for money in the use of public funds.
 - iii) Ensuring the funding required to finance agreed programmes is available from central government, precept, other contributions and recharges.
 - iv) Advising the PCC on the robustness of the budget and adequacy of financial reserves.
 - v) Ensuring production of the statements of account of the PCC.
 - vi) Ensuring receipt and scrutiny of the statements of account of the Chief Constable and ensuring production of the group accounts.
 - vii) Advising on the appointment of an External Auditor in consultation with the CFO.
 - viii) Advising the PCC on the application of value for money principles by the Force to support the PCC in holding the Chief

Constable to account for efficient and effective financial management.

- ix) Ensure a Reserves Strategy is produced and approved before the start of each financial year.
 - x) Ensure a Treasury Management Strategy is produced and approved before the start of each financial year supported by a mid-year report and annual report at year end.
 - xi) Ensure a Capital Strategy is produced and approved before each financial year
 - xii) To adhere to the Financial Management Code of Practice.
- f. Further financial management responsibilities of the Treasurer can be found in the Financial Regulations (Part 3C) of the Code of Corporate Governance.

Chief Constable

3A.10 The Chief Constable is appointed under Section 38 of the PRSRA and is responsible for maintaining the Queen's Peace. The Chief Constable is accountable for the exercise of police powers and is operationally independent of the PCC. The Chief Constable is accountable to the PCC for the delivery of efficient and effective policing, and the management of resources and expenditure by the police Force.

- a. The Chief Constable has the following responsibilities set out in the PRSRA:
 - i) To exercise direction and control over the police Force in such a way as is reasonable to assist the PCC to exercise the PCC's functions.
- b. The Chief Constable also has responsibility for the following functions:
 - i) Having ownership of specified assets held by the Chief Constable for the use of the Chief Constable and the Force and taking decisions on the acquisition and disposal of those assets.
 - ii) Monitoring of arrangements for insurance of assets used by the PCC and the Chief Constable.
 - iii) Managing the budget allocated to the Chief Constable by the PCC.
 - iv) Dealing with claims made directly against the office of Chief Constable or his/her officers and staff.

- v) To enter into contracts on behalf of services, suppliers and works for the Chief Constable and the Force. All such contracts will be compliant with standing orders and procurement legislation for services
- vi) Preparing and approving risk management arrangements for the Force.
- vii) Maintaining the Force corporate risk register.
- viii) Maintaining the Force business area risk registers.
- ix) Ensuring the administration of the pension schemes for police officers and police staff.
- x) Ensuring that a Police Pension Board is established and maintained.
- xi) Appointing officers and determining ranks. The Chief Constable must consult the PCC before appointing a person as an Assistant Chief Constable or a Deputy Chief Constable.
- xii) Dismissing and suspending police officers and discharging probationers.
- xiii) Determining remuneration, allowances, redundancies and gratuities for staff.
- xiv) Approving the Retirement of police officers and police staff on grounds of ill health or in the interests of the service.
- xv) Approving the secondment of police officers and police staff.
- xvi) Approval of police officer and police staff visits to countries outside the United Kingdom in duty time.
- xvii) Managing service contracts relating to the service budget of the Chief Constable.
- xviii) On request to the Chief Constable providing support services to the PCC.
- xix) Employment of police staff.
- xxi) The Chief Constable shall on request by the PCC produce a report providing details of the condition of the assets used by the PCC and the Chief Constable and the arrangements for insurance of them.

The Chief Constable's Chief Finance Officer (CFO)

3A.11 The Chief Constable must appoint a CFO under paragraph 6(1)(b) of Schedule 1 to the PRSRA.

- a. The CFO is appointed by the Chief Constable to manage the Force's financial affairs in accordance with Sections 112 and 114 of the Local Government Finance Act 1988 and the Accounts and Audit Regulations 2015.
- b. The CFO is responsible for the proper administration of the Chief Constable's financial affairs.
- c. The CFO has statutory duties to:
 - i) Make a report and send it to the Chief Constable and the PCC and the external auditor if it appears to the CFO that the Chief Constable, a committee of the Chief Constable, a person holding any office or employment under the Chief Constable, or a joint committee on which the Chief Constable is represented has made or is about to make a decision which involves or would involve the relevant Chief Constable incurring expenditure which is unlawful; has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Chief Constable; or is about to enter an item of account the entry of which is unlawful.
 - ii) Make a report and send it to the Chief Constable and the PCC and the external auditor if it appears to the CFO that the expenditure of the Chief Constable incurred (including expenditure he proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to the Chief Constable to meet that expenditure.
 - iii) Prior to the report being sent it is expected the CFO will consult the CIPFA guidance.
- d. The CFO also has the following responsibilities:
 - i) Ensuring the financial affairs of the police Force are properly administered and the Financial Regulations are observed and kept up to date.
 - ii) Advising the Chief Constable on value for money in respect of all aspects of the relevant police Force's expenditure.
 - iii) Advising the Chief Constable on the soundness of the budget in relation to the Force.

