



## AUDIT COMMITTEE

**Friday 29 January 2016 at 10.30 a.m.  
In the Filby Room, Jubilee House, Falconers Chase,  
Wymondham, Norfolk NR18 0WW**

## A G E N D A

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

### Part 1 – Public Agenda

1. Welcome and Apologies
2. Declarations of Personal and/or Prejudicial Interests
3. To approve the minutes of last meeting held on 25 November 2015 TO FOLLOW
4. Internal Audit:
  - a) Internal Audit Progress Report – January 2016 PAGE 3
  - b) Three Year Strategic Internal Audit Plan 2016/17 to 2018/19 and Annual Internal Audit Plan 2016/17 PAGE 17
5. Annual Investment and Treasury Strategy 2016/17 PAGE 35

### Part 2 – Private Agenda

6. OPCCN Draft Risk Management Policy and Strategic Risk Register PAGE 47
7. Date of Next Meeting

Thursday 10 March 2016 at 2 p.m. in the Filby Room, Jubilee House,  
Falconers Chase, Wymondham, Norfolk, NR18 0WW

## Enquiries to:

OPCCN

Building 8, Jubilee House,  
Falconers Chase, Wymondham, Norfolk, NR18 0WW

Direct Dial: 01953 424455      Email: [opccn@norfolk.pnn.police.uk](mailto:opccn@norfolk.pnn.police.uk)

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

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

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

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

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



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

**Internal Audit Progress Report**

**January 2016**

**AUDIT COMMITTEE  
29 JANUARY 2016  
AGENDA ITEM: 4a)**

## Internal Audit Progress Report

### INTRODUCTION

1. This summary report provides an update on the progress of our work at Norfolk and Suffolk Police and Crime Commissioners and Chief Constables as at 15<sup>th</sup> January 2016. The report is based on internal audit work carried out by TIAA and management representations that have been received during the period since our last progress report.

### PROGRESS AGAINST THE 2015/16 ANNUAL PLAN

2. Our progress against the Annual Plan for 2015-16 is set out in Appendix A. The results of these reviews are summarised at Appendix B.

### AUDITS CARRIED OUT SINCE THE PREVIOUS PROGRESS REPORT

3. The table below sets out details of audits carried out since the previous meeting of the Audit Committee.

Review	Evaluation	Draft issued	Key Dates			Number of Recommendations			
			Responses Received	Final issued	1	2	3	OEM	
Records Management – Suffolk only	n/a	29/10/15	12/01/16	14/01/16	N/A	N/A	N/A	N/A	N/A
Contract Review	Reasonable	08/10/15	12/01/16	14/01/16	-	1	-	1	1
Police Stations – Suffolk only	Reasonable	03/11/15	02/11/16	01/12/15	N/A	N/A	N/A	N/A	N/A
Proceeds of Crime	Limited	11/11/15	15/01/16	20/01/16	-	5	1	-	-
Accounts Payable	Reasonable	02/12/15	15/01/16	18/01/16	-	3	1	1	1
Accounts Receivable	Reasonable	15/12/15	13/01/16	14/01/16	-	1	2	4	4

Purchase Cards	Limited	15/12/15	13/01/16	18/01/16	1	7	6	-
General Ledger	Substantial	03/12/15	13/01/16	14/01/16	-	-	-	2
ICT Cyber Security	Reasonable	12/01/16						
Governance – Ethical Standards	Reasonable	21/01/16						

OEM = Operational Effectiveness Matters

Summaries of the finalised reports are attached at Appendix C, Full reports are available to Audit Committee Members on request. The details for Suffolk only reports will not be included in the Norfolk progress report.

## **CHANGES TO THE ANNUAL PLAN 2015/16**

6. There have been the following changes made to the annual plan:
  - Commissioning was previously 18 days, covering Norfolk and Suffolk Constabularies, this has been reduced to nine days, to cover Norfolk only.
  - Performance Management has been postponed until 2016/17 due to the implementation of Athena, affecting reporting elements of the system.
  - HR Absence Management, originally to focus on Suffolk only, now incorporating Norfolk and Suffolk, due to merging of the teams.
  - HR Recruitment, audit postponed until April 2016 due to a recruitment drive in Suffolk following the recent budget increase.

## **FRAUDS/IRREGULARITIES**

7. We have not been advised of any frauds or irregularities in the period since the last summary report was issued.

## **LIAISON**

8. Liaison with external audit: We have liaised with EY during the year and kept them informed of our work and will make available to them all final audit reports. Liaison with the Chief Finance Officers: Regular progress meetings are held with the Chief Finance Officers.

## **PROGRESS ACTIONING PRIORITY 1 RECOMMENDATIONS**

9. We have made one Priority 1 recommendation (i.e. fundamental control issues on which action should be taken immediately) since the previous Progress Report. This is in relation to the audit on Purchase Cards.
  - No credit card expenditure for Norfolk Constabulary has been entered onto the ledger for the current financial year. Credit card expenditure for Norfolk from April 2015 to be charged to the ledger and going forward, credit card expenditure for Norfolk to be uploaded onto the ledger promptly.

**RESPONSIBILITY/DISCLAIMER**

10. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. The matters raised in this report not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

## Progress against the Annual Plan for 2015/16

System	Planned Quarter	Days	Current Status	Comments
Records Management Follow Up	2	4	Final report issued	
Contract Review	2	12	Final report issued	
Police Stations	2	7	Final report issued	
Proceeds of Crime	2	15	Final report issued	
Estate Management – Maintenance and Repair	2	8	Fieldwork in progress	Information for internal audit delayed, escalated, scheduled to complete fieldwork w/c 25 <sup>th</sup> January 2016.
Risk Management – Embedding (the risk culture)	2	12	Fieldwork complete	Information for internal audit delayed, now received and fieldwork complete.
Risk Management – Risk, Assurance, Issues, Dependencies (RAID) log	2	15	Fieldwork complete	Information for internal audit delayed, now received and fieldwork complete.
ICT – Cyber Security	2	10	Draft report issued	
Mobile Devices	3	15	In progress	Delay in progressing fieldwork due to client side agreement to responsible officer for the area.
Accounts Payable	3	10	Final report issued	
Accounts Receivable	3	10	Final report issued	
Purchasing Ordering	3	12	Fieldwork complete	
Purchase Cards	3	10	Final report issued	
General Ledger	3	10	Final report issued	
Information Technology Infrastructure Library (ITIL) Framework Gap Analysis	3	10	In progress	



