



Independent Audit Committee report

December 2017 – March 2019

Background

This is the first report by the Independent Audit Committee (IAC) for Devon & Cornwall and Dorset Police Forces, and both Police and Crime Commissioners. The Committee was established in December 2017 as an independent body providing assurance to the Chief Constables and Police and Crime Commissioners on governance arrangements.

Open recruitment for a single IAC followed the 'winding-up' of the previous Strategic Alliance Audit Committee in 2017. Four of the six members of the new IAC come from Dorset and two from Devon. The Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework for audit committees was applied during recruitment, to establish training needs and for evaluation.

When the IAC was set up it was agreed that its first report would cover the period until the end of the 2018-19 financial year. Thereafter, a report was to be produced annually.

The IAC carried out reviews and monitoring activity in line with an initial work programme. It offered support and challenge with the aim of improving aspects of governance as defined in its terms of reference and operating principles.

In March 2015 the four corporations sole signed an agreement to form a Strategic Alliance with a number of cases for combined working across both Force areas. In September 2017 it was announced that a business case for a full merger would be developed, building on the strengths of the Strategic Alliance. In October 2018, the decision not to proceed with the full business case for the merger was taken, when the Police and Crime Commissioner for Devon & Cornwall did not support the proposal being passed to the Home Office. Since then, the work of the Strategic Alliance departments has continued and the name of the Strategic Alliance has been replaced by Working Together.

Promoting principles of good governance and annual governance reports

The IAC met formally for the first time in December 2017, at which time the planned and live business cases within the Strategic Alliance required careful management to ensure effective joint governance.

The IAC members were keen to obtain a thorough understanding of the governance of risk across the four corporations sole and the arrangements for internal governance. Officers have done much to support this, which was highly valued. Two members of IAC attend the Joint Risk Assurance Board as observers, adding to the Committee's understanding of how risk management and mitigation are delivered and assists the IAC in giving assurance.

One of the key responsibilities of the IAC is to ensure that the Annual Governance Statements (AGS) properly reflect the governance, risk and control environment of the corporations sole. All four corporations sole are responsible for producing annual governance statements and it is a key role of IAC to review and comment on each of these. In Dorset the Office of the Police and Crime Commissioner (OPCC) and the Force produce separate statements, while in Devon and Cornwall a joint statement is produced. This approach is likely to continue. In March 2018, the IAC gave detailed suggestions concerning action plans, equalities content and consistency.

While it is clear that while there will continue to be different views between the two Forces and OPCC's with respect to good governance, the IAC has been impressed with the way all four corporations sole approach governance. In particular the willingness to respond to input from the IAC and update and amend the AGS documents.

The IAC identified issues regarding inconsistencies in the 2019 AGS drafts, aiming to ensure that they best reflect the commitment to effective governance.

Contributing to the development of an effective control environment and supporting the quality and independence of internal audit

In March 2018, the IAC considered and approved the draft internal audit plan proposed by South West Audit Partnership (SWAP), internal auditors for the four corporations sole. The plan addressed the strategic priorities of protecting people; communities; victims and witnesses; quality of service; prevention; standards, risks and ethics, and national requirements. Changes to the internal audit plan during the year were monitored quarterly. Alongside the plan, the IAC also reviewed the internal audit charter describing reporting arrangements to the four corporations sole and, at least four times a year, to the IAC meetings.

In reviewing the plan and progress reports through the year the IAC gave constructive challenge to the internal audit function, reviewing management responses and target dates for actions. Opportunities exist for the IAC to meet privately with SWAP representatives should either party feel it necessary. SWAP was responsible for reporting on implementation of its most significant findings. Any

amendments to the agreed plan were reported to the IAC explaining why they were necessary.

The effectiveness of the process was monitored by regular review of the extent of implementation of agreed actions for medium and high ranked risks, along with management explanations and proposals for any that had not met their target dates.

In July 2019 the Assistant Director of SWAP, as Head of Internal Audit, submitted an annual report to the IAC containing overall opinions to the Police and Crime Commissioners for Dorset and Devon & Cornwall, and to the Chief Constables for Dorset and Devon & Cornwall, on the status of risk and internal control, based on the internal audit work conducted during 2018/19:

‘I have considered the balance of 2018/19 audit work and overall I am able to offer reasonable assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.’

Supporting arrangements for the governance of risk and effective arrangements to manage risk

Prior to the formation of the IAC, the Alliance Executive Board (AEB) commissioned a ‘Review of Risk Management Across the Four Corporations Sole’ to consider the future of risk management in the Strategic Alliance. This report, along with an overview of the risk management strategy, was presented to the IAC at its first meeting in December 2017. As a result, the IAC requested sight of the corporate risk registers for the four corporations sole and continue to review these at every quarterly meeting.

