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Home Office

FINANCIAL MANAGEMENT CODE OF PRACTICE FOR THE POLICE SERVICE OF ENGLAND AND WALES



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Presented to Parliament pursuant to Section 39A (5) of the Police Act 1996
and Section 17 (6) of the Police Reform and Social Responsibility Act 2011

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FINANCIAL MANAGEMENT CODE OF PRACTICE

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1 Introduction

1.1 Purpose of the code

This Financial Management Code of Practice (FMCP) provides clarity around the financial governance arrangements within the police service in England and Wales, and reflects the fact that the police service has a key statutory duty to secure value for money in the use of public funds. It provides high level guidance to help ensure effective and constructive relationships in all financial matters. The FMCP sets the tone while promoting flexibility and avoiding overt prescription so that the detail of arrangements can be worked out locally.

1.2 Statutory basis of the code

This FMCP comes into effect on 16 January 2012.

This FMCP is issued under section 17 of the Police Reform and Social Responsibility Act 2011 and section 39A of the Police Act 1996, which permit the Secretary of State to issue codes of practice to all Police and Crime Commissioners (“PCCs”) and the Mayor’s Office for Policing and Crime (“MOPC”) and Chief Constables. As set out in section 17(4) of the 2011 Act and section 39A(7) of the 1996 Act, PCCs, the MOPC and Chief Constables must have regard to this code in carrying out their functions.

2 Background

2.1 Scope and status of the code

This FMCP applies to the discharge of functions by all PCCs in England and Wales and, unless specifically stated, a reference in the FMCP to a PCC includes the MOPC. This FMCP applies to every Chief Constable of a police force maintained by a PCC and, unless specifically stated, a reference in the FMCP to a Chief Constable includes the Commissioner of Police of the Metropolis.

The FMCP does not apply to the Commissioner of the City of London Police or the Common Council, who continue to form the Police Authority for the City of London. However, they are encouraged to abide by the working principles of this document.

This document will be reviewed and updated at regular intervals to ensure that it reflects any significant change to the relevant legislative framework.

2.2 Hierarchy of requirements

The FMCP is one element of a comprehensive framework for financial governance within the police service which includes primary legislation, secondary legislation (including the Policing Protocol) and guidance.

2.2.1 Primary legislation

The functions of PCCs and Chief Constables in England and Wales are set out in the Police Reform and Social Responsibility Act 2011, and in the Acts amended by that Act. The relevant Acts amended by the Police Reform and Social Responsibility Act include the Local Government Finance Act 1988 and the Police Act 1996.

2.2.2 Policing Protocol

The Policing Protocol issued by the Home Secretary by means of the Policing Protocol Order 2011 sets out to all PCCs, Chief Constables and Police and Crime Panels (including the London Assembly Police and Crime Panel) how their functions will be exercised in relation to each other. It sets out the high level financial responsibilities of the PCC and the Chief Constable, making clear that the former is ultimately accountable to the public for the management of the Police Fund while the latter has day to day responsibility for managing their allocated budgets after these have been approved by the PCC. This FMCP builds on the Policing Protocol and sets out the working financial relationship between the PCC and the Chief Constable and their respective Chief Finance Officers, having regard also to the role performed by the PCC's Chief Executive.

2.2.3 Other requirements and guidance

A considerable amount of existing secondary legislation and guidance on financial matters will continue to apply to the police service in England and Wales. This includes:

- the Accounts and Audit (England) Regulations 2011 issued by the Department for Communities and Local Government which sets the financial reporting framework for local government bodies, including police bodies;
- Accounts and Audit (Wales) Regulations 2005 issued by the Welsh Government;
- the Code of Practice on Local Authority Accounting issued by CIPFA /LASAAC, which constitutes proper practices for local government bodies, including police bodies;
- Code of Practice for Internal Audit in Local Government in the United Kingdom issued by CIPFA;
- Delivering Good Governance in Local Government issued by CIPFA/SOLACE;
- Statement on the Role of the Chief Finance Officer issued by CIPFA
- Standing Guide to Commissioning Local Authority Work and Services issued by CIPFA;
- Prudential Code for Capital Finance in Local Authorities issued by CIPFA; and
- Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes issued by CIPFA.

This FMCP supplements but does not replace the requirements arising from these documents. In addition, organisations including CIPFA are likely to publish additional and updated accounting guidance. This will also apply to the police service in England and Wales.