System	Planned Quarter	Days	Current Status	Comments
ICT – Network Security	3	12	Postponed until 2016/17	Data sharing constraints impact on delivery, work around being considered.
Governance – Ethical Standards	4	12	Draft report issued	
HR – Absence Management	4	10	Scheduled for 28/01/16	Audit deferred until Q4 due to system implementation.
HR - Recruitment	4	12	Postponed until 2016/17	Audit postponed until April 2016 due to client capacity and scope, around Suffolk student recruitment.
Duty Management System	4	15	Scheduled for 05/02/16	
Treasury Management	4	10	Fieldwork complete	Draft report due for issue January 2016.
Capital Expenditure	4	10	Scheduled for 02/03/16	
Payroll	4	10	Fieldwork complete	Draft report due for issue January 2016.
Governance – Performance Management	4	15	Postponed until 2016/17	Due to implementation of the Athena system reporting elements, the audit has been postponed until June/July 2016/17.
ICT – t-Police	4	12	Fieldwork complete	Draft report due for issue January 2016.
Commissioners Grants/PCC Commissioning	4	9	Scheduled for 10/03/16	Days reduced 18 to 9, to cover Norfolk only
Follow Up Work	4	8	In progress	Interim report submitted to Audit Committee

**KEY:**

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

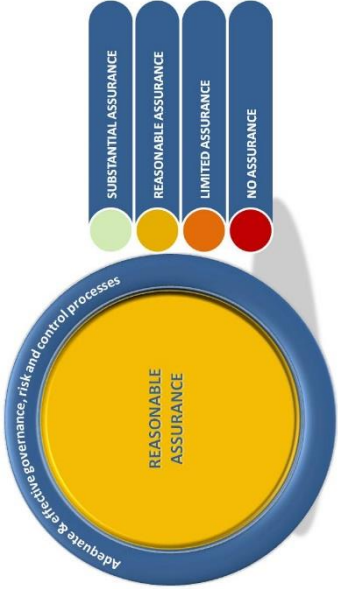
## Recommendations – Priority 1

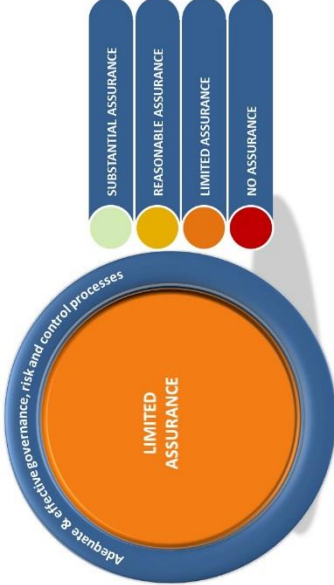
Audit Report: Purchase Cards  
Report Issued: 13/01/16

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
14	Compliance	No credit card expenditure for Norfolk Constabulary has been entered onto the ledger for the current financial year.	Credit card expenditure for Norfolk from April 2015 to be charged to the ledger and going forward, credit card expenditure for Norfolk to be uploaded onto the ledger promptly.	1	<i>The management team are aware of this and has resulted from the reorganisation of Finance Department across Norfolk and Suffolk. Due to lack of training and resources in Norfolk this has unfortunately not been completed. There is a plan in place to bring this up to date by the end of February 2016.</i>	29/02/16	Head of Transactional Services

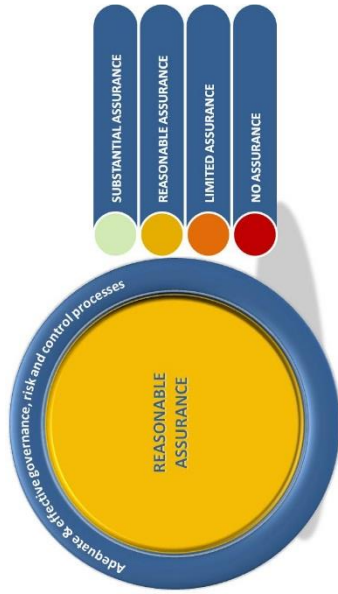
## Summaries of Finalised Audit Reports issued since the last report

Audit Report: NSP1602 Contract Review  
 Report Issued: 14/01/16

<p><b>OVERALL ASSURANCE ASSESSMENT</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• A procedure is established to ensure contracts are agreed in line with procurement rules and have contractual documentation retained;</li> <li>• However, one instance was identified where contractual documentation was not retained;</li> <li>• A procedure is established for contract monitoring and reporting of performance outcomes;</li> <li>• However, one instance was identified where performance outcomes were not reported;</li> <li>• Variations and defaults are undertaken as per contractual arrangements;</li> <li>• Contractual payments are processed as per contractual arrangements.</li> </ul>								
<p><b>SCOPE</b></p> <p>The scope of the review was to cover an appraisal of the arrangements for the letting, management and monitoring of contracts entered into by the organisation. The scope of the review did not include consideration of the funding arrangements of contracts, controls surrounding the review and maintenance of the contracts register, assessment of the specification of contracts nor an appraisal of the overall contract monitoring arrangements of departments within the organisation.</p>	<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>1</td> <td>0</td> <td>1</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	1	0	1
Urgent	Important	Routine	Operational						
0	1	0	1						

<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• The revised Service Level Agreements (SLAs) between ERSOU and the member forces has not been signed.</li> <li>• Referrals to ERSOU are low.</li> <li>• Key performance indicators are not in place for ERSOU.</li> <li>• Monthly performance reports are not descended to management at designated intervals.</li> <li>• Appropriate committee has not been assigned with responsibility for monitoring performance of ERSOU.</li> <li>• Annual report is not produced by ERSOU to demonstrate performance of the unit.</li> </ul>	<p><b>OVERALL ASSURANCE ASSESSMENT</b></p> 								
<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>5</td> <td>1</td> <td>0</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	5	1	0	<p><b>SCOPE</b></p> <p>The review appraised the effectiveness of controls for managing the Proceeds of Crime for both Norfolk and Suffolk Constabularies. In particular, the arrangements for securing and monitoring of the proceeds of crime held by the Constabularies.</p>
Urgent	Important	Routine	Operational						
0	5	1	0						

**OVERALL ASSURANCE ASSESSMENT**



**SCOPE**

The review considered the arrangements for authorising and paying expenditure incurred by the organisation and the arrangement for control of the organisation's cheques and automated payments.

