

2019/20 ANNUAL REPORT OF THE NPCC AUDIT AND ASSURANCE BOARD

INTRODUCTION

The purpose of this report is to report formally on the activity of the Audit and Assurance Board (AAB) during the period 1st August 2019 to 31st July 2020 and to set out how the AAB has met its responsibilities in relation to its terms of reference and key priorities.

The AAB's Terms of Reference require it to report annually outlining the work it has undertaken during the year and where necessary, highlighting any areas of concern.

GOVERNANCE STATEMENT FROM MARTIN HEWITT NATIONAL POLICE CHIEFS' COUNCIL (NPCC) CHAIR

The NPCC is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively.

The NPCC has a small central function, drawing on the resource, efforts and expertise of Chief Officers and senior police staff equivalents across the policing landscape, including the College of Policing, the National Crime Agency, the Home Office and Association of Police and Crime Commissioners (APCC) and other policing bodies in delivering its objectives.

The NPCC aims to drive forward policing priorities, manage risks, and improve policing across the UK, protecting the public and delivering a world class policing service.

Governance and Risk

The main governance assurance mechanism for the NPCC continues to be the Audit and Assurance Board (AAB), as agreed within the Collaboration Agreement (S22A) and the AAB is expected to review and scrutinise NPCC activity, plans and processes, and provide assurance that the NPCC is acting in the public interest. The AAB seeks to assure that NPCC business is conducted in accordance with the law and proper standards (including the Nolan Principles), in an open and transparent way; that public money is safeguarded and properly accounted for and that resources are managed in an effective, efficient and economical way in achieving the NPCC objectives. The Board also provides scrutiny of NPCC business operations including business plans, risk management, budgets and matters in relation to capital assets or liabilities.

The AAB is accountable to all the interested parties (the Parties) that contribute to the NPCC, in accordance with the Collaboration Agreement (S22A). The AAB publishes minutes from its quarterly meetings, as well as an annual report.

The NPCC is working to develop more robust governance and strategic management mechanisms, enhancing its internal management arrangements by utilising established, appropriate and quality assured policies from the MPS (as host force) to support NPCC operations including recruitment, human resources, health and safety, diversity and equality, and environmental sustainability requirements.

Internal governance and assurance of NPCC central office activity is delivered via monthly senior leadership team (SLT) meetings, where strategic issues, progress against work plans and projects, Freedom of Information (FOI) requests and responses, and NPCC risk management are reviewed. These meetings are chaired by me as NPCC Chair and draw on all central office staff to provide input and updates on key activity and ongoing work. In order to drive consistent progress and maintain a focused, proactive working culture within the NPCC central office, additional meetings have been implemented focusing on core areas of NPCC business operations including weekly and monthly finance meetings (reviewing progress against the NPCC financial management work plan), quarterly health and safety meetings and monthly human resource management meetings.

In November 2019, the NPCC implemented its first formal risk management policy, outlining the central office's approach to risk identification, reporting, management, and mitigation. The framework outlines the assessment criteria and reporting processes for identifying and reporting risks to NPCC business operations with consideration of strategic, operational, financial, and reputational risks. The framework was scrutinised by the AAB and agreed as a suitable starting point for more robust risk management processes to be developed. As a result of the AAB highlighting concerns, the NPCC risk register has since been replicated within NPoCC and implementation of a revised framework across the wider NPCC landscape (NPCC committees) is being considered in order to develop a consistent approach to risk and assurance processes, as well as allowing a holistic strategic assessment of NPCC's risks across national policing.

During the year, the AAB required a prioritised list of management actions covering a range of broad governance areas to be produced where it considered that insufficient progress was made in a number of areas where it had stated concerns. A management work plan to deliver the required actions was developed in response. Progress against this plan is scrutinised by the AAB at each meeting to ensure delivery of the agreed actions and appropriate response and management of improvement opportunities and associated risks.