The review identified thirty recommendations based on existing best practice, including the establishment of a Joint Risk Assurance Board (JRAB) to implement the convergence of risk management. Since its first meeting in May 2018 this Board has met quarterly and two members of the IAC attend as non-participating observers.

It was apparent that the allocation of resources to risk management differed between the two Forces. Devon & Cornwall was better resourced with more established recording of corporate risks for the Force and OPCC in a single database. The impetus to achieve alignment of methods and practice diminished with the decision not to merge the Forces. Progress on risk management in Dorset continued to be impacted by a lower level of resourcing.

At the request of the IAC, the internal auditors, SWAP, released time from other audits to include an audit of risk management in their 2018-19 Internal Audit programme. Terms of reference for this audit were drawn up in January 2019 with a view to the audit commencing in February 2019. A number of recommendations made in the final report are being taken forward.

As part of monitoring the effectiveness of risk management arrangements, the IAC considered the arrangements for insurance. In July 2018, it reviewed the insurance renewal for 2018-19. To mitigate the impact of the change in the Ogden¹ rate, various options were offered by the insurers. The IAC sought, and obtained, assurance that the likelihood and scale of claims was assessed when making the option decision. In September the IAC received a verbal update on the Regional Insurance Broker Renewal, with the successful bidder starting in November 2018.

¹Ogden rate is the assumed rate of return a claimant can earn on their damages, which has reduced, causing insurance premiums to increase.

Supporting the development of robust arrangements for Value for Money

The 2016 HMICFRS Value for Money Profiles for both Forces, were presented to the IAC in March 2018, with a covering report by the Directors of Finance. The report identified key issues arising from the Value for Money Profiles.

The IAC noted that Dorset received the lowest amount of Formula Funding per head of population in England and Wales. However, Dorset received a specific grant to offset the cost of its PFI schemes. Other than this, both Forces appeared fairly typical when compared with others nationally with no other categories where either Force could be regarded as an outlier. Members questioned officers about inferences that could be drawn from some of the national and similar group comparisons and how the benchmarking profiles are used to identify and drive possible improvements. This remains a key focus for the IAC.

The HMICFRS Value for Money Profiles published in November 2018 have not yet been presented to the IAC.

The External Audit Report for 2017-18 was provided by KPMG at the July 2018 meeting, with both Forces receiving an unqualified Value for Money opinion. The only Value for Money risk identified was the robustness of the Medium Term Financial Planning which, "...is critical to the effective identification of any required savings and consequently any actions that the Force/s need to take to secure those savings."

The external auditors for 2018-19 were Grant Thornton who informed the IAC in December 2018 of their start on the initial risk assessment to determine their approach to Value for Money. They identified the significant risks to securing Value for Money for all four corporations sole as financial sustainability and collaboration. The IAC reviewed the external audit plans and had the opportunity to question the auditors, who confirmed that they would give their Value for Money conclusions by the deadline of the July 31, 2019.

Helping to implement good governance values and countering fraud and corruption

The IAC is committed to the Seven Principles of Public Life and the College of Policing Code of Ethics. The Committee demonstrated its commitment to openness and accountability by agreeing that its meetings should be 'open' as far as possible and the public can attend meetings for the 'open' items. The 'closed' part of IAC meetings consists of items which are exempted under the Freedom of Information Act. In 2018, one member of the public attended one meeting.

The annual review of the Counter Fraud Policy by the IAC led to members questioning the number and nature of fraud and corruption investigations. The low numbers reported led the IAC to seek further rigorous assurance, with reporting of the number and nature of investigations quarterly to give insights into any patterns and trends. This greater rigour in monitoring fraud was welcomed by the four corporations sole. The IAC seeks to ensure that lessons learned from reported cases of fraud are used to improve practice and so reduce the risk of recurrence.

Members' awareness of the risks of fraud and the need for robust monitoring had increased following Treasury Management training and presentations by the Counter Fraud Unit formed by local authority partnerships in Gloucestershire and West Oxfordshire.

While reviewing the current Counter Fraud Policy it became clear that two dates for review had been missed. Other policy review dates had also been missed and IAC highlighted the importance of regular and consistent policy review.

Assurance frameworks and assurance planning

The IAC terms of reference include the requirement to consider governance and assurance frameworks, and report on their effectiveness.

The IAC reviewed early drafts of the Annual Governance Statements (AGS) and identified areas needing further attention. In particular, the IAC recommended that the AGS should include reference to the Public Sector Equality Duty of all public bodies.