- iv) Liaising with the external auditor.
 - v) Ensuring adequate insurance cover is arranged in liaison with the Treasurer.
 - vi) Producing statements of accounts for the Chief Constable.
 - vii) Providing information to the Treasurer as required to enable production of group accounts.
 - viii) To manage the joint financial IT system on behalf of the OPCC and the Chief Constable in consultation with the Treasurer and to be responsible for the integrity of the computerised records and ensuring that all accounting records are maintained in accordance with legislation.
 - ix) To adhere to the Financial Management Code of Practice.
- e. Further financial management responsibilities of the CFO can be found in the Financial Regulations (Part 3C) of the Code of Corporate Governance.

Asset Schedule

Assets held by the Police and Crime Commissioner for the use of the Chief Constable

- Land and Buildings including:
 - Freehold buildings
 - Enhancements to leasehold buildings

Assets held by the Police and Crime Commissioner for the use of the Police and Crime Commissioner

Furniture, ICT equipment, stocks and any other short life assets required for the operation of the Office of the Police and Crime Commissioner

Assets held by the Chief Constable for the use of the Chief Constable

- Vehicles
- Boats
- Bicycles
- IT Infrastructure including:
 - Desk tops
 - Servers, storage and all related hardware
 - Capitalised software
- IT personal usage (mobiles/Blackberries/laptops)
- Body worn video
- Firearms and ammunition
- Drones
- Cameras
- Uniforms
- Airwave handsets and related software
- Stock including:
 - Vehicle parts
 - Fuel included in bunkers and in vehicles
- Scientific equipment
- Personal protective equipment, for example, body armour, tasers etc.
- Furniture and fittings
- Gym equipment
- Reprographics equipment
- Advertising and promotional boards
- Canteen equipment
- Stores equipment
- Estates equipment
- Storage containers
- Custody attack/cell call system
- Interview recording equipment
- Road scanners for accident investigation

- Operational equipment
- ANPR equipment
- Trailers

Part 3B

Scheme of Delegation and Consent

Part 3B Scheme of Delegation and Consent

- Part 3A – Schedule of Roles and Responsibilities
- **Part 3B – Scheme of Delegation and Consent**
- Part 3C – Financial Regulations
- Part 3D – Contract Standing Orders
- Part 3E – Meeting Governance

Introduction

3B.1 This Scheme of Delegation and Consent sets out delegation of functions of the Police and Crime Commissioner (PCC) and the Chief Constable to enable the PCC and the Chief Constable to discharge their statutory functions. It sets out significant functions, which are delegated to the Chief Officers and statutory Officers. It does not affect the power of the Chief Constable and the PCC to make additional specific delegations from time to time.

3B.2 This Scheme of Delegation and Consent incorporates the following definitions which are laid out at paragraphs 3.8. and 3.9 within Part 3 (Scheme of Governance) which details the overarching Scheme of Corporate Governance.

“Consent” refers to the provision of approval or agreement, particularly and especially after due and thoughtful consideration. Transactions entered into following “consent” by the PCC to the Chief Constable, will be in the Chief Constable’s own name as a separate legal entity, as opposed to the name of the PCC.

“Delegation” is the assignment of authority and responsibility to another person to carry out specific activities. However, the person who delegated the work remains accountable for the outcome of the delegated work. Delegation therefore empowers another person to make decisions.

This Scheme of Delegation and Consent includes one consent between the PCC for Dorset to the Chief Constable of Dorset at paragraph 3B.58 of this document in relation to entering into contracts.

3B.3 Any person who exercises delegated authority under this scheme of delegation and consent must bring to the attention of the PCC or the Chief Constable as applicable any matter relating to the exercise of that delegated authority where the circumstances would be likely to be regarded by the PCC or Chief Constable as novel, contentious or sensitive.