Following consistent concerns being raised by the AAB relating to financial management and governance control mechanisms and a lack of progress in these areas by the NPCC, additional financial capability has been created, providing strategic, subject matter expert advice and strengthening oversight and governance interactions with the NPCC's strategic business partners in the Metropolitan Police Service and the Directorate of Audit, Risk and Assurance (DARA). The new post seeks to provide more consistency, accuracy, and confidence in the NPCC's financial management data and processes, and improved assurances on these matters to the AAB.

The NPCC has continued to work closely with DARA to deliver internal audit improvement recommendations (based on areas of identified risk) devising a work plan to deliver improvement opportunities and ensuring appropriate time and opportunity are provided to AAB to scrutinise activity.

While in the past annual reporting of NPCC budget planning and spending to Chief Constables' Council (CCC) was undertaken once a year, the AAB requested that this should move to quarterly updates from 2020/21 onwards - providing CCC, AAB and the public greater oversight and assurance on public spending and NPCC financial activity, management and planning.

Martin Hewitt

Chair of the National Police Chiefs' Council – September 2020

AAB SUMMARY OF THE YEAR

During the twelve-month period covered by this report, the NPCC continue to operate throughout a particularly uncertain period in policing history with COVID-19, Brexit, climate protest and increased knife crime. However, assurance over how the business runs remains a concern. The NPCC has also been called upon to co-ordinate the Government's commitment to 'uplift' 20,000 additional officers. The capability to do this has been managed outside of the core budget and is subject to audit and assurance processes outside the remit of AAB but should be stated, nevertheless.

In our report last year, we reported that the work of the AAB had not progressed as planned but that we were confident that with more stable NPCC staffing and AAB membership, rapid progress would be made in the areas prioritised by the AAB. Disappointingly, limited progress has been made on key priority areas again this year. As referenced above, in response, the AAB has re-iterated a clear set of key actions that must be delivered to agreed timeframes, with additional resources secured as needed. The NPCC Chair has committed that these actions will be taken forward as a priority and the AAB will continue to closely monitor progress on the delivery of these priorities.

Last year in the future planning section of our Annual Report, we set out several areas for the AAB focus on in the coming year. The table below sets these out along with a summary of the progress made to date.

2019 Forward Planning Items from 2018-2019	Progress of these to date
<p>Business Cycle/Forward Agenda Planning: As a priority, we agreed that work would be done to align the AAB meeting schedule with when the NPCC needs to make key financial decisions.</p>	<p>This work has been completed and the new AAB meeting schedule has been in operation since October 2019.</p>
<p>Terms of Reference Review: Members agreed the work should be done to ensure that the AAB's TOR should focus on scrutinising what NPCC is delivering from the centre. The AAB also agreed that our TOR should fully reflect best practice and our purpose and ensure that public money is being safeguarded and used properly to deliver against the AAB objectives.</p>	<p>Some proposals have been put forward, but further work is required.</p>
<p>Support for the AAB: The AAB agreed that arrangements for the Association of Police and Crime Commissioners (APCC) central office to take minutes at AAB board meetings and that wider secretariat duties and service will remain with the NPCC.</p>	<p>We proceeded with these arrangements in place for a short period, but owing to the lack of response due to staffing issues at the NPCC, it was agreed that all secretariat duties would be transferred to the APCC and this has now been in place since the end of 2019.</p>
<p>Coordination Committee Oversight: There are proposals to reorganise the NPCC Coordination Committees. The first scrutiny and assurance point for the AAB will be an oversight of these proposals to establish whether this proposed new approach is fit for purpose.</p>	<p>These proposals form part of the new operating model. The AAB are clear that this is a major priority and continues to push for full visibility of developments and proposals to enable appropriate timely AAB challenge and scrutiny so that the required assurances can be obtained.</p>
<p>Financial Controls: The AAB agreed that work on the NPCC's finances including the financial deficit and level of financial support would be addressed as part of a final financial report in September 2019.</p>	<p>This work has and continues to be a top priority due to the lack of assurance and the length of time over which these issues have been raised. A new dedicated financial resource has been recruited by NPCC and the AAB has asked that Internal Audit dedicate time to help the NPCC address the outstanding issues.</p>
<p>AAB Continuity: The issue of the continuity and consistency of AAB membership was evident last year and with PCC Elections and some members terms ending next year. Discussions with the Home Office were also needed to request a Home Office representative from the HO Policing Directorate to come onto the AAB to provide an informed, wider policing perspective. The Board also agree that eligible Members should appoint a 'nominated deputy' when unable to attend, to also assist continuity.</p>	<p>The continuity of the AAB has not been impacted during this difficult period and has remained stable. It has also been enhanced with a new Home Office representative joining. We will continually review this issue as part of our succession planning strategy.</p>
<p>NPCC Audit Cycle: The AAB felt that NPCC's key risks that would most benefit from a review included: Performance and risk management of annual plan deliverables; financial controls; Legal jeopardy issues such as IT management, security governance; NPCC current structure, corporate governance mechanisms; Policing reputation, National Policing gaps; Financial resource management, low reserves.</p>	<p>With limited resources to conduct this work and access restrictions due to COVID-19, the priority focus of work for audit this year has been on the financial management arrangements, including assurance on financial controls. Work on this is progressing and the Board will receive the final report from internal audit at its November meeting, including audit recommendations for improvement.</p>

