

# **ANNUAL GOVERNANCE STATEMENT**

## **Introduction**

This statement is our Annual Governance Statement for 2015-16 and builds upon those of previous years. It summarises the governance mechanisms and records the significant governance issues of the Group that need to be addressed over the coming year. The full code of Corporate Governance and how it relates and interlinks with the Force can be found on the Commissioner's website and forms part of the Corporate Governance and Working Together Agreement

(<http://www.nottinghamshire.pcc.police.uk/document-library/publicinformation-policies-and-procedures>).

The Nottinghamshire Police and Crime Commissioner is responsible for the totality of policing and arrangements in place for reducing crime and protecting the vulnerable people that come into contact with police services as well as victims and witnesses.

The Group comprises of two legal entities that of the Chief Constable and that of the Office of the Police and Crime Commissioner (OPCC). Therefore, the Commissioner is responsible for ensuring that business is conducted in accordance within the law and proper standards and that public money is safeguarded, properly accounted for in support of this a governance framework has been in place at the OPCC for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

This statement enables the Commissioner and Group to meet its requirements under the Accounts and Audit Regulations 2015, which requires that the Commissioner prepares an Annual Governance Statement.

## **The Governance Framework**

Corporate governance refers to the process by which organisations are directed, controlled and held to account. Major elements of this framework are to monitor the achievement of strategic objectives, manage the finances and provide a framework for public engagement. The Governance Framework the Commissioner operates ensures full compliance with these requirements.

The Commissioner must and does consider high-level strategic plans. Currently under consideration is a deeper collaboration with Leicestershire and Northamptonshire specifically in relation to a shared Control Room and further integration of all functions that "Enable Services". This is currently in the early stages of development and builds upon regional collaboration across the 5 East Midlands Forces.

The level of Council Tax for each financial year is set through a detailed process of budget setting and review. Although for the next four years the Home Office has

assumed that we will increase our precept by 2% and has reduced the amount of Police and Crime Grant by an equivalent amount.

The Force produce draft revenue and capital budgets which consider Force requirements and regional requirements. Draft budgets are made available for consultation with Commissioner in the autumn and further refined once the provisional settlement is announced in December. This process is closely linked to the Annual Strategic Assessment undertaken by the Force, partner agencies and at a national level. Thereby ensuring resources are targeted at the greatest risk from threat and harm.

The commissioner's Chief Finance Officer (CFO) also produces a three year Treasury Management Strategy; within which it manages the Commissioner's cash flows, lending and borrowing activities and the mitigation of risk associated with these activities. The Commissioner considers and approves this strategy by the beginning of February each year.

Members of the public are welcome to attend the public meetings of the Commissioner and are welcome to ask questions about the business and its policies. Such questions would be answered and published on the website. In addition to this public inspection of the accounts being audited is welcomed.

In support of the framework the system of internal control is very important and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

### **The Group Governance**

The Group is set up throughout the Corporate Governance and Working Together Agreement. This document set out a clearly the roles and responsibilities within the OPCC and Force. The overarching document is supported through the Scheme of Consent, Financial Regulations and Standing Orders.

The Commissioner holds the Chief Constable to account through both informal (non-public) and formal (public) meetings. This ensures that the objectives set and agreed within the Police and Crime Plan are achieved.

In addition to this the Police and Crime Panel holds the Commissioner to account for the delivery of the Police and Crime Plan, setting of precept and appointment of the Chief Constable. This is a public meeting administered independently by the County Council.

## **Annual Governance Review**

For the Group this is undertaken in two stages. Firstly, the Force Annual Governance Review the detail to which is provided with in the Chief Constables Annual Governance Statement. The second part is that undertaken within the OPCC, where the key statutory officers (Chief Executive and Chief Finance Officer) provide their statements and is supported by a framework of supporting evidence.

The following diagram outlines the Commissioners Framework around three streams of core activity – corporate governance, strategic management and delivering services.

<b>Corporate Governance</b>	<b>Strategic Management</b>	<b>Service Delivery: Economically, efficiently and effectively</b>
Corporate Governance and Working Together Agreement	Roles and Responsibilities of key statutory officers	Management of risk
Joint Audit and Scrutiny Panel	Delivery of the Police and Crime Plan	Effectiveness of internal controls
Internal and External Audit	Business and Financial Plans	Public engagement and accountability
Independent external resources (eg HMIC)	Office and staff codes of conduct	Budget and financial management arrangements
Formal public meetings <ul style="list-style-type: none"> <li>• Strategic resources and performance</li> <li>• Chairs of CSPs meeting</li> <li>• Police and Crime Panel</li> </ul>	Performance Management Framework	Standards of conduct and behaviour
Police and Crime Plan	Timely production of Statement of Accounts	Compliance with laws and regulations, internal policies and procedures
Medium Term Financial Plan	External and Internal Audit Recommendations	Budgetary Control
Complaints system	External Inspections findings and recommendations	Financial Regulations
Professional Standards	Scheme of delegations	Compliance with Procurement Code
Policies and procedures	Strategic Risk Register	Stakeholder engagement
Whistle blowing and counter fraud arrangements		Evaluation of benefits gained from business cases and projects
Risk Management Framework		Partnership governance
Performance Management system		
Codes of Conduct		

Each are of the areas outlined in the above table are considered when undertaking the Annual Governance Review.