3B.4 Any person who exercises authority under this Scheme of Delegation and Consent must comply with all statutory and regulatory requirements and all guidance. This includes but is not limited to:

- a. PRSRA and subordinate legislation.
- b. Policing Protocol Order 2011.
- c. Home Office Financial Management Code of Practice.
- d. CIPFA Statement on the role of the Chief Finance Officer (CFO) in public service organisations.
- e. Accounts and Audit Regulations.
- f. Data Protection Act 2018.
- g. Freedom of Information Act and subordinate legislation.
- h. Health and safety at work Act 1974 and subordinate legislations and codes.
- i. Equality Act 2010.
- j. Human Rights Act 1998
- k. The Code of Governance of the PCC and any other policies and procedures of the PCC.

3B.5 Any person who exercises authority under this Scheme of Delegation must have regard to the requirements of the Police and Crime Plan.

3B.6 With the exception of those matters reserved for decision by the PCC or the Chief Constable the scheme allows any person to whom a power has been consented or delegated to sub-consent/sub delegate that power further to staff so long as this is not prohibited by statute, regulation or statutory guidance nor is it specifically prohibited by the PCC Any such sub-consent/sub delegation does not relieve the person who has sub-consented or sub-delegated a power from due responsibility for any decision taken by a person they have authorised to act on their behalf.

3B.7 Giving consent/delegation to officers under this scheme does not prevent an officer from referring the matter to the PCC or the Chief Constable for a decision if the officer thinks this is appropriate (for example, because of sensitive issues or any matter which may have a consequential financial or reputational implication).

3B.8 Any action taken under delegated authority must where reasonable be recorded by those officers holding the delegation, including recording that legal, financial and other considerations and consultations have been recorded and considered prior to a decision being taken.

- 3B.9 The PCC is responsible for ensuring the provisions and obligations of this scheme are properly drawn to the attention of all their staff and the Chief Constable is responsible for ensuring the provisions and obligations of this scheme are properly drawn to the attention of all officers and staff under his/her responsibility or employment.
- 3B.10 Notwithstanding any specific requirements in this scheme, the PCC shall be consulted in relation to any programmes and projects which may have a significant impact on the community of Dorset.
- 3B.11 The person appointed as the Chief Executive (who will also be the Monitoring Officer) and the Treasurer have statutory powers and duties relating to their position, and therefore do not rely on a specific delegation to carry out these powers. Similar considerations apply to the CFO of Dorset Police.
- 3B.12 All delegations within this document or elsewhere are subject to the individual exercising the delegation, where required, in consultation with the Treasurer or CFO to ensure suitable budgetary provision exists to meet the immediate and any future liabilities arising from the decision.

Functions delegated from the Police and Crime Commissioner to the Police and Crime Commissioner's Chief Executive

- 3B.13 In the absence of the PCC the PCC delegates decisions in relation to the exercise of their statutory functions to their Chief Executive to carry out in their absence.
- 3B.14 The PCC delegates the following functions to the Chief Executive:
- a. To prepare and co-ordinate the production of the Police and Crime Plan.
 - b. To produce an annual report.
 - c. Subject to the views of the Chief Constable when appropriate to publish information on behalf of the PCC as required by the Elected Local Policing Bodies (Specified Information) Order.
 - d. To provide information to the Police and Crime Panel to enable it to carry out its functions.
 - e. To make arrangements to institute defend or participate in any legal proceedings in any case where such action is necessary to give effect to decisions of the PCC or in any case in which the Chief Executive considers that such action is necessary to protect the PCC's interests.
 - f. To consider with the PCC any complaint made against the Chief Constable and where appropriate to make arrangements for appointing an officer to investigate the complaint.