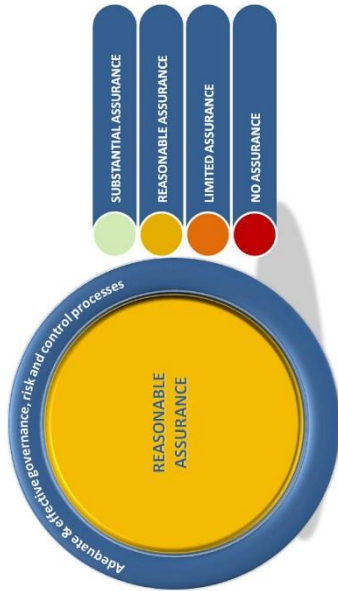
**KEY FINDINGS**

- For orders up to £250 inadequate segregation of duties are in place.
- Access rights on ERP for accounts payable staff is not appropriate.
- The process for amending of creditor bank details is not appropriate.

**ACTION POINTS**

Urgent	Important	Routine	Operational
0	3	1	1

**OVERALL ASSURANCE ASSESSMENT**



**SCOPE**

The review considered the raising of debtor accounts, collection of income, receipting, storage and banking of income received by the organisation.

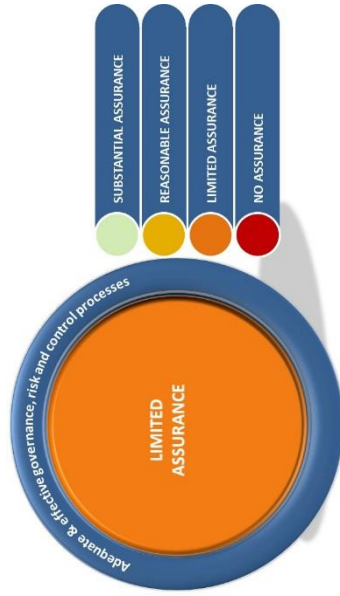
**KEY FINDINGS**

- The segregation of duties between the officer raising and receipting of invoices is inadequate.
- Invoices raised are not checked by the officer raising the requisition, to ensure that invoices have been raised correctly.

**ACTION POINTS**

Urgent	Important	Routine	Operational
0	1	2	4

**OVERALL ASSURANCE ASSESSMENT**



**KEY FINDINGS**

- For Norfolk no credit card expenditure for the current financial year has been entered on to the general ledger.
- Not all cardholders in Norfolk have been assigned an authorising officer, instead their expenditure is going to a default closing group.
- Norfolk cardholders and authorising officers require additional training to fulfil their expected roles.
- There is insufficient guidance for finance to refer to when administering the purchasing card function for the constabularies.
- In Norfolk, no check is undertaken to ensure that VAT is reclaimed appropriately.

**SCOPE**

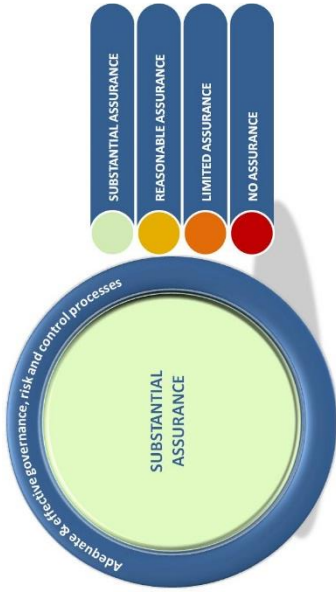
The review focused on the distribution and use of purchasing cards to confirm that:

- Cards are issued to appropriate staff/Officers;
- Spending Limits are proportionate and appropriate;
- Purchases are in accordance with agreed procedures;
- Statements are reconciled and correctly allocated to budget.

**ACTION POINTS**

	Urgent	Important	Routine	Operational
	1	7	6	0

**OVERALL ASSURANCE ASSESSMENT**



**KEY FINDINGS**

- A set protocol has not been agreed for the required frequency of running reports, to identify potential instances where journals have been raised and posted by the same officer.

**SCOPE**

The review considered the arrangements for providing an effective audit trail for data entered onto the general ledger and the appropriateness of the reports generated.

The scope of the review did not extend to the budgetary control arrangements and bank reconciliations.

**ACTION POINTS**

Urgent	Important	Routine	Operational
0	0	0	2





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

**Three Year Strategic Internal Audit Plan 2016/17 to 2018/19 and Annual Internal Audit Plan 2016/17**

**January 2016**

**AUDIT COMMITTEE  
29 JANUARY 2016  
AGENDA ITEM: 4b)**

# Three Year Strategic Internal Audit Plan 2016/17 to 2018/19 & Annual Internal Audit Plan 2016/17

## INTRODUCTION

This Three Year Strategic Internal Audit Plan is drawn up in accordance with the Terms of Reference of TIAA and the requirements of the Public Sector Internal Audit Standards (PSIAS).

## AUDIT STRATEGY

The internal audit programme of work, outlined in the Three Year Strategic Internal Audit Plan, is designed to determine the extent to which Norfolk and Suffolk Police's network of risk management, control and governance processes are adequate and operating in the designed manner.

### Assessing the audit risk attached to each system

In order to obtain the best use of the internal audit resource it is necessary to assess the risk to Norfolk and Suffolk Police of a failure of the internal controls or absence of appropriate internal controls in each system. This is achieved by a risk analysis model, drawn up by TIAA, which has been used to determine the risk category for each system. The model considers the:

Norfolk and Suffolk Police identified major risks - The Norfolk and Suffolk Police's risk registers lists the business significant risks. Many of these risks relate to external factors where internal audit could have very limited impact. Major risks, which relate to internal factors, have been considered as part of the production of the Three Year Strategic Internal Audit Plan.

Audit risks - This element considers the control risks associated with the operation of an activity. The risk assessments make allowance for previous internal audit reviews carried out, though the extent of the allowance reduces as the elapsed time increases. The risk analysis model also makes allowance for assurances from other external reports e.g. financial statements auditor. The highest risk areas identified are included in the Three Year Strategic Internal Audit Plan.