Other key documents forming part of the overall assurance framework were also reviewed including the Risk Management Strategy and Policy, and Treasury Management Strategies. The IAC's attention and thoroughness when reviewing policies, strategies and reports triggered suggestions on a number of occasions to amend wording to improve clarity and accuracy. Members continued to apply their knowledge and skills when reviewing all information, leading to focused questions, which included one which revealed an actuarial inaccuracy.

Regular reports from internal and external auditors provided the IAC with information concerning the effectiveness of assurance frameworks in practice. These were considered alongside other pertinent information and further information provided by officers.

The IAC recognised the complexity of assurance frameworks and assurance planning in the four corporations sole, where a number of functions are delivered

jointly. It was accepted that assurance frameworks necessarily evolve, will continue to do so and need to be presented in clear and easily accessible formats. The IAC pressed for such information about the current assurance mechanisms and those responsible for them.

External audit and inspection

Fees for external audit are prescribed by Public Sector Audit Appointments (PSAA), who reduced the fees for 2018-19 by 23% from the level for 2017-18. PSAA advised that this reduction would not mean a change of scope, volume or quality of audit work required. IAC and the officers monitored this closely, being particularly mindful that regardless of the auditing company there must be sufficient resources to provide the work needed within agreed timescales. This concern remains.

The external auditors changed during the period covered by this report, initially this function was provided by KPMG and for 2018-19 accounts by Grant Thornton. The IAC received reports from the relevant provider for each of their meetings. However, significant concerns were raised about how KPMG communicated information about the change of their engagement lead to the financial officers of the four corporations sole in 2018. This change was unexpected and came very close to the end of audits for 2017-18 and KPMG's contract. The Chair worked closely with officers to ensure that PSAA procedures had been followed and were compliant with PSAA guidelines.

Grant Thornton's external audit team submitted their vetting forms in January and February 2019, meaning that the initial audits started on February 11, 2019. IAC raised concerns about the impact of this on finance staff, potential risks and completion of all audits on time. Grant Thornton gave assurance that this would not hinder the completion of audits for the 2018-19 financial year.

The IAC requested that it is informed about the subjects for HMICFRS inspection reports scheduled for each year.

Promoting effective public reporting of accounts, partnership governance and accountability

It was recognised that the statutory date for publication of the 2017-18 annual accounts having been brought forward to July 31, from September 30 was likely to be a challenge for all involved. Lessons had been learned through extensive planning during previous years before the date for earlier closure of the accounts became mandatory. Achieving the earlier date required close liaison between staff from financial, accounting and other teams, external auditors and flexibility by the IAC regarding dates of meetings and receiving draft accounts for the four corporations sole. The IAC continued to express concerns over the possible impact of increased demands on staff in order to meet the early closure requirement. The IAC recognised and acknowledged the commitment and tenacity of all those involved in achieving the requirements for the statutory closure date.

The IAC remit includes review of the accounts, financial statements and narrative reports. The IAC sought clarification on several points in these and identified one inconsistency between the accounts for Dorset and Devon & Cornwall. This is undoubtedly a strength of the one independent audit committee having a remit across all four corporations sole. That inconsistency related to pension matters and further investigation by officers identified that this was due to an error made by the external actuaries. The inconsistency was a technical accounting matter that had no impact on the financial strength of either organisation, but highlighted the importance of careful review by an independent committee.

The principal partnership for all four corporations sole during the period of this report was the Strategic Alliance. Governance arrangements were clear and the IAC was informed regularly of performance and progress for each business case at the planning stage and when implemented. The Annual Governance Statements detail these and the IAC examined these closely, so providing further assurance over the arrangements.

Ethical values

There are different arrangements in Devon & Cornwall and Dorset. In Devon & Cornwall ethical standards are promoted through the adoption of the College of Policing Code of Ethics and overseen by the Head of Professional Standards. Dorset has a separate, independent Ethics Committee that meets quarterly to monitor complaints, gifts and hospitality declarations and promotes good practice, including adherence to the same College of Policing Code of Ethics.

Both Forces and PCC's are represented at the Ethics Committee based in Devon and Cornwall. That Committee debates ethical issues raised by staff and officers and provides advice. It does not make decisions, but can escalate ethical issues to regional and national ethics groups for their consideration.

IAC work reflects these different arrangements, with assurance for matters in Dorset resting primarily with their independent Ethics Committee. Assurance for Devon & Cornwall is sought through detailed assessment of reports within the Annual Governance Statement.

Treasury Management

External training on Treasury Management Strategy and Risk was provided in advance of the IAC meeting when this was to be discussed. IAC members, officers and one of the PCCs attended and gained valuable training in the duties and obligations for PCCs, Chief Constables and Section 151 officers for the four corporations sole. This improved the effectiveness of the subsequent examination of Treasury management.