- g. To ensure in consultation with the Chief Constable that appropriate arrangements are made to gather the community's views and the views of victims of crime on the policing of Dorset.
- h. Such matters that are referred for decision by the Chief Executive in the Financial Regulations and Contract Standing Orders.
- i. To appoint and suspend and dismiss in consultation with the PCC the staff of the PCC who are not under the direction and control of the Chief Constable.
- j. Having taken the appropriate legal or other expert advice in accordance with the sub paragraph (k) above to settle Employment Tribunal claims and civil claims brought against the PCC subject to the memorandum of understanding agreed with the Force in relation to the provision of instructions in legal proceedings.
- l. To appoint and if necessary terminate the appointment of Independent Custody Visitors in accordance with Section 51 Police Reform Act 2002 and OPCC staff.
- m. To place orders for goods, services and work within budget provision, up to the value at which the European Procurement Directives apply subject to: compliance with Financial Regulations and Contract Standing Orders and a report being submitted to the PCC for information.
- n. To make appointments to Police Appeals Tribunal in consultation with the PCC.
- o. To deal with routine matters of urgency.
- p. To apply for planning permission on behalf of the PCC.
- q. To consult, as appropriate, with the Treasurer and the CFO and the Director of Legal, Reputation and Risk to identify areas where the probity of the PCC and the Chief Constable could be better protected.
- r. To prepare the PCC's risk management policies.
- s. To maintain the risk register of the PCC and if requested to have sight of the risk register of the Chief Constable. This may be a joint risk register or a sole organisation risk register.
- t. To be responsible for the budget for the Office of the Police and Crime Commissioner (OPCC).
- u. To approve ex gratia payments up to the limit set out in the Financial Regulations.

Functions delegated from the Police and Crime Commissioner to their Police and Crime Commissioner's Treasurer

- 3B.15 To implement and monitor the Treasury Management Policy Statement.
- 3B.16 To be responsible for the investment of the PCC's funds and the borrowing of funds as necessary in accordance with the Treasury Management Strategy including authority to make investment decisions. The Treasurer may arrange for the CFO to undertake day to day cash management activities or may procure these activities from an appropriate source.
- 3B.17 In extremis, to make the payments where prior approval by the PCC is not possible to authorise such payments, irrespective of whether or not provision has been made in the revenue budget but within the bounds of Section 114 of the Local Government and Finance Act 1988. Any decisions taken under this provision must be reported as soon as possible to the PCC and the CFO.
- 3B.18 To be responsible for all banking arrangements together with the creation, closure or authorisations of any account.
- 3B.19 To decide having taken appropriate advice in consultation with the Chief Executive any enhancements or applications of discretion within the Local Government Pension Scheme.
- 3B.20 To ensure the joint internal audit function is effective for the use of the PCC and to report all matters of concern arising from internal audit activity to the PCC and the Independent Audit Committee (IAC) as appropriate.
- 3B.21 To prepare draft financial regulations and rules relating to contracts in consultation with the CFO.
- 3B.22 To approve contract award, contract variations and contract extensions for any specified contracts in the name of the PCC up to the limits set out in the Financial Regulations (Part 3C of the Code of Corporate Governance).
- 3B.23 To approve the waiving of standing orders and procurement regulations for any contract in the name of the PCC up to the limits set out in the Financial Regulations (Part 3C of Code of Corporate Governance).
- 3B.24 To approve the disposals of assets in the ownership of the PCC for the use of the PCC and assets in the ownership of the PCC for the use of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of Code of Corporate Governance).
- 3B.25 To approve the write off of income due to the PCC up to the limits set out in the Financial Regulations (Part 3C of Code of Corporate Governance).

3B.26 To approve individual retirement or redundancy sums for staff of the OPCC up to the limits set out in the Financial Regulations (Part 3C of Code of Corporate Governance).

3B.27 Any other such matters that are referred for decision by the Treasurer in the Financial Regulations and Contract Standing Orders.

Functions delegated by the Police and Crime Commissioner to the Head of Estates

3B.28 Dorset estates staff are employed by the Chief Constable but work under the delegation of the Dorset PCC.

3B.29 In Dorset the following are delegated to the Head of Estates:

- a. To appoint technical consultants as and when required to progress the capital and revenue programmes.
- b. To add or delete firms from the PCC's approved list of building contracts and architectural services consultants, in accordance with approved criteria.
- c. To negotiate and appoint a consultant selected from the approved list of architectural services consultants in accordance with the criteria submitted where they consider it to be in the best interests of the PCC and where the fee (inclusive of expenses) is within budgetary provision and is estimated to be less than the value at which the European Procurement Directives apply.
- d. To authorise persons to enter and survey land pursuant to Section 15 Local Government (Miscellaneous Provisions) Act 1976 and Section 324(6) Town & Country Planning Act 1990.
- e. To grant licences and fees for radio installations/masts and aerials which conform to approved standards and to report such approvals retrospectively to the PCC for information.
- f. To let surplus empty properties, which are not intended for disposal, ensuring they are managed in-house and let at market rents after being advertised on the open market, subject to retrospective reporting to the PCC
- g. To arrange for the service of notices to quit in order to obtain possession of land for a purpose already approved by the PCC or to enable a variation to be made in the terms upon which a tenancy of land is held.
- h. To acquire and/or dispose of surplus property, as confirmed by the PCC, at its open market value as certified by a qualified valuer, the capital value of which does not exceed £500,000 and which is included

in the strategy outlined for the year in the Police and Crime Plan such transactions to be reported retrospectively to the PCC

- i. To make application to the highways authority for the grant of licences for operators over, in and under streets required for the PCC's development.