<p>Constitutional design of NPCC and Relationships: The NPCC Chair is conducting a review of the work of the NPCC including the Coordination Committees which will generate an overarching strategic plan of what the NPCC will aim to achieve moving forward. The AAB will have a key role to play in scrutiny and oversight of this.</p>	<p>The AAB has raised serious concerns over its lack of involvement in this process, as we felt unable to offer adequate assurances. With the commitment from the NPCC to ensure that the AAB has timely visibility prior to key decision making stages of the above plan, we will be in a better position to scrutinise plans and offer relevant assurances at the key stages. Operating model plans are now a standing item on our agenda, and we continue to look at how the AAB can ensure it can provide assurance to stakeholder as this project moves forward.</p>
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FINANCIAL ACCOUNTABILITY

Between 1st August 2019 and year end for the 2019/20 reporting period, the NPCC central office continued work to review the NPCC’s financial management processes, previous financial reporting, resource arrangements and to establish a detailed and accurate financial position in respect of the NPCC budget.

This work identified a historic process of misreported ‘income in advance’ from NPCC’s funding parties within the NPCC’s core budget. Income received during Quarter 4, intended to fund the forthcoming financial year, was routinely, as far back as 2016, misallocated and reported against the year-end position, creating a misrepresentation of the year end position and a perpetual shortfall in the following year.

The previously reported underspend for 2018-19 (£23k) was corrected to show an overspend of approximately £149k, due in large part to budget shortfall from this issue in the previous year. The practice of invoicing in advance of the next financial year has been stopped and so prepayments are no longer required at year end, correcting this issue going forward.

In calculating the year end position for 2019/20, this shortfall (and the previous pattern of reporting) was raised and reported to AAB, and to Chief Constables’ Council in January 2020, forming part of the year end forecast and NPCC budget for 2020/21. Funding parties agreed to contribute to NPCC’s budget to clear the shortfall and return NPCC to a working budget position for 2020/21, whilst further work to improve NPCC’s financial management arrangements continued.

Financial reporting and management arrangements have previously been raised as a major concern by the AAB with little effect. As a result, the AAB instructed the NPCC Chair to direct immediate attention to improving the NPCC financial reporting and management arrangements and to provide additional assurance to the AAB by way of an action plan setting out how and when improvements would be made. To provide assurance over the approach, AAB additionally instructed that the finance management action plan be audited by the Directorate of Audit, Risk and Assurance (DARA).