At the December 2018 IAC meeting, the IAC considered papers on Treasury Management strategy and practices, followed by a mid-year Treasury Management Report. The IAC stressed that it is not responsible for monitoring the effectiveness of

Treasury Management itself or the judgements made within agreed policy. However, the IAC was able to provide assurance that the components of effective Treasury Management were in place and generally well developed for all four corporations sole. However, the IAC sought assurance that the investment of funds in the commercial bank sector did not carry undue risk. In addition, the IAC highlighted that the new capital strategies could develop further to identify the unmet need for capital spending and the choices over further resources that could be available, for example, additional borrowing.

Membership and effectiveness; independence and accountability

The IAC was established a little more than one year ago. The membership of six being slightly higher than other Independent Audit Committees for police bodies and reflecting its work across the four corporations sole, rather than the usual two. Members were recruited through open advertisement and their background and experience is diverse. Members know each other's strengths, and more importantly are aware of areas where their skills or experience is limited and additional training is required.

In its first year, self-assessment was established along with performance review meetings following CIPFA guidance, between individual members and the Chair. The Chair's performance was similarly reviewed, led by one of the Section 151 officers. The outcomes of these meetings were reflected in a training and development plan for the IAC and individual members.

Training during 2018 had a clear focus on the IAC priorities and was provided internally by officers and externally. The latter included attendance at a national conference for police Audit Committee chairs; training offered by the internal auditors, Treasury Management training and meeting with colleagues from police Independent Audit Committees from the south west region. The IAC welcomed the suggestion for greater interaction across the region, whether this is face-to-face or making use of technology. It was felt that sharing effective practice across the region had great merit, would strengthen all police Audit Committees involved and might develop into a structure where peer review is added to the existing frameworks for self-evaluation.

While the IAC lacked an overall budget, the finance team prepared a summary of expenses claimed by members for attending IAC meetings, reading time and travel expenses. This was recognised as not being a full budget as it did not reflect the costs of officer and administrative support, office consumables and meeting costs. IAC expenses are claimed and paid through the Dorset OPCC office and subsequently apportioned between Dorset, Devon & Cornwall.

The IAC was hampered in its effectiveness in reviewing some policies, due to the relevant officers lacking sufficient time or resources to carry out necessary work. This concern means that those aspects of work are subject to lengthy periods of time between review.

The IAC required close and active engagement from appropriate officers. It was well supported by the key statutory officers and meetings illustrate open, frank and constructive dialogue between members and officers. Administrative support is generally restricted to agenda preparation and production of minutes; members would welcome an increase in administrative support to improve their effectiveness.

The dates for meetings continued to follow the pattern when closure of accounts was in September. Since that is no longer the case, meetings have been held as close to the end of July as possible to reflect the July 31 closure deadline. IAC recognised the pressure this puts on officers and staff, as well as members to prepare papers.

Increasing effectiveness in 2019

The IAC training and development plan, appraisal and self-assessment processes pointed to the IAC being well placed to increase its effectiveness. The Chair and vice-Chair met the PCCs and Chief Constables regularly. These meetings provided feedback on work undertaken and further issues needing to be highlighted. Meetings also identified issues of governance where any of the four corporations sole were concerned, or sought further assurance.

During discussions with other Audit Committees it emerged that PCCs and Chief Constables attend their meetings regularly. The Chair and vice-Chair shared this with Dorset and Devon & Cornwall PCCs and CCs. It was agreed that their attendance needed to add value, so justifying use of their valuable time. Consequently, arrangements for 2019 IAC meetings have been made for the PCCs and Chief Constables to attend where possible to share information with the IAC, including the effect of their national roles on policing in the Force areas.

The training and development plan is being reviewed to reflect the outcomes of the self-evaluation for the IAC's first year. It will also include topical subjects and these may be amended during the year, as situations change or develop. Members are committed to raising their effectiveness in relation to the structure of the CIPFA guidance. This will include quarterly reviews of CIPFA Appendices A and D by each Committee member, as well as the individual review process.

Effectiveness will be strengthened by ensuring that the workplan is followed and amended when exceptional circumstances necessitate amending the date to review specific matters. The workplan will be structured, routinely monitored and link to the training and development plan. The IAC requests that the timing of meetings is reviewed, particularly to avoid the essential meeting in July being followed by the next in September. IAC meetings also need to follow JRAB meetings wherever possible.

The work plan will provide a structure for standing agenda items. When the IAC is informed of any difficulty or delay in submitting papers or a verbal report for a meeting, the reasons for this will be sought along with how to overcome any recurrence. The work plan will be submitted to the September 2019 IAC meeting.

Members of the Independent Audit Committee

Helen Donnellan, Chair
Tom Grainger, vice-Chair
Amanda Gallaher
Gordon Mattocks
Malcolm Smith
Linda Williams

Date: July 31, 2019