



THE POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND THE CHIEF CONSTABLE OF NORTH YORKSHIRE

Financial Planning

Internal audit report: 11.21.22

Final

20 May 2022

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1. EXECUTIVE SUMMARY

Why we completed this audit

We have undertaken a financial planning audit for the Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire as part of the internal audit plan for 2021/22. Our audit was undertaken to ensure both organisations have an adequate and effective planning process in place to enable plans to be prepared based on sound assumptions.

The Police, Fire and Crime Commissioner and Chief Constable have a Medium Term Financial Plan (MTFP) in place for 2022/23 to 2025/26 that was approved by the Police, Fire and Crime Commissioner in February 2022, which was recorded on the organisations' decision record form which can be found on the Commissioner's website. The MTFP was approved alongside supporting documentation including the Treasury Management, Investment Strategy and Capital Strategy and the Minimum Revenue Provision Strategy.

The MTFP is based around the approved allocation of £182,541k of revenue funding that is forecast to be received by the PFCC in 2022/23, covering the following areas:

- £1,335k to run the Office of the PFCC;
- £5,244k for Commissioned Services and Community Safety Initiatives;
- £585k for Asset Management Costs;
- £176,858k for the Police Force;
- £8,483k to the Capital Programme; and
- £1,014k from Earmarked Reserves.

The budget was set based upon an approved £10 (or 3.69%) increase in the level of Band D precept for 2022/23.

Within this plan is factored in the National Savings Requirements for Policing requirement to deliver £100m of "cashable" savings nationally across the three years of the Spending Review period, with 80% of these required to be delivered in 2022/23. From a North Yorkshire perspective this requires the delivery of £1,050k of savings and efficiencies towards the national £100m of savings that have been factored into the National Core Grant allocations, with North Yorkshire being required to deliver £825k of savings in 2022/23.

In addition, the delivery and progress against the 2021/22 budgeted plan was used to inform the MTFP for 2022/23.

Underlying assumptions contained within the 2022/23 to 2025/26 MTFP are as follows:

- Precept increase to 3.69% for 2022/23 and an assumed increase of 1.99% in subsequent years;
- Pay inflation of 3.5% in 2022/23, then 2.5% and 2.0% in 2023/24 and 2024/25 respectively;

- Increase in National Insurance contributions as per Government guidance;
- Recruitment of 78 FTE (full-time equivalent) police officers by the end of March 2023 as per the government target, with the aim of having at least 1,645 police officers by this point; and
- Other Non-Pay increases, including 7.5% due to inflation for electric, gas, and cleaning.

The Police, Fire and Crime Commissioner and Chief Constable has a balanced overall budget for the next four years and has based financial plans on realistic assumptions. The force has a clear approach to achieving savings and re-investing the money in the right areas. While finances are tight, we have been assured that the future savings requirement is minimal.

Conclusion

We determined there to be a well-designed governance framework in place for reviewing, approving, and monitoring delivery of the plans across the Force and the OPFCC (Office of the Police, Fire and Crime Commissioner). The Police, Fire and Crime Commissioner and Chief Constable have an approved MTFP in place which includes realistic assumptions, which can be supported by documented evidence and clear justification. However, whilst we acknowledge that the organisations do not perform scenario modelling owing to its particular means of funding and reserves held, given the potential future volatility of inflation and other drivers, we feel that the organisations would benefit from conducting some scenario modelling in future to take such factors into account. As a result, we have agreed **one low** priority management action during the course of this review.

Internal audit opinion:

Taking account of the issues identified the Police and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire can take **substantial assurance** that the controls upon which the organisations rely to manage this area are suitably designed, consistently applied and effective.



Key findings

Our audit identified the following exception with the organisations' established control framework resulting in one low priority action:



As part of the MTFP process an analysis of the robustness of the estimates used is developed and approved as part of the process. However, whilst we acknowledge the robustness of the processes involved in preparing the MTFP, the organisations do not perform scenario modelling owing to its particular means of funding and reserves held. Given the volatility of the current inflation rate and other underlying drivers, we feel that the Force would benefit from conducting some scenario modelling reflecting the potential volatility of such factors. Without such scenario modelling being undertaken, there is a risk that the Force will not be able to make effective decisions regarding future plans and have mitigating actions in place if a significant increase should occur in future. **(Low)**

Our audit identified that the following controls are suitably designed, consistently applied, and are operating effectively:



The Force and the PFCC have a MTFP for 2022/23 to 2025/26 in place which has been reviewed and approved by the Police, Fire and Crime Commissioner and there is a decision notice in place to confirm this on the Police, Fire and Crime Commissioner's website. The plans are also supported by related documentation such as the Capital Strategy, the Minimum Revenue Provision Strategy and the Treasury Management and Investment Strategy.