The AAB have noted that progress against the action plan has been slow in 2020. Initial work was delayed due to the impact of COVID-19 and the lead in time to recruit the additional finance resource needed to provide greater clarity and assurance on finance management processes and operational commitments.

As of July 2020, the action plan is being reviewed and assessed for progress, with consideration given to the suitability of listed actions, along with amended timelines for progress tracking. This review is due to be reported to the AAB in September 2020, to allow AAB to be assured regarding the approach and progress against the plan.

As well as updates against the action plan, the AAB continue to receive and scrutinise quarterly financial statement reports, detailing year to date spend against the NPCC’s budget, including explanations for key variances. The AAB continues to scrutinise the financial position and the NPCC’s approach and continue to identify areas to be improved or in need of additional assurance measures.

INTERNAL AUDIT

The Directorate of Audit Risk and Assurance (DARA) of the Mayor's Office for Policing and Crime (MOPAC) provides internal audit services to the NPCC. DARA provides an independent and objective opinion on the degree to which risk management, control and governance support the achievement of the NPCC objectives.

2019/20 Internal Audit Activity and Outcome:

DARA have advised on the development of the NPCC's risk management framework, reviewing the revised risk register format, management monitoring and AAB oversight arrangements. They concluded that the current framework is in line with best practice and provides an effective foundation for the management of and reporting on identified risks. Going forward there is a need to ensure that the framework sufficiently distinguishes between the management of NPCC strategic risks, which should be linked to NPCC strategic objectives, and the wider delivery of operational policing objectives, and that risk escalation and reporting mechanisms are operating effectively.

DARA are also undertaking a review of NPCC Financial Management arrangements, in response to AAB's request for assurance in this area. The NPCC already have a Finance Action Plan in place and the objective of the DARA review is to provide assurance that this is comprehensive, achievable, and adequately demonstrates how NPCC management intend to address weaknesses identified in the following areas:

1. Format and accuracy of financial information (including use of accruals accounting, avoidance of misallocations, robust forecasting, and budgeting)
2. Financial governance and oversight arrangements (including resource capacity and capability, policies and procedures, financial reporting, and assurance arrangements)
3. Appropriateness, adequacy, and management of MPS hosting arrangements, including the SLA.

The audit fieldwork has been completed and DARA are in the process of discussing the initial findings with management. The final report, including agreed management actions, is due to be presented to the AAB in September 2020.

In June 2020 DARA facilitated a session for AAB members designed to determine audit priorities for inclusion in a dynamic internal audit plan and to enable assessment of internal audit resource requirements. A proposed plan is due to be presented at the September 2020 meeting of the AAB with the intention of a quarterly review to ensure it remains relevant to the NPCC's risk landscape.

The AAB appreciates the support provided by DARA in addressing internal audit priorities and values the professionalism of its reports. During the year, the AAB has reviewed progress on internal audit work at each meeting and ensured that internal audit resources are directed to those areas of key risk, feeding into the internal audit planned programme of work. The AAB would welcome the opportunity to use internal audit support as required for a period to ensure that issues can be addressed, and solutions identified in a relatively short time frame.

2020/21 Internal Audit Forward Look:

DARA will continue to be an independent source of assurance to the NPCC and AAB, providing professional advice and assistance and helping to improve the effectiveness of the NPCC internal control environment. Key DARA objectives for the coming year include:

- Development of the internal audit plan and resource assessment based upon priorities identified at the AAB Away Day (Governance, Internal Control, Risk Management).
- Delivery of the audit plan, to include finalisation of the Financial Management review, and follow up on actions agreed by management in previous audit reviews, as required by AAB.
- Continued development of the relationship with the AAB through regular attendance at meetings and liaison with members as appropriate.
- Enhancing the level of engagement with the NPCC through increased involvement of DARA's Head of Risk and Assurance, regular liaison and engagement with the management team and the new Finance Analyst to ensure audit activity continues to be aligned with objectives and risks to the NPCC.