Public relations risks - The risk is not just the immediate financial loss that may arise but also the impact of the adverse publicity that may occur from a control failure. In the medium to longer term it is likely that the latter will have the greater adverse impact for Norfolk and Suffolk Police.

### Determining the period over which all systems will be audited

The internal audit work to be planned over a three year cycle. A cyclical approach to audit work can be used if a system has been subject to an internal audit review, which has indicated that there are effective controls, as it is then not necessary to undertake detailed assurance reviews on that system in each year.

### THREE YEAR STRATEGIC INTERNAL AUDIT PLAN 2016/17 TO 2018/19 AND ANNUAL INTERNAL AUDIT PLAN 2016/17

Annex A sets out the overall template for the rolling review of Norfolk and Suffolk Police's systems of internal control over a three-year cycle. This Three Year Strategic Internal Audit Plan assumes that there is no significant change in the risk assessments or in the operations of Norfolk and Suffolk Police. It also assumes that no significant control weaknesses will be identified by the internal audit reviews. As a consequence TIAA will prepare an Annual Internal Audit Plan in each of the financial years which will modify the Three Year Strategic Internal Audit Plan to take into consideration all known changes.

An Annual Internal Audit Plan will be prepared prior to the start of each financial year (Annex B). The programme of work within the Annual Internal Audit Plan will be in accordance with the Three Year Strategic Internal Audit Plan and any variations will be agreed with the senior staff at Norfolk and Suffolk Police and will be reported to the Audit Committees.

## **LIAISON WITH THE EXTERNAL AUDITOR**

We will liaise with the External Auditor for Norfolk and Suffolk Police. Any matters in the areas included in an Annual Internal Audit Plan that are identified by the External Auditor in their audit management letters will be included in the scope of the appropriate review.

## **LIMITATIONS AND RESPONSIBILITY**

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

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

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

## **REPORTING**

**Assignment Reports:** A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of the Public Sector Internal Audit Standards (PSIAS).

**Progress Reports:** Progress reports will be prepared for each Audit Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

**Annual Report:** An Annual Report will be prepared for each year in accordance with the requirements set out in the PSIAS. The Annual Report will include our opinion of the overall adequacy and effectiveness of Norfolk and Suffolk Police's risk management, control and governance processes.

## **ASSESSMENT OF THE KEY RISK CONTROL OBJECTIVES**

For each assurance review an assessment of the combined effectiveness of the controls in mitigating the key control risks will be provided. The assurance mapping process is set out in Annex C.

## **AUDIT REMIT**

The Audit Remit (Annex D) formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within Norfolk and Suffolk Police and defines the scope of internal audit activities.

## **COUNTER FRAUD**

Due consideration is given to the risk of fraud and a number of audits include pro-active counter fraud work. E.g. proceeds of crime, reviewing changes to bank accounts as part of the accounts payable audit, expenses audit. Therefore a specific allocation of time has not been included within the plan.

**RELEASE OF REPORT**

The table below sets out the history of this plan.

Date plan issued:	21 <sup>st</sup> January 2016
-------------------	-------------------------------

## Internal Audit Strategic Plan – 2016/17 – 2018/19

System	Type of review	Notes				
		2015/16	2016/17	2017/18	2018/19	
<b>Strategic</b>						
Governance – Strategic Control and Corporate Governance	Assurance		12			12
Governance – Strategic Planning	Assurance			12		
Governance – Performance Management	Assurance	15				15
Governance – Transformation and Change Management	Assurance			12		
Governance – Ethical Standards	Assurance	12		12		
Governance – Assurance Framework	Assurance		10			
<b>Risk</b>						
Risk Management – Strategy / Policy OPCCs	Assurance	12	10			12
Risk Management – Mitigating Controls	Assurance		15			
Risk Management – Business Continuity	Assurance			12		
Risk Management – RAID log	Assurance	15				
<b>ICT</b>						
ICT – Cyber Security	Assurance	10				
ICT – Network Security	Assurance	12		12		
ICT – t-Police	Assurance	12				
ICT – ITIL Framework Gap Analysis	Assurance	10				
ICT – Exchange 2010/email Archiving	Assurance		12			
ICT – Data Assurance	Assurance			12		12
ICT – Social Networking/Website Content Management	Assurance			12		
ICT – Firewall	Assurance		12			
ICT – IT Governance	Assurance			12		
ICT – Disaster Recovery	Assurance		12			
ICT – Business Continuity	Assurance					12
ICT - ERP Second/third line support	Assurance		12			

System		Notes				
Type of review		2015/16	2016/17	2017/18	2018/19	
ICT – Software Licensing					12	
<b>Finance</b>						
Key Financial Controls	Assurance		30	30	30	
		Financial systems combined for key control testing				
Payroll	Assurance	10	10		10	
Accounts Payable	Assurance	10		10		
Accounts Receivable	Assurance	10			10	
Purchase Ordering	Assurance	12	12			
Purchase Cards	Assurance	10		10		
General Ledger	Assurance	10			10	
Treasury Management	Assurance	10			10	
Capital Expenditure	Assurance	10		10		
Budgetary Control	Assurance		12		12	
Fixed Assets	Assurance					
Pensions Administration	Assurance			10		
Expenses and Additional Payments	Assurance		16		18	
<b>Operational</b>						
Estates Management - Strategy	Assurance			12		
Estates Management – Duty of Care / Cost Allocations	Assurance		12			
Estates Management – Maintenance and Repair	Assurance	8 (Norfolk)	12		15	
Estates Management - Procurement	Assurance			10		
Estates Management – Facilities (Catering Suffolk only)	Assurance		10 (Suffolk)			
Estates Management – Building Access	Assurance			12		
Fleet Management - Strategy	Assurance			10		
Fleet Management - Procurement	Assurance				10	
Fleet Management – Maintenance, Repair and Fuel Usage	Assurance		12			
Fleet Management – Vehicle Security	Assurance			12		
HR – Absence Management	Assurance	10		10		