Approval of the MTFP was completed in line with the Scheme of Delegation; however, we did note this document is largely outdated having last been updated in 2018 and does not reflect current structure, for example, it does not refer to the Police, Fire and Crime Commissioner. We agreed one medium priority management in the CIPFA Code of Practice – Financial Management review conducted in November 2021 regarding the updating of financial governance documents, including the Scheme of Delegation. This management action had an agreed implementation date of 31 October 2022; therefore, we have not agreed an action within this report.



The Force holds bi-monthly / six weekly budget planning sessions which are presented to the Heads of Functions and the appropriate accounting staff by the Chief Finance Officer (CFO) for the Chief Constable. We reviewed the budget planning meeting presentations from 2021 / 2022 which includes areas of discussions such as:

- Current year financial position;
- Current year budget forecast;
- Budget position for 2022/23; and
- Savings update.



Both the Force and the PFCC's MTFP for 2022/23 to 2025/26 contain a number of assumptions. We completed a walkthrough with the CFO for the Commissioner, the CFO confirmed the information used to inform decisions and assumptions made within the MTFP for 2022/23 to 2025/26. Our walkthrough and review of evidence confirmed the Force and PFCC had made reasonable assumptions based on National Pay Award figures, inflation uplift, precept increase, inflation, and CFO intelligence from other Police Forces.



We acknowledge the Force do not undertake formal scenario planning or sensitivity analysis but there is a process undertaken for analysis of the robustness of the estimates. We reviewed the MTFP 2022/23 to 2025/26 with the CFO for the Commissioner, which highlighted how the robustness of estimates for assumptions is based on the reserves the Force already holds. The CFO demonstrated how the assumptions are based on year on year trends and inflation increases which enables the organisations to effectively estimate the percentage increase for the following financial year.



Though review of the MTFP 2022/23 to 2025/26, we identified the National Savings Requirements which sets a mandatory requirement for Policing to deliver £100m of “cashable” savings nationally across the three years of the Spending Review period, with 80% of these required to be delivered in 2022/23. The CFO for the Chief Constable confirmed that the potential saving opportunities are discussed and reported within the Investment and Efficiency Group, for which we received the terms of reference, to ensure sufficient scrutiny of key efficiency decisions.

We obtained the Net Reductions for 2022/23 report, which outlined the budget area, the 2021/22 budget and actual cost, justification as to why there is a reduction and the overall reduction for 2022/23 against the 2021/22 budget. This report is monitored and discussed on a monthly basis at the Investment and Efficiency Group meetings to achieve the Force’s delivery of cashable savings.



The Force is required to deliver a set amount of savings in line with the National Saving Programme and, through discussions with the CFO of the Chief Constable we understood the process of how they identified savings based on costed services and how the Investment and Efficiency Group was implemented to oversee the current saving programme across the Force.

We discussed with the CFO of the PFCC implementation of the Change Pipeline which allocates funding for different projects across the Force. We understood that the Change Pipeline process has since changed and a Change Board has been implemented to scrutinise the allocation of funding. All projects now require a business case to be presented to the Change Board which will be assessed and notified as to whether there are appropriate savings in place to support the programme.



We reviewed three months of Investment and Efficiency Group agendas which outlined the current year budget monitoring for 2021/22 and the new financial year budget planning for 2022/23. This information is fed into the budget monitoring reports produced and presented on a quarterly basis to the Executive Board, which outline forecast and budget for the current financial year versus the previous financial year.



The CFO for the Chief Constable provides a Portfolio and Programme Management Office & CFO presentation to the Chief Constable on a quarterly basis. We reviewed the documents to confirm whether the appropriate change pipeline costs have been acknowledged, and the Costed Service Plans have been set out for 2022/23. Through discussion with the CFO of the PFCC, we acknowledge the change pipeline process has been developed to ensure there are sufficient challenges before a project receives the required funding. The process now requires a business case to be produced and presented to the Change Board before approval can be granted.



Through review of the PFCC’s website, we noted that there is a legal requirement for the Commissioner to set a budget prior to 1 March each year for the following financial year. In discussion with the CFO of the PFCC we acknowledged the setting of the budget each year is the key driver in the planning cycle across the Force, enabling them to plan ahead for each quarter and the next financial year. The Budget, Investment and Efficiency Group outlined a timetable around the planning, development, and budget forecast of the MTFP.



