



# THE POLICE, FIRE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND THE CHIEF CONSTABLE OF NORTH YORKSHIRE

CIPFA Code of Practice – Financial Management

FINAL Internal audit report 4.21/22

25 November 2021

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# 1. EXECUTIVE SUMMARY

## Why we completed this audit

In October 2019, the Chartered Institute of Public Finance Accountants (CIPFA) issued a new Financial Management Code that was applicable to financial years starting from 1 April 2020 onwards. The Financial Management Code is a new requirement brought about by recent pressures faced by local authorities and concerns regarding weaknesses in financial management. Prior to this point, local government finance in the UK was governed by primary legislation, regulation and professional standards as supported by statutory provision, but the general financial management of a local authority has not until now been supported by a professional code.

The Financial Management Code was designed to support good principles in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA Statement of Principles of Good Financial Management sets out seven key principles, against which all financial management should be judged, which are as follows:

- Responsibilities of the Chief Finance Officer and Leadership Team;
- Governance and Financial Management Style;
- Medium to Long-Term Financial Management;
- The Annual Budget;
- Stakeholder Engagement and Business Cases;
- Performance Monitoring; and
- External Financial Reporting.

Our review has focused on whether the Police, Fire and Crime Commissioner (PFCC) for North Yorkshire and the Chief Constable of North Yorkshire's financial regulations and underlying financial management procedures comply with the requirements as set out within the Financial Management Code to evidence good financial management.

## Conclusion

We determined through review of the evidence supplied and discussions with management that the Force have sufficient financial management processes in place to evidence compliance with the Financial Management Code key principles. We have agreed **two medium** priority management actions as a result of our review. One management action relates directly to the responsibilities of the Chief Finance Officer and the Leadership Team, whereas the second management action has been agreed in respect of outdated financial procedural documents which govern the Force's financial management processes.

## Key findings

Our audit identified the following exceptions with the Force's and PFCC's established control framework resulting in two medium priority actions being agreed:



### Responsibilities of the Chief Finance Officer and Leadership Team

The Financial Management Code clearly outlines that the Chief Finance Officer should be included as a key member of the leadership team; however, we note that the Chief Finance Officer of the Chief Constable does not sit as a full member on the Chief Officer Team (COT), which risks full financial challenge and input within the Force's strategic decision-making.

There is a further risk that the role of Chief Finance Officer of the Chief Constable does not comply with the Section 151 Officer requirements, the CIPFA Financial Management Code and the requirements under the Home Office Financial Management Code of Practice. **(Medium)**



### Financial management documents

We noted that financial management documents in place across the Force are largely outdated and do not reflect current Force structures, for example, the documents do not include reference to the Police, Fire and Crime Commissioner or the Enable structure. The outdated documents include:

- The Financial Regulations;
- Scheme of Delegation;
- Devolved Resource Management Manual; and
- Contract Standing Orders.

We did note that the Chief Finance Officer of the Chief Constable is aware that these documents required updating; however, we were advised that staffing resources have been limited to enable this review to be carried out. Where financial management documents do not reflect current Force structures and processes, there is a risk that processes are not fit for purpose and the Force are not executing sound financial management, which risks non-compliance with the Financial Management Code. **(Medium)**

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



### Responsibilities of the Chief Finance Officer and Leadership Team

The Chief Finance Officer of the Chief Constable has implemented an Investment and Efficiency Group, for which we received the terms of reference and noted that one purpose of the Group is to ensure adequate review, impact assessment, approval and monitoring of the Force's delivery of the savings programme, and ensure there is adequate overview of the budget, medium-term financial plan and capital programme, by establishing clear accountable leads, through the Assistant Chief Constables (ACC) / Managing Directors (MD) through to Heads of Function.



### **Governance and Financial Management Style**

The PFCC for North Yorkshire and the Chief Constable of North Yorkshire publishes an annual governance statement, which was last completed for 2020 / 2021 and is available on the PFCC's website. The statement outlines how the Force complies with the Code of Corporate Governance; examples from the financial year 2020 / 2021 included:

- The RSM internal audit review of the systems of controls in place for procurement and overtime, bonus and honorarium payments;
- The Financial Regulations, which outline the practical guidelines and framework of decision-making on financial matters;
- Internal audit and external audit arrangements; and
- Oversight of the Joint Independent Audit Committee (JIAC).