3 Context

As set out in the Policing Protocol, each PCC and their respective Chief Constable is established in law as a corporation sole under the Police Reform and Social Responsibility Act 2011. As such, both are enabled by law to employ staff and hold funds in their official capacity. Chief Constables are charged with the impartial direction and control of all constables and staff within the police force that they lead. Staff of the PCC are accountable to the directly elected holder of that office.

The relationship between the PCC and Chief Constable is defined by the PCC's democratic mandate to hold the Chief Constable to account, and by the law itself: primary legislation and common law already provide clarity on the principles that underpin police operational independence and the Office of Constable.

3.1 The Police and Crime Commissioner

The PCC within each force area has a statutory duty and electoral mandate to ensure an efficient and effective police service and to hold the police to account on behalf of the public. The PCC is the recipient of funding relating to policing and crime reduction, including government grant and precept and other sources of income. Details of the local arrangements relating to income, such as that collected under section 25 of the Police Act 1996, should be set out in local schemes of consent. How this money is allocated is a matter for the PCC in consultation with the Chief Constable, or in accordance with any grant terms. The statutory officers of the Chief Constable and the PCC will provide professional advice and recommendations.

Under paragraph 6 of Schedule 1 to the Police Reform and Social Responsibility Act 2011, every PCC outside London is required to appoint a person to be responsible for the proper administration of the commissioner's financial affairs, referred to as the Chief Finance Officer. An identical duty is placed on the MOPC by section 127 of the Greater London Authority Act 1999. Schedules 1 and 3 to the Act also require PCCs to appoint a Chief Executive who also acts as the PCC's monitoring officer.

3.2 The Chief Constable

The Chief Constable is responsible for maintaining the Queen's Peace, and has direction and control over the force's officers and staff. The Chief Constable holds office under the Crown, but is appointed by the PCC outside London (the Commissioner and Deputy Commissioner of Police of the

Metropolis are appointed by the Queen on the recommendation of the Home Secretary).

The Chief Constable is accountable to the law for the exercise of police powers, and to the PCC for the delivery of efficient and effective policing, management of resources and expenditure by the police force. At all times the Chief Constable, their constables and staff, remain operationally independent in the service of the public.

Under paragraph 4 of Schedule 2 and paragraph 1 of Schedule 4 to the Police Reform and Social Responsibility Act 2011, the Chief Constable is required to appoint a person to be responsible for the proper administration of the Chief Constable's financial affairs, referred to as the police force's Chief Finance Officer.

4 Roles and responsibilities

The Chief Finance Officer of the PCC and of the Chief Constable each has a personal fiduciary duty by virtue of their appointment as the person responsible for proper financial administration under the Police Reform and Social Responsibility Act 2011. This includes requirements and formal powers to safeguard lawfulness and propriety in expenditure (section 114 of the Local Government Finance Act 1988, as amended by paragraph 188 of Schedule 16 to the Police Reform and Social Responsibility Act 2011).

The Chief Executive is designated as the Monitoring Officer for the purposes of section 5(1) of the Local Government and Housing Act 1989 with responsibility for ensuring the legality of the actions of the PCC and the PCC's staff (see paragraph 202 of Schedule 16 to the 2011 Act, which amends section 5 of the 1989 Act).

An effective, cooperative and constructive working relationship between the two Chief Finance Officers is fundamental and is more likely to be achieved where communication and clarity of understanding are at their highest. Mutual understanding of and respect for each party's statutory functions will serve to enhance policing for local communities. It is expected that the principles of goodwill, professionalism, openness and trust will underpin the relationship and that all parties will do their utmost to make the relationship work. It is also acknowledged that good relationships between the Chief Finance Officers and the Chief Executive are fundamentally important and need to be underpinned by the same principles.

The statutory duties of both Chief Finance Officers are largely identical and this Code is the mechanism for guiding how they should operate effectively and without conflict, to reflect the legal and financial implications of having two corporations sole.

Both Chief Finance Officers have a fiduciary duty to the local taxpayer as both have a responsibility for securing the efficient use of public funds (which will in both cases include revenue derived from the police precept). This implies

public reporting responsibilities in certain circumstances for both Chief Finance Officers. However, given that the PCC has a statutory responsibility for the Police Fund (as set out in section 21 of the Police Reform and Social Responsibility Act 2011) the Chief Finance Officer of the PCC will have responsibility for all statutory reports relating to the adequacy of the overall resource envelope available to meet police force expenditure.