The CFO of the Chief Constable confirmed that the current MTFP aligns with the Early Action Together strategy which provides earlier intervention, and prevention to prioritise the allocation of resource within the budget and alignment across the Costed Service Plan and the Police and Crime Plan.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Financial Planning		
Control	Partially missing control:	Assessment:
	As part of the MTFP process an analysis of the robustness of the estimates used is developed and approved as part of the process. Scenario planning/sensitivity analysis is undertaken when required for both capital projects that make up part of the capital budget and as part of preparation of the revenue budget. These are used to inform the plan and details are included.	<p>Design x</p> <p>Compliance -</p>
Findings / Implications	<p>The Chief Finance Officer for the PFCC is responsible for making judgement of the robustness of the area within the budget and ensuring they mitigate all risks around the assumptions documented within the MTFP.</p> <p>The robustness of estimates for assumptions are based on what reserves the PFCC already holds. The CFO to the PFCC confirms they are satisfied with the proposed spending plan for 2022/23 and believes it to be sound and robust. However, a number of areas of expenditure have been identified that will need to be closely managed throughout the year and these areas will be given particular focus throughout the MTFP:</p> <ul style="list-style-type: none"> • Staff pay given the current level of vacancies; • Recruiting PCSO numbers back to establishment levels; • Ensuring Police Officer Targets are hit; • Medical and Injury Pensions; • Ensuring that Supplies and Services Budget are fully understood and Managed; and • Capital Programme. <p>The PFCC acknowledges the funding available to deliver the Capital plans are robust however, they have ongoing challenges around delivery which they need to overcome as it is holding back potential development and financing set out in the MTFP.</p> <p>The CFO of the PFCC forecasts the General Reserves will be maintained at £5.6m across the MTFP. Which will provide a General Reserve of 3.1% of the Net Budget Requirements in 2022/23.</p>	

Area: Financial Planning

The Reserves Strategy is a core part of the arrangement to improve transparency and the Reserves Forecast is incorporated within the strategy which outlines the reserves for planned expenditure and projects, reserves within the current MTFP, total general contingency reserves, total earmarked reserves, general reserves, total usable reserves, and capital receipts reserves.

Following a discussion with the CFO of the PFCC, we assumptions on pay awards are closely monitored throughout the year to ensure they have appropriate reserves in place for pa reviews are increases in national minimum wage. Planning for pay awards are based on discussions through Professional Finance Networks, sharing CFO intelligence across the Forces and pay review bodies accurately predict the pay increase percentage for the year, they predicted a 3.5% increase but in the earlier stages of planning they predicted a 2.3% increase. The CFO has to make accurate assumptions to ensure they have sufficient reserves in place for the financial year.

However, whilst we acknowledge the robustness of the above processes, given the volatility of the current inflation rate and other underlying drivers, we feel that the Force would benefit from conducting some scenario modelling reflecting the potential volatility of such factors. Without such scenario modelling being undertaken, there is a risk that the Force will not be able to make effective decisions regarding future plans and have mitigating actions in place if a significant increase should occur in future.

Management Action 1	The Force will implement a scenario planning model to consider the potential future volatility of inflation and other drivers and their possible impact on factors, such as pay, to ensure they can effectively manage and monitor inflation increases in the future.	Responsible Owner: Chief Finance Officer for the Chief Constable	Date: 31 October 2022	Priority: Low
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APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls*		Agreed actions		
	Low	Medium	High	Low	Medium	High	
Risk Reference: 147581	1	(7)	0	(7)	1	0	0
Total	1				1	0	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risk:

Objective of the risk under review	Risk relevant to the scope of the review	Risk source
The organisations have an adequate and effective financial planning process to enable financial plans to be prepared based upon sound assumptions and accounting appropriately for efficiency savings.	Risk Reference: 147581	PCC's Strategic Risk Register

When planning the audit, the following areas for consideration and limitations were agreed:

- The organisations have a clear and well understood process and timetable for the development and approval of financial plans.
- All persons involved in the preparation of financial plans have received adequate training and guidance to enable them to do so.
- The organisations have developed their Medium Term Financial Plan which is in line with their overall strategy and has been approved in line with the Financial Regulations and Scheme of Delegation.
- The Medium Term Financial Plan is based upon reasonable assumptions, including the identification and evaluation of savings.
- Scenario planning/sensitivity analysis has been completed to ensure that the Medium Term Financial Plan is robust.
- Identified savings are based upon an appropriate decision making process, i.e., how and on what basis is:
 - An initial cost/benefit analysis, or similar, is undertaken to validate inclusion of a savings programme.
 - A programme considered to be worthy of inclusion.
- As part of our review, we will consider:
 - How financial plans for the current financial year (2021/22) were approved.
 - The monitoring of progress against the agreed financial plan for the current year and how this is being used to inform the financial plan for 2022/23.
 - The timetable and procedure to develop the 2022/23 plan.
- We will consider both revenue and capital elements of the financial plan in our review.

Limitations to the scope of the audit assignment:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing will be completed on a sample basis.
- We will not provide an opinion on the content of the Medium Term Financial Plan.
- Our work does not provide assurance on the appropriateness of the transactions or payments made or planned.
- We will not comment on whether the organisations have achieved value for money from specific transactions.
- Our work and report will not provide any assurance on the eventual accuracy at the year end of the current projected outturn or any assurance on the validity and accuracy of any assumptions made in producing the projected outturn.
- In particular, our review is not intended to confirm, or otherwise, whether the MTFP and / or any planned savings will be achieved.
- We will not verify the accuracy of the general ledger as part of this review.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 20 April 2022
Draft report issued 26 April 2022
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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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