System	Type of review	Notes	2015/16	2016/17	2017/18	2018/19
HR - Strategy	Assurance			10		
HR - Recruitment	Assurance	Days from 15/16 to 16/17	12			12
HR – Learning and Development	Assurance			12	12	
Collaborations	Assurance			10		
Duty Management System	Assurance		15			12
Corporate Communications	Assurance			12		
Mobile Devices	Assurance		15			
Digital Data	Assurance				12	
Data Quality	Assurance				12	12
Firearms Management	Assurance			12		
Commissioners Grants – Norfolk only	Assurance	Reduced from 18 - 9	9 (Norfolk)	10	10	10
Proceeds of Crime	Assurance		15			12
Contract Review	Assurance		12			12
Safeguarding and investigations	Assurance					10
Police Stations	Assurance		7 (Suffolk)			
Lone Working	Assurance					10
Freedom of Information / Data Protection / Document Security Management	Assurance			15		
Complaints	Assurance			10		
Specified Information Order	Assurance				10	
Records Management / Follow Up	Assurance		4		12	
Other						
Contingency		Days from 15/16 to 16/17	15	0	0	10
Follow Up			8	10	10	10
Audit Management (to include: audit planning, client liaison, external audit, annual report, Audit Committee)			20	20	20	20
		Total Days 15/16 to 16/17	(54)	54		
Totals			276	384	330	330

## Internal Audit Annual Plan – 2016/17

Quarter	Audit	Type	Days	Scope
Q1	Assurance Framework	Assurance	10	<p><u>Scope</u> The review will follow up on the outcome of the previous assurance framework audit by the previous internal auditors. This will include an appraisal of the assurance framework established and streamlining of the framework.</p> <p><u>Rationale</u> The embedding of a streamlined assurance framework would provide a basis to gain assurance on the control environment.</p> <p><u>Lead Officers</u> PCC</p>
Q1	Risk Management – Strategy / Policy (PCCs)	Assurance	10	<p><u>Scope</u> The review will appraise how the OPCCs have developed a risk management strategy and policy. Key staff will be interviewed to assess how they use risk management in their everyday activities.</p> <p><u>Rationale</u> The risk management strategy and policy will determine how risk management is managed across the organisations.</p> <p><u>Lead Officers</u> PCC</p>
Q1	ICT – Exchange 2010/email Archiving	Assurance	12	<p><u>Scope</u> The review will consider the effectiveness of the controls in place around exchange 2010 and email archiving.</p> <p><u>Rationale</u> Rolling programme of technical ICT reviews. Agreed with the Director of ICT</p> <p><u>Lead Officers</u> Director of ICT</p>



Quarter	Audit	Type	Days	Scope
Q1	Expenses and Additional Payments	Assurance	16	<p><u>Scope</u> The review considers the arrangements for expenses and additional payment transactions through CAPITA and ERP, for compliance with policy and procedures. These will include mileage, car parking, meals, train travel and accommodation.</p> <p><u>Rationale</u> Key Audit risk area.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q1	Fleet Management – Maintenance, Repair and Fuel Usage	Assurance	12	<p><u>Scope</u> The review considers the processes around the maintenance and repair of vehicles and the usage of fuel.</p> <p><u>Rationale</u> Key Audit risk area.</p> <p><u>Lead Officers</u> Head of Fleet</p>
Q1	Corporate Communications	Assurance	12	<p><u>Scope</u> The review considers the handling of data and information, use of government security marking, KPIs and compliance with policy.</p> <p><u>Rationale</u> Key Audit risk area.</p> <p><u>Lead Officers</u> Communications</p>
Q1	Firearms Management	Assurance	12	<p><u>Scope</u> The review considers the effectiveness of managing firearms and compliance with policy.</p> <p><u>Rationale</u> Key Audit risk area.</p> <p><u>Lead Officers</u> ACC</p>

Quarter	Audit	Type	Days	Scope
Q1	Freedom of Information / Data Protection / Document Security	Assurance	15	<u>Scope</u> The review considers the effectiveness of managing freedom of information requests, data protection and document security. <u>Rationale</u> Key Audit risk area. <u>Lead Officers</u> Head of Information Management
Q1	Complaints	Assurance	10	<u>Scope</u> The review considers the effectiveness and efficiency of handling complaints. <u>Rationale</u> Key Audit risk area. <u>Lead Officers</u> Head of Information Management
Q1	ICT – Network Security (Days brought forward from 2015/16)	Assurance	12	<u>Scope</u> The review considers the arrangements for the physical and access security of hardware and software. To include: Domain accounts policies; Audit policy setting: User privileges; Trusted and trusting hosts; User accounts and passwords; Services and drivers; Home directories and logon scripts; Security options settings; Logical drives; Default login accounts; Discretionary access controls. The scope of the review does not include the types of hardware and software used, the access rights to the individual software; or the depreciation policies. <u>Rationale</u> Rolling programme of technical ICT reviews. Agreed with the Director of ICT <u>Lead Officers</u> Director of ICT

Quarter	Audit	Type	Days	Scope
Q1	HR – Recruitment (Days brought forward from 2015/16)	Assurance	12	<p><u>Scope</u> The review will consider the arrangements for advertising, shortlisting, interviewing and appointing staff/officers. The review will include the business case supporting the recruitment requirements.</p> <p><u>Rationale</u> An important area for the PCC. Agreed with CFO</p> <p><u>Lead Officers</u> Director of HR</p>
Q2	Strategic Control and Corporate Governance	Assurance	12	<p><u>Scope</u> The review will consider the overall strategic governance of the organisations. Compare and contrast, such as decision notices.</p> <p><u>Rationale</u> Reputationally a high risk area.</p> <p><u>Lead Officers</u> Head of PSD</p>
Q2	Governance – Performance Management (Days brought forward from 2015/16)	Assurance	15	<p><u>Scope</u> The review considers the arrangements for providing assurance to the PCC and Chief Officers through the use of Key Performance Indicators and the systems that are used to track and manage the attainment of these targets. The scope of the review does not include consideration of the accuracy or completeness of all reports presented to the committees/groups or the appropriateness of all decisions taken.</p> <p><u>Rationale</u> Key area of Governance, reviews included every other year of the plan.</p> <p><u>Lead Officer</u> Head of JPAD</p>