3B.30 For projects where the final business case has been approved by the primary governance board and following the express approval of the PCC's Chief Executive to apply for planning permission on behalf of the PCC.

Functions delegated by the Chief Constable to their Chief Finance Officer

3B.31 To assist the PCC in planning the budget for Dorset Police.

3B.32 To undertake the day to day management of the budget for Dorset Police.

3B.33 To approve contract award, contract variations and contract extensions for any contract in the name of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of the Scheme of Corporate Governance).

3B.34 To approve the waiving of standing orders and procurement regulations for any contract in the name of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of the Scheme of Corporate Governance).

3B.35 To approve the disposals of assets in the ownership of the Chief Constable for the use of the Chief Constable and assets in the ownership of the PCC for the use of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of the Scheme of Corporate Governance).

3B.36 To approve the write off of income due to the PCC up to the limits set out in the Financial Regulations (Part 3C of the Scheme of Corporate Governance).

3B.37 To approve individual retirement or redundancy sums for staff of the Chief Constable up to the limits set out in the Financial Regulations.

3B.38 To approve the write off stocks in the ownership of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of Scheme of Corporate Governance).

3B.39 To approve ex gratia payments to staff of the Chief Constable up to the limits set out in the Financial Regulations (Part 3C of the Scheme of Corporate Governance).

3B.40 Any other such matters that are referred for decision by the Chief Finance Officer in the Financial Regulations and Contract Standing Orders.

3B.41 To be responsible for managing the accounts systems of the Chief Constable.

3B.42 Undertake day to day management of the assets held by the Chief Constable.

3B.43 To represent the Chief Constable at the Police Pensions Board, in accordance with the Police Pensions Board terms of Reference.

Delegations from the Chief Constable to Non-Statutory Posts

Functions delegated by the Chief Constable to the Chief Constable's Director of Legal, Reputation and Risk

3B.44 To provide legal advice to the PCC and the Chief Constable on their powers and ability to take decisions and actions in specific situations.

3B.45 To institute prosecute defend or participate in legal or other proceedings on behalf of the Chief Constable and the PCC where such action is necessary to give effect to the decisions and policies of the Chief Constable and the PCC or where the Director of Legal, Reputation and Risk advises that such action is necessary to protect the interests of the Chief Constable or the PCC.

3B.46 To appear on behalf of the Chief Constable and the PCC in proceedings at any appropriate court, tribunal or inquiry and to take any action in connection with such proceedings.

3B.47 Having taken instructions from the Chief Constable and the PCC in accordance with the agreed protocol to settle or compromise any legal proceedings where the Director of Legal, Reputation and Risk advises that such action is necessary to protect the interests of the Chief Constable and/or the PCC:

- a. The powers set out above in paragraphs 3B.47 to 3B.49 may be exercised on behalf of the Director of Legal, Reputation and Risk by any qualified lawyer. Working within the Joint Legal Services Department or in circumstances where external lawyers are instructed in accordance with paragraph 3B.14(k) above.

Financial Delegations to the Chief Constable's Lead for Human Resources

3B.48 To adjust the police staff establishment both in numbers and gradings within the overall workforce budget approved by the PCC.

3B.49 To determine all employee matters relating to police pensions in consultation with the CFO(including widows pensions).

3B.50 To determine the following matters in relation to injury awards:

- a. Decide to refer the process to the Selected Medical Practitioner (SMP).

- b. Decide to retain an officer where the SMP confirms the officer is not permanently disabled and both the management and the officer agree the retention period is appropriate.
- c. Decide the appropriate review period for injury awards.
- d. Decide whether there is a cognisant reason why an injury award should not be reduced to the lowest band upon the pensioner reaching statutory retirement age.

3B.51 To publish and maintain a policy of employer discretions under the Local Government Pensions Scheme and Public Service Pensions Acts (PSPA), including the Police Pension Scheme 2015, in consultation with the CFO and Treasurer as appropriate.