There is a reciprocal fiduciary duty on both Chief Finance Officers to support the other in the execution of their duties in relation to policing matters. It is therefore recommended that if either of the Chief Finance Officers intends to exercise their statutory powers under section 114 of the 1988 Act, they should inform the other (as well as the Chief Executive) as soon as possible.

4.1 Chief Finance Officer of the Police and Crime Commissioner

The statutory responsibilities of the Chief Finance Officer of the PCC are set out in paragraph 6 of Schedule 1 to the Police Reform and Social Responsibility Act 2011, section 127 of the Greater London Authority Act 1999 (in the case of the Mayor's Office for Policing and Crime) and section 114 of the Local Government Finance Act 1988. The qualifications for the Chief Finance Officer are set out in section 113 of the Local Government Finance Act 1988. The Accounts and Audit (England) Regulations 2011 impose further responsibilities in England. The Accounts and Audit (Wales) Regulations 2005 apply in Wales. Taken together, and considered in the context of the Police Reform and Social Responsibility Act 2011 and its associated Policing Protocol, these mean that the Chief Finance Officer of the PCC is responsible for:

- ensuring that the financial affairs of the PCC are properly administered and that financial regulations are observed and kept up to date;
- ensuring regularity, propriety and Value for Money (VfM) in the use of public funds;
- ensuring that the funding required to finance agreed programmes is available from Central Government and Welsh Government funding, precept, other contributions and recharges;
- reporting to the PCC, the Police and Crime Panel and to the external auditor any unlawful, or potentially unlawful, expenditure by the PCC or officers of the PCC;
- reporting to the PCC, the Police and Crime Panel and to the external auditor when it appears that expenditure is likely to exceed the resources available to meet that expenditure;
- advising the PCC on the robustness of the budget and adequacy of financial reserves;
- ensuring production of the statements of accounts of the PCC;
- ensuring receipt and scrutiny of the statements of accounts of the Chief Constable and ensuring production of the group accounts;
- liaising with the external auditor (see section 11.1.2 of this document);

- advising the PCC on the application of value for money principles by the police force to support the PCC in holding the Chief Constable to account for efficient and effective financial management; and
- advising, in consultation with the Chief Executive, on the safeguarding of assets, including risk management and insurance.

The Chief Finance Officer of the PCC has certain statutory duties which cannot be delegated, namely, reporting any potentially unlawful decisions by the PCC on expenditure and preparing each year, in accordance with proper practices in relation to accounts, a statement of the PCC's accounts, including group accounts.

The Chief Finance Officer of the PCC is the PCC's professional adviser on financial matters. To enable them to fulfil these duties and to ensure the PCC is provided with adequate financial advice the Chief Finance Officer of the PCC:

- must be a key member of the PCC's Leadership Team, working closely with the Chief Executive, helping the team to develop and implement strategy and to resource and deliver the PCC's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all strategic business decisions, of the PCC, to ensure that the financial aspects of immediate and longer term implications, opportunities and risks are fully considered, and alignment with the PCC's financial strategy;
- must lead the promotion and delivery by the PCC of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively; and
- must ensure that the finance function is resourced to be fit for purpose.

4.2 Police Force Chief Finance Officer

The statutory responsibilities of the Police Force Chief Finance Officer are largely identical to those of the Chief Finance Officer of the PCC. They are set out in paragraph 4 of Schedule 2 and paragraph 1 of Schedule 4 to the Police Reform and Social Responsibility Act 2011 and section 114 of the Local Government Finance Act 1988. The qualifications for the Chief Finance Officer are set out in section 113 of the Local Government Finance Act 1988, The Accounts and Audit (England) Regulations 2011 impose further responsibilities. The Accounts and Audit (Wales) Regulations 2005 apply in Wales. Taken together, and considered in the context of the Police Reform and Social Responsibility Act 2011 and its associated Policing Protocol, these mean that the Police Force Chief Finance Officer is responsible for:

- ensuring that the financial affairs of the force are properly administered and that financial regulations drawn up by the PCC (developed in close consultation with the Chief Constable, the two Chief Finance Officers and the Chief Executive), are observed and kept up to date;

- reporting to the Chief Constable, the PCC and the external auditor, any unlawful, or potentially unlawful, expenditure by the Chief Constable or officers of the Chief Constable;
- reporting to the Chief Constable, the PCC and the external auditor when it appears that expenditure of the Chief Constable is likely to exceed the resources available to meet that expenditure;
- advising the Chief Constable on value for money in relation to all aspects of the force's expenditure;
- advising the Chief Constable and the PCC on the soundness of the budget in relation to the force;
- liaising with the external auditor (see section 11.1.2 of this document);
- producing the statement of accounts for the Chief Constable; and
- providing information to Chief Finance Officer of the PCC as required to enable production of group accounts.