Quarter	Audit	Type	Days	Scope
Q2	Risk Management – Mitigating Controls	Assurance	15	<p><u>Scope</u> The review will appraise how the documented mitigating controls within the risk register address the documented risks.</p> <p><u>Rationale</u> Providing assurance that documented actions and controls effectively mitigate the risks.</p> <p><u>Lead Officers</u> Head of Organisational Development</p>
Q2	ICT - Firewall	Assurance	12	<p><u>Scope</u> The review will consider the effectiveness of the controls in place around the firewalls.</p> <p><u>Rationale</u> Rolling programme of technical ICT reviews. Agreed with the Director of ICT</p> <p><u>Lead Officers</u> Director of ICT</p>
Q2	Estates – Duty of Care / Cost Allocations	Assurance	12	<p><u>Scope</u> The review will appraise the cost and equipment ownership assigned to each force, along with the devolved budgetary control.</p> <p><u>Rationale</u> The collaboration between the forces provides a high risk of equipment transferring between locations and forces.</p> <p><u>Lead Officers</u> Head of Estates</p>
Q2	Collaborations	Assurance	10	<p><u>Scope</u> The review will appraise the strategy for collaborations between forces.</p> <p><u>Rationale</u> The collaboration between the existing two forces and with other forces may continue to increase.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>

Quarter	Audit	Type	Days	Scope
Q2	Estates – Facilities (Catering – Suffolk only)	Assurance	10	<p><u>Scope</u> The review will appraise the new contract for the catering facilities at Martlesham, to assess the processes in place for managing the service for catering across the force.</p> <p><u>Rationale</u> The new contract will continue to involve catering services across departments, with a view to streamlining processes.</p> <p><u>Lead Officers</u> Head of Estates</p>
Q3	ICT – Disaster Recovery	Assurance	12	<p><u>Scope</u> The review will consider the effectiveness of the controls in place around ICT Disaster Recovery.</p> <p><u>Rationale</u> Rolling programme of technical ICT reviews. Agreed with the Director of ICT</p> <p><u>Lead Officers</u> Director of ICT</p>
Q3	HR - Strategy	Assurance	10	<p><u>Scope</u> The review will consider the strategies in place for current and future HR needs for the forces.</p> <p><u>Rationale</u> An important area for the PCC.</p> <p><u>Lead Officers</u> Director of HR</p>

Quarter	Audit	Type	Days	Scope
Q3	Purchase Ordering	Assurance	12	<p><u>Scope</u> To examine a number of orders placed to confirm compliance with the Force's Purchasing procedures when goods and/or services are procured. Ensure compliance with operating procedures for Purchasing Review the system and procedures for contract procurement To verify that internal controls are in place and working to manage the purchase ordering procedures</p> <p><u>Rationale</u> A high risk area for the Force. Agreed with the CFOs</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q3	ICT – ERP Second/Third Line Support	Assurance	12	<p><u>Scope</u> The review will consider the effectiveness of the controls in place around ERP second/third line support.</p> <p><u>Rationale</u> Rolling programme of technical ICT reviews. Agreed with the Director of ICT</p> <p><u>Lead Officers</u> Director of ICT</p>
Q3	Budgetary Control	Assurance	12	<p><u>Scope</u> The review considers the arrangements for: budget setting, budget holder involvement, budget monitoring.</p> <p><u>Rationale</u> Key Audit risk area - completed annually.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>

Quarter	Audit	Type	Days	Scope
Q4	Key Financial Controls	Assurance	30	<p><u>Scope</u> The review considers the arrangements for key controls operating within the following systems; Accounts Payable, Accounts Receivable, General Ledger, Treasury Management, Capital Expenditure and Purchase Cards.</p> <p><u>Rationale</u> Key Audit risk area – completed annually.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q4	Payroll	Assurance	10	<p><u>Scope</u> The review considers the arrangements for: the creation, amendment and deletion of payroll records; payment of allowances and pay awards; and payment of salaries. The scope of the review does not include determination of salary scales, appointment and removal of staff, severance payments or reimbursement of travel and subsistence expenses, or pension arrangements.</p> <p><u>Rationale</u> Key Audit risk area - completed annually due to large percentage of overall budget.</p> <p><u>Lead Officers</u> Chief Finance Officers</p>
Q4	Estates – Maintenance and Repair	Assurance	12	<p><u>Scope</u> The review will appraise the effectiveness, efficiency and timeliness of reactive maintenance call handling to the most appropriate contractor to undertake the work.</p> <p><u>Rationale</u> An important area for the PCC.</p> <p><u>Lead Officers</u> Head of Estates</p>

Quarter	Audit	Type	Days	Scope
Q4	Commissioners Grants (Norfolk only)	Assurance	10	<p><u>Scope</u> The review will consider the arrangements for the assessing, awarding and compliance monitoring process for the grants issued by the Commissioners.</p> <p><u>Rationale</u> An important area requiring high levels of governance and probity.</p> <p><u>Lead Officers</u> Chief Executives (OPCC)</p>
	Contingency (Days brought from 2015/16)		15	Only to be used with the express permission of the Chief Finance Officers
Q2 / Q4	Follow up work		10	The review ascertains whether management action has been taken to address the Priority 1 & 2 recommendations arising from internal audit work carried out in the financial year.
1-4	Audit Management		20	This time includes planning, annual report, attendance at Audit Committee meetings, client meetings and overall contract management.
		<b>Total days 2016/17</b>	<b>384</b>	