The Joint Corporate Governance Framework is available on the PFCC's website and outlines the Seven Principles of Public Life (the Nolan Principles) as the core principles of the framework.



The Force are currently preparing and reviewing 37 separate service delivery plans for the financial year 2022 / 2023. We undertook a walkthrough of the service delivery planning process with the Chief Finance Officer of the Chief Constable and concluded from our walkthrough that the process was well designed.



The Force's scheme of delegation documents the framework of financial accountability across the Force, with the PFCC and Chief Constable having overall responsibility for the financial sustainability of the Force.



### **Long to medium-term financial management**

The Force carry out medium-term financial planning (MTFP), which covers the next five years of budgeting. The Chief Finance Officer of the PFCC presents an annual report to outline the proposed budget for the following financial year and remaining years of the MTFP for decision from the Executive Board. The MTFP 2021/22 to 2024/25 and the Capital Plans 2021/22 to 2024/25 were presented to the Executive Board on 23 February 2021. The Chief Finance Officer of the PFCC outlined major risks and unknowns surrounding the figures presented to the Executive Board, including an assessment on the robustness of estimates and the adequacy of Force financial reserves.



The Chief Finance Officer of the PFCC presents an annual report on the Force's treasury management, prudential indicators, Investment Strategy and Capital Strategy to the Executive Board, which was last delivered on 23 February 2021.



The Force are in the process of developing 37 separate service delivery plans for 2022 / 2023, and we undertook a walkthrough of the process with the Chief Finance Officer of the Chief Constable. The service delivery plans are developed by the Heads of Service, in conjunction with their respective finance business partner to ensure that requests are adequately scrutinised and supported by realistic financial figures, profiled across the duration of the service delivery.



### **The annual budget**

The annual budget for 2021 / 2022 is published on the PFCC website, which includes evidence of approval from the PFCC. The Chief Finance Officer of the PFCC is responsible for the proper administration of the PFCC's financial affairs and the submission of reports to the PFCC (or any of its constituent parts) as part of the discharge of that responsibility. In February 2021, the annual budget for 2021 / 2022 was presented to the Executive Board by the Chief Finance Officer of the PFCC. The budget planning process, including the development of service delivery plans, has commenced for 2022 / 2023.



The Chief Finance Officer of the PFCC included a statement on the robustness of estimates and the adequacy of proposed financial reserves within the annual budget report for 2021 / 2022.



### **Stakeholder engagement and business plans**

The Force engages with various stakeholders in the development of financial strategy and the annual budget, for example, the PFCC is obliged to consult with the public in terms of council tax precept increases. In January 2021, the PFCC presented to the Police, Fire and Crime Panel the proposed precept for 2021 / 2022 for decision and within the report it was outlined that the PFCC had received 3,071 responses from the public to proposals for changes to the council tax precept.

Other examples of stakeholder engagement include communication with trade unions, local authorities, and police officers. The Police, Fire and Crime Panel is made up of elected members, which includes local authority members from North Yorkshire and councillors.



Force decisions are presented to the Change Board for review and approval. The Change Board is made up of representation from all areas of the Force so there is adequate challenge from multiple perspectives, including legal, finance, service areas, procurement, and so on. The Force have an approved template in place to drive the change process and we undertook a walkthrough with the Chief Finance Officer of the Chief Constable. The template includes value for money considerations as a requirement and we obtained an example proposal from the Change Board meeting on 19 October 2021.



### **Monitoring financial performance**

The Force have various reports in place which inform the leadership team of emerging risks to budget strategy and financial sustainability. We obtained the most recent example of budget monitoring for August 2021, which was presented to the Investment and Efficiency Group and to COT by the Chief Finance Officer of the Chief Constable. The report was also presented to the Police, Fire and Crime Panel by the Chief Finance Officer of the PFCC. The finance reporting suite includes both forward- and backward-looking financial information.