EXTERNAL AUDIT

The NPCC is not required to produce full formal accounts nor to have its financial statements audited by an external auditor. For this reason, in 2019 the AAB concluded that external verification of the statement of accounts would be repeated on a three-yearly basis if deemed necessary. As a result, no external audit was conducted in 2019/2020. Annual assurances are provided by internal audit work on the financial systems at MOPAC and NPCC and this has been supplemented by DARA's focused work on NPCC financial arrangements.

KEY RISKS IDENTIFIED BY AAB

During the period, the AAB again raised the key risks which had consistently been raised and communicated to the NPCC Chair and now form part of the priority list of actions referenced above. Below is a summary of the key risks identified:

- Workforce resilience, capacity and ensuring that the NPCC has the right skills, in the right place, at the right time, to deliver current NPCC objectives
- Robustness and adherence to internal controls, operational management policies, finance, IT, governance, GDPR and workforce controls including compliance checks on these
- The absence of robust business case production and processes in relation to changing the provision of services
- Financial sustainability and the spending review
- Wider national landscape around policing and future requirements of the NPCC/role of the NPCC/ability to develop an organisational form that is fit for purpose, agile and provides demonstrable value for money and delivery of objectives
- Lack of audit and assurance in the operating model plans
- Need for clarity on NPCC's role in data protection and appropriate operational practices and procedures
- Effective Risk Management identification and assessment systems
- COVID-19 effects on staff welfare resulting from remote working

FUTURE PRIORITIES

Drawing on the risks listed above, focus will be placed on the following significant governance issues during 2020-21:

NPCC Operational Review Assurance

The NPCC is currently reviewing the options for change in terms of its operating model to ensure that it can better deliver its objectives effectively and efficiently. A programme has been established to develop the case for change. The AAB has an important role in ensuring appropriate scrutiny at each stage and will ensure it regularly obtains the assurances needed to effectively discharge its duties. The AAB has requested that certain current internal arrangements are addressed to provide a solid foundation for any future operating model. and to ensure compliance over good stewardship of public money. As part of this, consideration will need to be given to the effectiveness of the current SLA/hosting arrangements as well as the future legal form of the NPCC.

Financial Management, Controls and Reporting

For several years, the AAB has raised concerns about the accuracy of financial reporting and the adequacy of financial management and controls. Work has been done in the year to retrospectively correct inaccuracies in the reported financial information, but the underlying issues still need to be addressed. Good financial management and reporting are essential to support robust budgeting, transparency in accounting for resources and longer-term financial planning. Additional finance support has been secured and a financial management action plan has been developed. Delivery of this will be closely scrutinised by the AAB in the coming months.

Value for money

Given the AAB has a role in ensuring resources are managed in an effective, efficient, and economical way in achieving the NPCC objectives, an area of focus for the coming year will be how the AAB can better assure itself that this is the case. The majority of the NPCC budget is spent on workforce and scrutiny over the controls in place to ensure value for money in this area will be a topic for review in the coming year. Until the ongoing work is completed, the AAB cannot, at this time, provide assurance in this area.

Risk management

Risk management is an area that the AAB has raised for some time as needing further development, recognising that given the nature of the NPCC this is a complex area. It would propose a renewed focus in the coming year, drawing on support from Internal Audit, as the AAB oversees the development of a AAB assurance framework and an agreed risk appetite.

Governance and Reporting

The AAB is keen to ensure that the NPCC has appropriate, tailored, proportionate standing financial instructions and standing orders, a complete suite of policies and procedures and a programme of compliance checks against these, to ensure the good governance of its financial and operational affairs. These are under development and once agreed will form the basis for a programme of Internal Audit compliance reviews to provide assurance to the AAB that the NPCC is run in accordance with a sound governance framework. To have increased oversight of the, the AAB have called for more regular contact between the NPCC Chair and the Chair of the AAB.