3B.52 Any decisions with regard to the enhancements or applications of discretion listed above will be referred to the Treasurer and the CFO.

3B.53 To accept notices from police officers of an intention to retire from the service.

3B.54 To receive and accept notices from probationer officers who express an intention to retire during their probationary period.

3B.55 To consult the PCC's Treasurer and the CFO in order to ensure that adequate financial provision is in place for proposed redundancies of the Chief Constable's staff.

Consent from the Police and Crime Commissioner to the Chief Constable

3B.56 The PCC for Dorset gives consent to the Chief Constable to enter into contracts and to acquire or dispose of property, other than land, subject to the requirements of Financial Regulations, including Contract Regulations.



Part 3E

Meeting

Governance

Part 3E Meeting Governance

- Part 3A – Schedule of Roles and Responsibilities
- Part 3B – Scheme of Delegation and Consent
- Part 3C – Financial Regulations
- Part 3D – Contract Standing Orders
- **Part 3E – Meeting Governance**

- 3E.1 The governance of the Force meetings and joint structured meetings with the Police and Crime Commissioner (PCC) are delivered through a series of strategic meetings chaired by a member of the Executive, who has decision making authority for their portfolio area of business.
- 3E.2 Force meetings are managed by Personal Assistants with the Executive staff office in support of effective decision-making.
- 3E.3 A similar structure is in operation within the Office of the Police and Crime Commissioner (OPCC).
- 3E.4 Each strategic meeting has terms of reference, and each meeting is captured in minutes together with any decisions and actions.
- 3E.5 All supporting papers and minutes of the meetings are published as 'Open or Closed' business subject to Freedom of Information (FOI) requirements.
- 3E.6 Sitting below the strategic meetings are a series of other meetings designed to deliver operational business and to inform the strategic decision making process.
- 3E.7 Meetings are held on a cyclical basis and terms of reference are subject to annual review to ensure their ongoing relevance and focus of the meeting.
- 3E.8 Documentation and records of decision-making meetings are retained.
- 3E.9 The chair of each strategic meeting ensures the meetings operate within the terms of reference of the meeting and in compliance with the Scheme of Governance including financial regulations.
- 3E.10 Ultimately each member of the Executive is accountable to their employer; the Chief Constable or the Police and Crime Commissioner.
- 3E.11 Governance arrangements are reviewed as part of the annual governance statement (AGS).

- 3E.12 The themes of good governance and how they are considered as part of the annual review of governance that culminates in the annual governance statement is attached below.
- 3E.13 The Independent Audit Committee terms of reference are subject to annual review by the Chair of the Independent Audit Committee in conjunction with the Chief Constable and PCC and are available to the public on the OPCC website and the Force website.

The Governance Framework

The Annual Governance Statement

Independent Audit Committee (IAC)

**The Chief Constable and
Police & Crime Commissioner**

**Executive Officers and
Senior Managers**
(supports robust
governance arrangements)

**The Treasurer and the
Chief Finance Officer**
(supports effective financial
management)

**The Chief Executive &
Monitoring Officer**
(supports legal & ethical
assurance)

The Code of Corporate Governance

Strategic Meetings

Legitimacy & Constitution

Codes of Conduct
Scheme of
Delegation
Complaints &
Misconduct
Anti-Fraud &
Corruption

Independent Office
for Police Conduct

Professional
Standards Unit

Ethics Committee

Public Engagement
& Consultation

Complaints
Resolution

Whistleblowing &
Confidential
Reporting

College of Policing
Code of Ethics

Strategic Planning

Business Analysis,
Development &
Planning
Performance
Risk Management
Business Continuity
Partnership Working
Equality & Diversity
Policy & Procedure

Annual Report

Force Management
Statement

Performance
Reports

Police & Crime
Panel

Independent Audit
Committee

Scrutiny Panels

Internal Audit
Programme &
Opinion

Risk & Assurance
Framework

Financial Management Framework

Budget Setting &
Monitoring

Financial
Regulations &
Practice

Treasury &
Investment
Strategy

Medium Term
Financial Strategy

Statement of
Accounts

External Audit
Annual Letters &
Opinion

South West Police
Procurement &
Contract Monitoring

HR Policies

Terms & Conditions
Remuneration

Establishment
Controls

Recruitment &
Retention

Training &
Leadership

Sickness
Management

Personal
Appraisals



AGENDA NO: **20**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 JULY 2021

FOIA: OPEN

TITLE OF REPORT: ANNUAL ASSURANCE MAP 2020/2021

REPORT BY: KAREN JAMES – HEAD OF AUDIT, INSURANCE AND STRATEGIC RISK MANAGEMENT.