The Police Force Chief Finance Officer has certain statutory duties which cannot be delegated, namely, reporting any potentially unlawful decisions by the force on expenditure and preparing each year, in accordance with proper practices in relation to accounts, a statement of the Chief Constable's accounts. The Police Force Chief Finance Officer will need to observe the locally agreed timetable for the compilation of the group accounts by the PCC.

The Police Force Chief Finance Officer is the Chief Constable's professional adviser on financial matters. To enable them to fulfil these duties the Police Force Chief Finance Officer:

- must be a key member of the Chief Constable's Command Team, helping it to develop and implement strategy and to resource and deliver the PCC's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all strategic business decisions of the Chief Constable to ensure immediate and longer term implications, opportunities and risks are fully considered;
- must lead the promotion and delivery by the Chief Constable of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively; and
- must ensure that the finance function is resourced to be fit for purpose.

4.3 Information sharing

As set out in section 36 of the Police Reform and Social Responsibility Act 2011, a Chief Constable must give the relevant PCC such information on policing matters that the body may require. As a result the Chief Finance Officer of the PCC must have full access to all relevant financial information. The details of this should be set in a locally agreed Information Sharing Protocol (ISP) to be agreed by the two Chief Finance Officers in consultation with the Chief Executive.

Wherever possible, any duplication of work and data collection by the finance functions of the two corporations should be minimised. Where possible it is recommended that the two corporations should share a financial system.

Additional costs and effort resulting from time consuming and complex bureaucratic financial reporting between the two bodies should be avoided and the principle of good governance and added value activities should be retained.

5 Schemes of consent

A scheme of consent should be prepared by the PCC, advised by the Chief Finance Officer of the PCC in consultation with the Chief Executive, the Chief Constable and the Police Force Chief Finance Officer, at the start of each financial year. This Scheme should be reviewed and amended in consultation with, and on the advice of, these same people as appropriate. The purpose of this Scheme is to set out the extent of, and any conditions attaching to, the PCC's consent to the Chief Constable's exercise of the powers to enter into contracts and acquire or dispose of property.

However, the Scheme also provides an opportunity to set out in more detail, should it be deemed necessary, any terms on which the respective functions of the PCC and the Chief Constable will be exercised in order to achieve the objectives set out in the PCC's Police and Crime Plan. The Scheme should therefore, as a minimum, set out how:

- the PCC expects the funds provided to the Chief Constable for policing to be applied;
- the PCC will hold the Chief Constable to account for the day to day management of those funds;
- the Chief Constable will carry out their duty to assist in the exercise of the PCC's functions;
- the Chief Constable will exercise their power to do anything calculated to facilitate the exercise of their own functions; and
- the PCC will exercise their power to delegate the exercise of their functions to their own staff.

6 Financial regulations and standing orders on contracts

Each PCC should draw up and adopt a single set of standing orders relating to contracts as well as detailed financial regulations. These will complement the schemes of consent. The standing orders and financial regulations together will govern the relationship between the PCC and the Chief Constable in financial matters and should be developed in close consultation with the Chief Constable, the two Chief Finance Officers and the Chief Executive.

It is recommended that the financial regulations should:

- ensure that the financial dealings of the PCC and of the Chief Constable are conducted properly and in a way which incorporates recognised best practice (as set out in guidance published by relevant bodies) and which

focuses on bringing operational and financial management together with accurate, complete and timely financial information; and

- include sufficient safeguards for both Chief Finance Officers who are responsible for ensuring that the financial affairs of the force and of the PCC are properly administered to discharge properly their statutory obligations.

7 Accounting

7.1 Arrangements for producing accounts

The responsibilities for producing accounts are set out in sections 4.1 and 4.2 of this document. The Chief Finance Officer of the PCC will set out the arrangements for the production of the group accounts. The Police Force Chief Finance Officer is responsible for producing the Chief Constable's accounts in accordance with the timetable and requirements of the group accounts as agreed locally and in accordance with the financial reporting framework.