## Assurance Mapping

### Corporate assurance risks

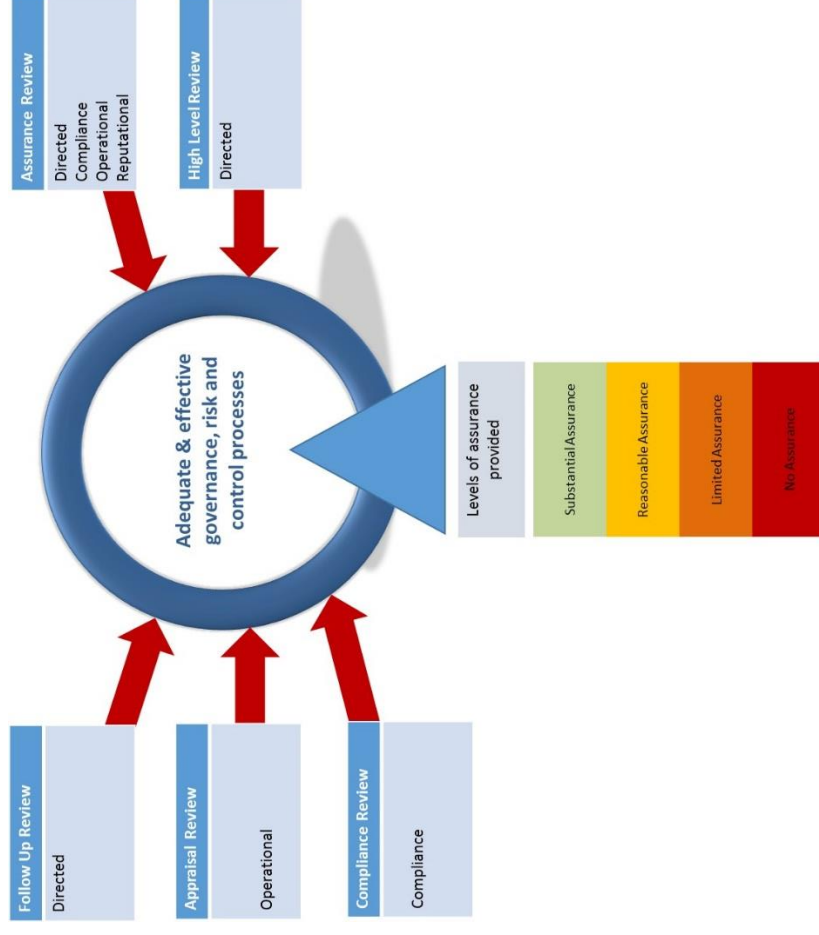
We consider four corporate assurance risks; directed; compliance; operational and reputational. The outcomes of our work on these corporate assurance risks informs both the individual assignment assurance assessment and also the annual assurance opinion statement. Detailed explanations of these assurance assessments are set out in full in each audit report.

### Assurance assessment gradings

We use four levels of assurance assessment: substantial; reasonable; limited and no. Detailed explanations of these assurance assessments are set out in full in each audit report.

### Types of audit review

The Annual Internal Audit Plan includes a range of types of audit review. The different types of review focus on a one or more of the corporate assurance risks. This approach enables more in-depth work to be carried out in the individual assignments than would be possible if all four assurance risks were considered in every review. The suite of audit reviews and how they individually and collectively enable us to inform our overall opinion on the adequacy and effectiveness of the governance, risk and control arrangements is set out in the assurance mapping diagram.



**Directed Risk:** Failure to direct the process through approved policy & procedures.

**Compliance Risk:** Failure to comply with approved policy and procedure leads to potential losses.

**Operational Risk:** Failure to identify opportunities to operate more efficiently or to be prepared for forthcoming changes.

**Reputational Risk:** Failure to deliver in a manner that meets the expectations of the organisation.

## Audit Remit

### Role

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Norfolk and Suffolk Police's framework of governance, risk management and control. TIAA is responsible for giving assurance to Norfolk and Suffolk Police's Audit Committees on the adequacy and effectiveness of Norfolk and Suffolk Police's risk management, control and governance processes.

### Scope

All Norfolk and Suffolk Police's activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that Norfolk and Suffolk Police's management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions. However, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by senior management, audit committee or the nominated officer (being the post responsible for the day to day liaison with the TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

### Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS.

### Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of Norfolk and Suffolk Police and is authorised to obtain such information and explanations as they consider necessary to form their opinion.

### Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day to day administrative purposes only, TIAA reports to a nominated officer within Norfolk and Suffolk Police and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the Audit Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with Norfolk and Suffolk Police's management.

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to. The objective of any consultancy work is to add value and improve governance, risk management and control processes. Internal audit will never take or assume management responsibility.

### Irregularities, Including Fraud and Corruption

TIAA will without delay report any, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2003 to the nominated officer.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that he or she can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.



## OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

**ORIGINATOR:** Chief Finance Officer

**REASON FOR SUBMISSION:** For Endorsement

**SUBJECT:** Annual Investment and Treasury Strategy for 2016/17

### **SUMMARY:**

Government regulations require the Police and Crime Commissioner to approve an annual investment strategy prior to the start of the financial year. This is incorporated within an over-arching treasury management strategy. The strategy, attached to this report, has been included in the budget and precept report, which will be considered by the Police and Crime Panel (PCP) on 2 February 2016.

Changes to the Investment Strategy were presented to the Committee in November 2015. At that point it was agreed that these would be made for 2016/17.

### **CHANGES:**

1. The 2015/16 Investment Strategy required revision in light of changing regulatory and operational requirements. The change was supported by our external treasury advisors and all other criteria remains as previously approved.
2. **Sovereign Rating** – The PCC's current criteria stipulates that the country in which a Non-UK Bank is domiciled must have a minimum sovereign rating of AAA. This was predicated on the basis that sovereign support would potentially be made available to a counterparty bank if it got into difficulties. In the aftermath of the global finance crisis, ratings methodology has changed. Credit rating agencies have withdrawn the sovereign support ratings applied to individual counterparty banks. The emphasis having changed from sovereign "bail-out" to shareholder "bail-in" with greater importance now placed upon the strength of a counterparty's balance sheet.

Whilst these changes do not support the removal of a minimum sovereign rating criteria, they do require consideration as to how its application works in practice.

In order to access a diversified list of high-quality Non-UK banks, **the minimum sovereign rating has been changed from AAA to AA+**. The sovereign rating of AA+ must be assigned by one of the three credit rating agencies (Fitch, S&P or Moodys). The limit of £10m per sovereign state will remain, as will the minimum criteria assigned to an individual Non-UK counterparty (F1+ or equivalent) being the highest quality short-term rating which can be applied.

3. These changes have been made in the 2016/17 Strategy attached at Appendix 1. See paragraph 5.2.

**RECOMMENDATION:**

It is recommended that the Audit Committee reviews and endorses the Annual Investment and Treasury Strategy for 2016/17.

**The Office of the Police and Crime Commissioner for Norfolk  
Annual Investment and Treasury Strategy 2016/17**

**1. Introduction**

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The PCC is required to comply with the Code through regulations issued under the Local Government Act 2003 and has adopted specific clauses and policy statements from the Code as part of its Financial Regulations.
- 1.2 Complementary to the CIPFA Code is the Department for Communities and Local Government's (DCLG's) Investment Guidance, which requires local authorities and PCCs to produce an Annual Investment Strategy. This report combines the reporting requirements of both the CIPFA Code and DCLG's Investment Guidance.
- 1.3 The primary objectives of the PCC's Investment Strategy are to safeguard the timely repayment of principal and interest, whilst ensuring adequate liquidity for cash flow and the generation of investment yield. A flexible approach to borrowing for capital purposes will be maintained which avoids the 'cost of carrying debt' in the short term. This strategy is prudent while investment returns are low and counterparty risk (the other party involved in a financial transaction, typically a bank or building society) remains relatively high.