## **Audit and Scrutiny Panel**

The Audit and Scrutiny Panel receives reports throughout the year which deal with issues of good governance as well as those in need of improvement. During 2015-16 the Panel met in June 2015, September 2015, December 2015 and February 2016.

The Panel considers standing agenda items as well as specific items at particular times of the year, in part driven by the annual accounts preparation and finalisation and any matters that require further reporting.

During the year the Panel reviewed:

- Internal audit and counter fraud activity, reports, implementation of recommendations.
- Internal audit annual plan
- External audit annual letter
- External audit annual plan
- External audit governance report (ISA260)
- Annual statement of accounts
- Strategic risk register
- Corporate complaints
- Professional Standards reports
- Regional Collaboration arrangements
- Appointment of new Internal Auditors

This Panel also undertake additional scrutiny work when required.

## **Risk Management Strategy**

It is recognised that risk management is an integral part of good governance. The Joint Strategic Risk Management Strategy sets out the intended approach to risk management. All officers and staff are responsible for ensuring that risk implications are considered in the decisions they take.

The successful delivery of the Strategic Risk Management Strategy depends on the organisation's ability to manage risk, rather than eliminate it all together.

## **Risk Review Process**

The main is to ensure that:

- Risk management becomes a natural component of the organisations management and change processes
- Risks are identified, understood and managed to an acceptable level
- Opportunities are seized

The Strategic Risk Register is regularly reviewed and updated. It is reported to the Audit and Scrutiny Panel during the year and together with the operational risk register provides detail for compilation of the Annual Internal Audit Plan.

### **Managing the Risk of Fraud**

The Financial resources available to the Commissioner need to be maximised, in order to help achieve the Police and Crime Plan. One aspect to assisting with maximising resources is to reduce the opportunity for fraud and misappropriation. The Commissioner will not tolerate fraud or corruption by any officer, employee, supplier, contractor, volunteer or services user and will take all necessary steps to investigate any allegation of fraud or corruption and pursue sanctions available in each case, including the removal from officer, dismissal and/or prosecution.

The Anti-fraud and Corruption Strategy summarises the Commissioners position and builds on the content of a number of corporate policy statements, namely:

- Officers code of conduct
- Staff code of conduct
- Whistleblowing
- Financial Regulations and Standing Orders
- Procurement code

The East Midlands Strategic Commercial Unit are under Nottinghamshire as the lead force and as such report twice annually on anti-fraud and corruption procedures in place and any instances of fraud to the Audit and Scrutiny Panel.

All Officers and staff are aware of anti-bribery and corruption policies and their responsibility to respect any offer of a gift, hospitality, benefit of a service, even if this offer is not accepted.

### **Partnership Governance**

Governance arrangements in respect of partnerships have been in place for some time. However, as the volume and complexity of partnerships have increased, so have the governance arrangements. This is not helped by the Government creating funding streams for Forces to bid for additional funding (e.g. Innovation/Transformation funding).

A piece of work is currently being undertaken by RSM UK to provide a basis for obtaining assurance from all of the different regional collaboration arrangements currently in place. Interim updates have been provided verbally to the Audit and Scrutiny Panel, but the final stages of this review are currently being put in place.

On a positive note there are section 22 agreements (collaboration contracts) in place for collaborations whether these are 2, 3, 4 or 5 force collaborations. The Regional Commissioners also make all decisions relating to collaboration.

## **Managing Finances**

The Commissioner is able to confirm that the organisation complies with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer. The Section 151 Officer is a qualified and suitably experienced accountant who is responsible for the proper administration of the Commissioners financial affairs, and for ensuring the lawfulness and financial prudence of financial transactions.

The Commissioners Chief Finance Officer is a senior officer within the OPCC, with responsibility for leading and advising on the strategic financial decisions, impacting on the delivery of objectives and the Police and Crime Plan; ensuring continuing effective financial controls, risk management and leadership.

## **Legal cases**

The A19 case continues with a further appeal being heard in January 2017. This has been identified as a contingent liability.

GAD v Milne and the Bear Scotland cases – the implications of these are being managed within existing budgets. The majority of payments have been made with 2015-16.

A further case relating to the Police Pensions Regulations 2015 – Transitional Arrangements may have implications if it is deemed to be unlawful discrimination. This has been identified as a potential Contingent Liability.

## **Internal Audit and External Audit Assurance**

The Commissioner and Group receive a substantial amount of assurance from the work that is undertaken by its internal and external auditors (Mazars and KPMG).

The role of internal audit is to provide independent assurance that the Commissioners risk management, governance and internal control procedures are operating effectively.