SUMMARY FROM BARBARA SCOTT THE AAB CHAIR

This has undoubtedly been a challenging year for everyone and has required new ways of approaching new and old issues. Like many organisations, since the beginning of this year, the AAB has navigated available tools to enable us to successfully conduct business virtually.

Despite the restrictions this year, the AAB, has relentlessly chased the lack of action on concerns consistently raised regarding the corporate governance shortfalls within the NPCC. The AAB submitted the catalogue of these key issues and communicated these to the NPCC Chair with a clear message that these need to be addressed as a matter of urgency. As a result, the NPCC has committed to a clear workplan of priority issues which are required to be addressed to enable to NPCC to have a firm foundation on which to build its future ambitions. Moving forward, the AAB needs see sufficient progress in these areas, within the timescales agreed, to enable the AAB to provide appropriate assurances to stakeholders that the NPCC is fit for purpose in its current format.

I would like to thank members of the AAB, for their diligence and commitment in discharging our duties helping to drive improved governance and more consistent, coherent, and transparent reporting.

We recognise that work still needs to be done but we are satisfied that appropriate arrangements are now in place to improve the NPCC corporate governance framework. We propose over the coming year to take steps to address the matters identified to further enhance the governance arrangements in these challenging times.

Barbara Scott

Chair of the Audit and Assurance AAB - SEPTEMBER 2020

APPENDIX 1

AAB MEMBERSHIP AND MEETINGS

In line with the S22A agreement the AAB comprises of:

- Three independent Non-Executive Members (NEMs), one of which is appointed by the AAB as Chair.
- NPCC Chair
- Three Police and Crime Commissioners (nominated by the APCC) Currently:
 - Police & Crime Commissioner for Dorset
 - Police & Crime Commissioner for West Mercia
 - Police & Crime Commissioner for West Yorkshire
- One nominee of the Chief Police Officers' Staff Association
- 1 nominee of the Home Office

The AAB has invited the following to attend meetings of the AAB. These are non-voting members and are present to assist AAB Members in their work:

- CEO of the APCC, supported by a Staff Member from APCC
- NPCC Strategic Planning and Risk Manager
- NPCC Chief of Staff
- The NPCC's Internal Auditors

During the period 01 August 2019 to 31st July 2020 the AAB met 5 times on the following dates:

26th November 2019

11th February 2020

22nd April 2020 (Extraordinary Meeting)

13th May 2020

39th June 30 – 1st July 2020 (AAB Annual Planning Meeting)

The table below details the membership and attendance of Committee members during the period 1st August 2019 to 31st July 2020:

Register of Members attendance at AAB meetings for the period 1 st August 2019 to 31 st July 2020						
	Nov	Feb	May	Workshop	July	Attended
NEM - Barbara Scott (Chair)	✓	✓	✓	✓	✓	5 of 5
NEM - Lizzie Peers	x	✓	✓	✓	✓	4 of 5
NEM - Janice Shardlow	✓	✓	✓	✓	✓	5 of 5
NPCC Chair – Martin Hewitt	✓	✓	✓	✓	✓	5 of 5
PCC - John Campion	✓	✓	✓	✓	✓	5 of 5
PCC - Martyn Underhill	✓	✓	✓	✓	✓	5 of 5
PCC - Mark Burns-Williamson	✓	x	✓	✓	✓	4 of 5
Home Office – Kenny Bowie	✓	✓	✓	✓	✓	5 of 5
Chair of CPOSA CC Andy Rhodes	✓	x	✓	✓	✓	4 of 5

✓ = Attended/includes Virtual X = Did not attend P = Attendance by phone S = Substitute representative (in accordance with the S22A 4.2.2 - Each AAB member (other than the NEMs) may nominate a named substitute member to attend any AAB meeting in their place provided this is an individual of appropriate seniority and subject to appropriate notification having been given in advance to the Audit and Assurance Chair)