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	X
Internal Audit	X
External Audit	
Financial reporting	
Other matter <i>(please specify here)</i>	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	X
Other <i>(please specify here)</i>	

1. BACKGROUND INFORMATION

- 1.1 Assurance Mapping is set out as a requirement of the PSIAS (Public Sector Internal Audit Regulations).
- 1.2 The term of reference of the audit committee give specific responsibility to consider the wider governance and assurance framework and consider reports on its adequacy to address the risk and priorities of the PCC's and Chief Constables.

- 1.3 Assurance mapping is a collection of assurances against specific risks in a visual chart or table that draws assurances together in one map to show the different areas where assurance is received. The map can be used as a tool for governance arrangements, supporting the audit committee, executive and management to take an objective view of the organisations risks and from where it receives assurance on those risks or has gaps in its assurance framework. This should lead to better management of those risks.
- 1.4 On finalisation of each Assurance Map against a specific risk, recommendations are agreed and allocated an action owner. Internal Audit then work with the service areas to action any recommendations made. ANNUAL ASSURANCE MAP 2020/2021
- 1.5 The combined assurance map (Appendix A) has focused on reviewing strategic organisational risks. Each map is a moment in time where all the assurances available for any given risk are reviewed to form a view on how well they integrate with each other and to identify if there are any obvious gaps in their management.
- 1.6 Our approach has identified key controls on strategic risks which the forces rely on to ensure integrity and effectiveness. The summary assurance map is underpinned by individual operational assurance maps for each of the key services noted. The operational maps have been populated with details of how and where the business operational controls are working (First Line), assurance oversight, management and compliance reporting (Second Line) and any independent challenge and audit/regulator reviews available (Third line).
- 1.7 In summary the scoring methodology is based on:
 Red - Something is missing that requires action.
 Amber - An area needs to be developed slightly to improve the effectiveness and integrity
 Green - No action required.
 For all Red and Amber cells, actions have been agreed with the service to rectify, so if re-evaluated after the action completed, the area would be classed as a Green rating.
- 1.8 Actions arising from the completed mapping exercises to address immediate gaps have all been completed – except one. Which is why the cell against H&S Governance Risk (Recommendations Actioned & Cleared) on the Assurance Map is graded as “Amber”. The outstanding action although arising from a review of H&S arrangements is an organisational wide issue that requires further consideration.

Ref	ACTION - Area for Development	Action Required	Owner	Target Date	Progress
2020-B-04	Recommend that a central depository is created to store all papers and minutes from all boards that take decisions for operational equipment and other Health & Safety issues. This would enable documentation to be easily located and available for any future questions around H&S decisions.	Action taken to the Risk & Assurance Board on 2 nd June 2020 – Actions Agreed Action Discharged by the Chair	Alliance Health & Safety Manager	April 2021	NOT YET COMPLETE Corporate memory is a force wide requirement. Work is being taken forward to discuss expanding the meetings hub role to incorporate more meetings such as H&S. Further discussions taking place with Admin Services.

- 2.3 Discussions are taking place with the Head of Admin Services to review the overall strategic implications and a proposal to action or accept the risk will then be proposed.
- 1.9 The map to date has focused on strategic organisational risks, and it is proposed that the next individual Assurance map focuses on the environmental agenda, as this is an emergent strategic risk in both Forces.
- 1.10 It is envisaged that the Strategic Risks contained within this annual assurance map will be revisited as it is ultimately a snapshot in time. When all strategic risks have been mapped once, they will form part of a rolling programme of review.

5 July 2021

Working Together – Dorset Police and Devon & Cornwall Police – Assurance Mapping 2020/2021

Assurance Map 2020/2021

	Substantial assurance from most recent independent report/audit/assurance activity
	Reasonable assurance from most recent independent report/audit/assurance activity
	Limited assurance from most recent independent report/audit/assurance activity