The role of external audit is to review the financial statements, obtain evidence that they are materially correct and provide an opinion as to whether these represent a true and fair view of the financial position of the Group. In addition, external audit also provide a value for money opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the Group secures economy, efficiency and effectiveness.

## **Internal Audit**

Internal Audit operates in accordance with Public Sector Internal Audit Standards, which have been developed specifically for the Public Sector by CIPFA. Compliance with the standards is assessed on a cyclical basis.

One of the assurance statements that the Group receives is the annual opinion of the Head of Internal Audit (Senior Manager – Mazars) in respect of the financial control framework. The annual report in respect of work completed in 2015-16 is that the internal control systems in the areas audited were adequate, with the exception of the transition to new transactions finance systems where improvements were recommended and were classified as high risk.

## **External Audit**

The External Auditor, KPMG issued an unqualified value for money conclusion for 2015-16. This means that they are satisfied that the Group had proper arrangements for securing financial resilience and for challenging how it secures economy, efficiency effectiveness.

## **Audit Opinion**

KPMG issued an unqualified opinion on the 2014-15 financial statements. This means that they believe the 2014-15 financial statements give a true and fair view of the financial position of the Group and of its income and expenditure for that year.

KPMGs audit of the financial statements found 3 significant adjustments, all of which were adjusted. The audit raised recommendations on improving working papers. This is been addressed.

## **Annual Governance Statement**

KPMG reviewed the Annual Governance Statement 2014-15 and concluded that it was sound, consistent with the principles the CIPFA/SOLACE Framework and correlated with their understanding of the governance arrangements of the Group.

## **Whole of Government Accounts**

KPMG reviewed the data prepared to support the whole of Government Accounts by HM Treasury. The auditors reported that the data was consistent with the audited final accounts.

## **Significant Governance Issues**

Matters reported in the 2014-15 Annual Governance Statement have where appropriate been addressed during 2015-16.

### **Levels of Reserves**

During the year the need to use more reserves than planned came to light and by the end of the year £7.7m has had to be used to balance the Force budget. This has had a significant impact on the level of useable reserves that we now hold.

The consequence of which has been put in writing to the force – any failure to achieve the required £12m of efficiencies this year and any budget overspend identified during the year, will have to be met from further in year efficiencies as there will be no use of reserves to balance the budget. This is being closely monitored throughout the year.

The Medium Term Financial Plan does now include plans to reimburse the reserves in the 2018-19 and 2019-20 at £3m per annum. This will ensure we remain above our minimum level of reserves required, but lower than our desired level. Of course this is dependent on the economic position at those points, but is something that needs to be achieved.

### **Collaboration**

Nottinghamshire continues to collaborate further in order to derive out the significant savings still required to fill funding gap over the Medium Term Finance Plan.

Deeper collaboration with Leicestershire and Northamptonshire is in early stages of development. But it is clear that the Governance arrangements in relation to this collaboration need to be clearly defined. The inter-relationships with other collaborations will need to be considered and carefully managed.

### **Budget Management**

During the year it became apparent that achievement of the planned efficiencies would not be possible and this was further impacted by budget overspends and errors in the initial budget.

The consequence of this was a £7.7m overspend for which there was no mitigation during the year and which had to be met from reserves, severely depleting them.

The Force is therefore now required to provide detailed reporting in 2016-17 of potential overspends and non-achievement of efficiency plans. They are also required to provide details on how these shortfalls will be met from the existing budget, during the financial year.

A new temporary Head of Finance has been appointed to assist the Strategic Alliance Director of Finance in ensuring a balanced budget is achieved.

## **Internal Audit Findings**

During 2015-16 Internal Audit issued limited assurance particularly in relation to the Core Financial Systems audit. The issues related to the new system that came into place in April 2015. This system did not have all of our previous systems internal controls and therefore weaknesses were identified.

Other limited assurances were given in relation to the audits on Payments and Processes, Victims Code of Practice, Savings Programme and Procurement.

Whilst these audits are of concern and will be closely monitored through the Audit & Inspection reporting and follow-up audits, it is the audits specifically relating to core financial systems, payments, saving programmes and procurement that are of significant concern as these could ultimately impact on the financial statements and viability of the Group.

## **Economic Outlook**

The economic outlook continues to be a significant governance issue. However, Nottinghamshire Police is in a better financial position for the medium term than hoped for due to the better than expected settlement announcement for 2016-17.

Savings are still required to meet the budget gaps, but plans are well underway to ensure that this can be achieved.

The impact of leaving the European Union on the country's economic forecast has yet to be seen, but early indications are that this will be negative, despite the arrangements in place with the Bank of England. Public finances are likely to tighten again, together with potential tax increases and we need to be preparing for this possibility.



## **ANNUAL ASSURANCE STATEMENT**

**2015-16**

**SIGNED:**

**Mr Paddy Tipping  
Police & Crime Commissioner  
15 September 2016**

**Mr Kevin Dennis  
Chief Executive - OPCC  
15 September 2016**

**Mrs Charlotte Radford  
Chief Finance Officer – OPCC  
15 September 2016**