### **External financial reporting**

The annual statement of accounts for 2020 / 2021 is in draft format on the PFCC website. The Chief Finance Officer of the Chief Constable outlined that the external auditors, Mazars LLP, have been delayed in carrying out their external review, due to limited staffing resources. The Force have missed the required deadline for submission of accounts, which was set at 30 September 2021; however, are fully aware of the timeliness issue and have published a notice of delay on the website from the Chief Finance Officer of the Chief Constable (dated 24 September 2021). The external audit review is expected to be carried out in December 2021, and as the Force have published a notice of delay, the issues of timeliness is beyond the Force's control and the Force are working with external audit, we have not agreed a management action. It should also be noted the delay is not a local issue to North Yorkshire, but we have seen this as a national issue.

## 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: CIPFA Code of Practice		
Control	Financial Management Standard B	Assessment:
	The Force complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2012)</i> .	<b>Compliance</b> ×
<b>Findings / Implications</b>	<p>As outlined under Financial Management Standard B, it is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. In the police service, leadership is provided by the police and crime commissioner and the chief constable, who operate jointly according to the policing protocol, to ensure the maintenance of an efficient force.</p> <p>The Police, Fire and Crime Commissioner (PFCC) of North Yorkshire has an appointed Chief Finance Officer (CFO) to fulfil the Section 151 officer role. The CFO is the PFCC's professional advisor on financial matters and is a key member of the PFCC's leadership team. The CFO leads the promotion and delivery by the PFCC of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively; and ensures that the finance function is resourced to be fit for purpose.</p> <p>The Chief Constable has an appointed CFO who is responsible for maintaining the Force system of financial management and administration.</p> <p>The CIPFA outlines five key principles for the role of CFO of the PFCC and Chief Constable, which the Force must comply with:</p> <ol style="list-style-type: none"> <li>1. The CFO of the PFCC and Chief Constable must be a key member of the leadership team;</li> <li>2. Must be actively involved in, and able to bring influence to bear on, all material business decisions (subject to the operational responsibilities of the Chief Constable) to ensure immediate and longer-term implications, opportunities and risks are fully considered, and align with the overall financial strategy;</li> <li>3. CFO must lead and encourage the promotion of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively;</li> <li>4. The CFO must lead and direct a finance function that is resourced to be fit for purpose; and</li> <li>5. CFO must be professionally qualified and suitably experienced.</li> </ol>	

**Area: CIPFA Code of Practice**

We received evidence to support the Force's compliance with requirements two to five (as listed above); however, we were unable to evidence compliance with requirement one as we noted that the CFO of the Chief Constable is not a full member of the Force's Chief Officer Team (COT) and therefore could not be considered a key member of the Force's leadership team, meaning decisions may not be fully challenged or considered from a financial perspective.

If the CFO is not a full member of the COT, there is a risk that the Force are not complying with the requirements of the section 151 officer by ensuring the CFO must be a key member of the leadership team. There is a further risk that financial implications are not thoroughly considered if the CFO is not present as financial representation.

<b>Management Action 1</b>	The Force should consider the current position of the CFO of the Chief Constable within the Force's governance structure, particularly in relation to membership within the COT, to ensure the Force comply with the key requirements of the role of section 151 officer.	<b>Responsible Owner:</b> Chief Constable	<b>Date:</b> 31 January 2022	<b>Priority:</b> Medium
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**Area: CIPFA Code of Practice**

<b>Control</b>	<b>Financial Management Standard C</b> The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	<b>Assessment:</b> <b>Compliance</b> ×
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**Findings / Implications**

The Code of Practice outlines that the leadership team should comply with the Seven Principles of Public Life (also known as the Nolan Principles): selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The PFCC publishes an annual ethical declaration, which is witnessed, and states that the commissioner will act with integrity and diligence in their role and comply with the requirements of the Seven Principles of Public Life. This declaration was last published, signed, and witnessed on 12 May 2021.

There is an ethics and standards section on the Chief Constable of North Yorkshire's website, which includes a message from the Chief Constable and outlines the principles and standards of behaviour that everyone who is working in policing can aspire to. There is a link to the College of Policing's Code of Ethics, which includes detail on the Nolan principles.