			LINES OF DEFENCE				Tag						
	RISK	CONTROLS	LINE 1 Operational/Tactical	LINE 2 Corporate Oversight/Strategic	LINE 3 Assurance Providers	RESIDUAL ASSURANCE RATING - Recommendations Actioned and Cleared	Reputation	H&S	Finance	IT	Info Security	Training	
A	Business Continuity – December 2019												
	Governance Arrangements	R	G	R	R	G	X						
	Resources	R	A	R	R	G	X			X			
	Testing Regime	R	R	R	A	G	X			X			
	IT Disaster Recovery	R	G	R	A	G				X			
	Supply Chain Issues	A	G	G	R	G							
	Service BC Plans	A	G	A	A	G				X			
B	Health & Safety – May 2020												
	H&S Training	A	G	A	R	G		X				X	
	H&S Governance	A	A	G	A	A	X	X					
	H&S Awareness	G	G	G	A	G		X				X	
	Inspection Regime of Buildings	A	G	G	R	G	X	X					
	RIDDOR Accidents	A	G	G	A	G		X					
	Fire Risk Assessments	A	G	G	R	G		X					
	Risk Assessments – Non Operational	A	G	G	R	G		X					
	Risk Assessments – Operational (Dynamic / Generic and Specific)	A	G	G	R	G		X					
	COSHH	G	G	G	A	G		X					

Working Together – Dorset Police and Devon & Cornwall Police – Assurance Mapping 2020/2021

			LINES OF DEFENCE				Tag						
	RISK	CONTROLS	LINE 1 Operational/Tactical	LINE 2 Corporate Oversight/Strategic	LINE 3 Assurance Providers	RESIDUAL ASSURANCE RATING - Recommendations Actioned and Cleared	Reputation	H&S	Finance	IT	Info Security	Training	
C	Cyber Security – February 2021												
	Vulnerability	A	A	A	A	G	X			X	X		
	Cyber Security Governance	A	G	G	A	G	X			X	X		
	Cyber Security Awareness & Training	A	G	G	A	G	X			X	X	X	
	Incident Response and Management Procedures	A	G	G	A	G	X			X	X	X	
D	Clinical Governance – March 2021												
	Designated Body Status	R	R	R	R	G	X	X			X	X	
	Clinical Waste & Infection Control	A	R	A	R	G	X	X					
	Training & Development	A	R	A	R	G	X	X			X	X	
	Casualty Care	A	R	A	R	G	X	X	X		X	X	



AGENDA NO: **21**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 27 July 2021

FOIA: OPEN

TITLE OF REPORT: INTERNAL AUDIT ACTION UPDATE

REPORT BY: KAREN JAMES – HEAD OF AUDIT, INSURANCE AND STRATEGIC RISK MANAGEMENT.

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	
Internal Audit	X
External Audit	
Financial reporting	
Other matter (please specify here)	

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	X
Note the report	
Other (please specify here)	

1. BACKGROUND INFORMATION

- 1.1 CIPFA guidance requires the Audit Committee 'to promote good governance, make things better and not only review what happened in the past.'
- 1.2 The term of reference of the audit committee give specific responsibility to consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

- 1.3 The Internal Audit Plan is set out and agreed with the Section 151 Officers of the four corporations sole and reviewed at the April meeting of the Audit Committee each year.
- 1.4 On finalisation of an audit each action is agreed and allocated an action owner. A target end date is also agreed between the auditor and the owner which sets the timescale for completion.
- 1.5 All audit actions are prioritised according to the definitions captured below:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Findings that require attention.

- 1.6 Appendix A sets out the agreed priority 1 and 2 audit actions that have not been implemented by their original end date but have an agreed revised completion date.
- 1.7 The table in Appendix A shows a progress update from each action owner. These recommendations and updates are monitored by the Executive via the Resources Board (D&C) and the Resource Control Board (Dorset) on a quarterly basis. Due to the timing of this Committee and the respective boards, it should be noted that the most recent requests for extension to the implementation date shown in red on the report will be presented to the Resources Board (D&C) on 4th August 2021 and Resource Control Board (Dorset) on 26th July 2021.
- 1.8 There has been nothing reported to indicate the revised end dates will not be met.

2. INTERNAL AUDIT RECOMMENDATIONS

- 2.1 The table below sets out a summary of the number of all open audit actions as at 14th July 2021, currently being progressed, including those within their original target date.

Internal Audit Actions	TOTAL	Priority 1	Priority 2
Past Original Target Date - Revised Target Date Not Yet Due (Appendix A)	19	1	18
Within Original Target Date - Not Yet Due	13	1	12
Total	32	2	30

- 2.2 Members are asked to consider the progress made against the internal audit actions that are past their original end date and the progress being made to complete them against the revised end date.