**2. The Treasury Management Function**

- 2.1 The CIPFA Code defines treasury management activities as "the management of the PCC's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.2 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.
- 2.3 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.
- 2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions, previously carried out by Norfolk County Council, is now undertaken by the Specialist Accountant (Treasury

Management, Cash Management & VAT) based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

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

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

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

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

### **3. Capita Asset Services Economic Forecast**

#### **Economic Overview**

3.1 UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

- 3.2 The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.
- 3.3 USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.
- 3.4 EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.
- 3.5 Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

3.6 Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

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

Quarter Ending	Base Rate (%)	PWLB Borrowing Rates (%)		
		5 year	25 year	50 year
Mar 2016	0.50	2.40	3.70	3.60
June 2016	0.75	2.60	3.80	3.70
Sept 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
June 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
June 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40
Increase over the 3 year period	+1.50	+1.20	+0.80	+0.80



#### 4. Investment Strategy 2016/17

4.1 Forecasts of short-term interest rates, on which investment decisions are based, suggest that the 0.5% Bank Rate will remain unchanged until the end of the first quarter of 2016. There is a risk that if economic growth weakens, increases in the Bank Rate will be pushed back.

4.2 The investment earnings rates which most closely matches our average deposit profile is the 3 month LIBID (London Intra Bank Bid rate for money market trades) forecast. The suggested budgeted interest rates for the following 3 financial years are as follows:

<b>Financial Year</b>	<b>Budgeted Interest Earnings</b>
2016/17	0.90%
2017/18	1.50%
2018/19	2.00%

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

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

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

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

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

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

## 5. Investment Strategy 2016/17 - Counterparty Criteria

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

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

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

<b>UK Banks</b>	<b>Fitch</b>	<b>Standard &amp; Poors</b>	<b>Moody's</b>
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

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

<b>Non-UK Banks</b>	<b>Fitch</b>	<b>Standard &amp; Poors</b>	<b>Moody's</b>
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Banks** – Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.
- **The PCC's Corporate Banker** – If the credit ratings of the PCC's corporate banker (currently Barclays Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.
- **Building Societies** – The PCC will use Building Societies which meet the ratings for UK Banks outlined above.
- **Money Market Funds (MMFs)** – which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.
- **UK Government** – including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by

Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

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

- 5.3 All cash invested by the PCC in 2016/17 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.
- 5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.
- 5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2016/17 to reflect the level of cash balances and to avoid large deposits with the DMO.
- 5.6 In addition to individual institutional lending limits, “Group Limits” will be used whereby the collective investment exposure of individual banks within the same banking is restricted to a group lending limit of £10m.
- 5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.
- 5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

## **6. Investment Strategy 2016/17 – Specified and Non-Specified Investments**

- 6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year. Institutions of “high” credit quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 364 days or less:
- Banks: UK and Non-UK;
  - Part Nationalised UK Banks;
  - The PCC’s Corporate Banker (Barclays Bank plc)

- Building Societies (which meet the minimum ratings criteria for Banks);
- Money Market Funds;
- UK Government;
- Local Authorities, Parish Councils etc.

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

- Any investment greater than 364 days.

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

6.4 The PCC's proposed Strategy for 2016/17 therefore includes both Specified and Non-Specified Investment institutions.

## **7. Borrowing Strategy 2016/17**

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

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

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

7.4 External borrowing currently stands at £13.39m, this includes a transferred debt balance of £0.62m. At 31 March 2015 there was an additional £24.21m internal borrowing requirement relating to unfunded capital expenditure financed from temporary cash resources. The net internal borrowing requirement is estimated to be £23.53m at 31 March 2016 and £27.54m at 31 March 2017. The new internal borrowing requirement is estimated at £0.32m for 2015/16 and £5.0m for 2016/17. The internal borrowing requirement does not include the funding requirement in respect of assets financed through PFI.

7.5 The challenging and uncertain economic outlook outlined by Capita Asset Services in Section 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, under delegated powers, will take the most

appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Capita Asset Services economic overview (Section 3).

- 7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Capita Asset Services will monitor prevailing rates for any opportunities during the year.
- 7.7 The PCC has flexibility to borrow funds in the current year for use in future years. For example, the PCC CFO may do so under delegated powers where a sharp rise in interest rates is expected and so borrowing early at fixed interest rates may be economically beneficial or meet budgetary constraints. Whilst the PCC CFO will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing will be undertaken to fund the approved capital programme. Risks associated with any advance borrowing will be subject to appraisal in advance and subsequent reporting through the established reporting process.
- 7.8 PWLB borrowing has become less attractive in recent years, due to its policy decision to increase the margin payable over interest rates (Gilts). In response, the Local Government Association is currently in the process of setting up a "Municipal Bond Agency." While it is hoped that the Agency's borrowing rates will be lower than those offered by the PWLB, this is by no means guaranteed. Initially it is unlikely that the Agency will be able to offer the same degree of operational flexibility as the PWLB regarding loan advances and repayments. The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans and the Municipal Bond Agency.

## 8. Treasury Management Prudential Indicators

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

- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the PCC set an upper limit on its variable interest rate exposures for 2016/17, 2017/18 and 2018/19 of 100% of its net outstanding principal sums.
- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the PCC set an upper limit on its fixed interest rate exposures for 2016/17, 2017-2018 and 2018-2019 of 100% of its net outstanding principal sums.

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

	<b>Lower Limit</b>	<b>Upper Limit</b>
Under 12 months	0%	15%
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	45%
5 years and within 10 years	0%	75%
10 years and above	0%	100%

- **Total Principal Funds Invested for Greater than 364 Days** – This limit is set with regard to the PCC’s liquidity requirements. It is estimated that in 2016/17, the maximum level of PCC funds invested for periods greater than 364 days will be no more than £10m.

**Report Author:**

John Hummersone  
 Chief Finance Officer  
 01953 424484  
[hummersonej@norfolk.pnn.police.uk](mailto:hummersonej@norfolk.pnn.police.uk)