Under financial management standard C, the Force is required to establish a clear framework for governance and internal control, which includes adequate governance structure, terms of references for meetings, and robust processes and controls. Whilst we were satisfied with the Force's overall governance structure, we did note that the Force has several outdated financial governance documents, such as:

- The scheme of delegation, which was last updated in April 2014;
- Financial regulations of the Commissioner, which does not include reference to the fire and rescue service and was last updated in December 2014;

## Area: CIPFA Code of Practice

- The North Yorkshire Police Contract Standing Orders, which were last updated in September 2018 (although the document name suggests a review has occurred in January 2020; however, we found no evidence of this within the document contents); and
- The Devolved Resource Management (DRM) manual of the Police, Fire and Crime Commissioner and the Chief Constable, which was last reviewed and updated in July 2016 and therefore does not include reference to the fire and rescue service.

Where financial governance documents are largely outdated and do not reflect the current structure of the Force (for example, Enable arrangements or the fire and rescue service inclusion), there is a risk that processes are not fit for purpose, are not regularly monitored, and therefore the leadership team cannot evidence compliance with the CIPFA Code of Practice standard C. This could lead to further risks of not achieving value for money or inappropriate use of public funds. The CFO of the Chief Constable acknowledged that financial governance documents are largely outdated but outlined that resources within the Finance Department to carry out a full review of these documents is currently limited, although accepts that a review of such documents must be carried out as soon as feasibly possible.

The Force use RSM as its internal audit providers and have agreed the annual internal audit plan for 2021 / 2022, which considers risks and challenges the Force faces and includes reviews of governance and internal control arrangements. The Force have a Joint Independent Audit Committee, who meet on a quarterly basis and includes an update on the Force's risk register and risk management. The JIAC terms of reference are available on the PFCC website.

<b>Management Action 2</b>	The Chief Finance Officer of the Chief Constable will allocate resource to ensure that the Force financial governance documents are reviewed and updated to reflect current governance arrangements within the Force.	<b>Responsible Owner:</b> Chief Finance Officer of the Chief Constable	<b>Date:</b> 31 October 2022	<b>Priority:</b> Medium
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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.

Area	Non Compliance with the CIPFA Code	Agreed management actions		
		Low	Medium	High
CIPFA Code of Practice	2 (17)	0	2	0
<b>Total</b>		<b>0</b>	<b>2</b>	<b>0</b>

# APPENDIX B: SCOPE

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

## Scope of the review

The internal audit assignment has been scoped to provide assurance on how the Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire manages the following area:

### Objective of the area under review

The organisations' financial regulations and underlying financial management procedures comply with the requirements set out in the Financial Management Code issued by the Chartered Institute of Public Finance Accountants (CIPFA).

## Scope of the review

A new Financial Management Code was issued by the Chartered Institute of Public Finance Accountants (CIPFA) in October 2019 and is applicable to financial years starting from 1 April 2020. This is a new requirement brought about by recent pressures faced by local authorities and concerns regarding weaknesses in financial management. Prior to this point, local government finance in the UK was governed by primary legislation, regulation and professional standards as supported by statutory provision, but the general financial management of a local authority has not until now been supported by a professional code.

Our review will focus on the following areas:

- Whether the requirements set out in the new CIPFA Code of Practice (CoP) are reflected in the organisations' financial regulations and related policies and financial management procedures in respect of each of the seven principle sections of the CoP, as follows:
  - Responsibilities of the Chief Finance Officer and leadership team;
  - Governance and financial management processes;
  - Medium to long-term financial management;
  - The annual budgeting process;
  - Stakeholder engagement and business cases;
  - Performance monitoring; and
  - External financial reporting.

- If any gaps are identified in the above points, we will discuss with management what plans are in place for their resolution, or whether any alternative process offers mitigation.

**The following limitations apply to the scope of our work:**

- Our review is to be conducted as an advisory review and as such no formal opinion will be provided.
- The scope of this review is limited to those areas examined and reported upon in the context of the objective set out for this review.
- Our review is not intended to be an audit of the financial statements of the organisation and, as such, we will not perform any testing over the accounting records of the organisations.
- Our review is also not intended to be a replacement for any external audit review of the financial statements of the organisations.
- Our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

**Debrief held** 19 October 2021  
**Draft report issued** 21 October 2021  
**Revised draft report issued** 9 November 2021  
**Responses received** 25 November 2021  
**Final report issued** 25 November 2021

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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.

Our report is prepared solely for the confidential use of the **Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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