7.2 Reserves and provisions

The PCC should establish a policy on reserves (including how they might be used by the Chief Constable) and provisions in consultation with the Chief Constable. This should have due regard to the need to ensure the ongoing funding of policing activities and the requirement to meet exceptional or extraordinary policing operations.

General reserves should be held by the PCC and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process (see section 8.1 of this document).

Locally agreed financial regulations and schemes of consent should:

- contain full details of how the reserves and provisions policy will operate locally;
- ensure that the annual budget (see section 8.2 of this document) includes a realistic amount of operational contingency that is available to the Chief Constable for operational priorities without the need for additional approval; and
- make provision for budgets to be carried forward from one financial year to the next.

8 Strategic and financial planning

8.1 Medium term financial strategy

The PCC and the Chief Constable share a responsibility to provide effective financial and budget planning for the short, medium and longer term. The financial regulations should include the requirement for the PCC, in consultation with the Chief Constable, to identify and agree a medium term financial strategy which includes funding and spending plans for both revenue and capital. The strategy should take into account multiple years, the inter-dependencies of revenue budgets and capital investments, the role of reserves and the consideration of risks. It should have regard to affordability and also to CIPFA's Prudential Code for Capital Finance in Local Authorities. The strategy should be aligned with the Police and Crime Plan.

8.2 Budget preparation

The PCC should consult with the Chief Constable in planning the overall annual budget which will include a separate force budget. This will take into consideration funding from government and from other sources, and balance the expenditure needs of the policing service against the level of local taxation. This should meet the statutory requirements to achieve a balanced budget (Local Government Act 2003) and be completed in accordance with the statutory timeframe.

The impact of the annual budget on the priorities and funding of future years as set out in the Police and Crime Plan and the medium term financial strategy (see section 8.1 of this document) should be clearly identified.

As set out in section 96 of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC must obtain the views of the local community on the proposed expenditure (including capital expenditure) in the financial year ahead of the financial year to which the proposed expenditure relates.

8.3 Precept

Part 1 of the Local Government Finance Act 1992 and Part 3 of the Greater London Authority Act 1999 continue to set out the process for issuing precepts. Section 26 of the Police Reform and Social Responsibility Act 2011 establishes the PCC as a precepting authority for the purposes of the 1992 Act. The role of the Police and Crime Panel in this process, in a police area outside London, is set out in Schedule 5 to the Police Reform and Social Responsibility Act 2011. This is supplemented by regulations.

9 Financial management

9.1 Day to day financial management

To help ensure the effective delivery of policing services and to enable the Chief Constable to have impartial direction and control of all constables and staff within their force, the Chief Constable should have day to day responsibility for financial management of the force within the framework of the agreed budget allocation and levels of authorisation issue by the PCC.

The Chief Constable must ensure that the financial management of their allocated budget remains consistent with the objectives and conditions set by the PCC. The Chief Constable will discharge this through the Police Force Chief Finance Officer who will lead for the force on financial management.

When the Chief Constable intends to make significant change of policy or seeks to move significant sums of their budget then the approval of the PCC should be sought. Full details should be set out in locally agreed financial regulations.

9.2 Asset management

The PCC will initially own and fund all assets regardless of whether they are used by the PCC, by the force or by both bodies. However, with consent from the PCC, Chief Constables can acquire property (other than land or buildings) and this should be set out in the scheme of consent.

The Chief Constable is responsible for the direction and control of the force and should therefore have day-to-day management of all assets used by the force. The accounting for assets should comply with accounting standards as set out in the financial reporting framework in section 2.2 of this document.

As set out in sections 8.2 and 8.1 of this document, the PCC should consult the Chief Constable in planning the budget and developing a medium term financial strategy. Both these processes should involve a full assessment of the assets required to meet operational requirements, including in terms of human resources, infrastructure, land, property and equipment.

9.3 Property, contracts and procurement

The PCC has overall responsibility for property and contracts but with consent from the PCC, the responsibility for carrying out the daily administration of property and contracts can be carried out by the Chief Constable or staff of the Chief Constable. In addition, with consent from the PCC, Chief Constables can enter into contracts. Any such arrangements should be set out in the scheme of consent.

9.3.1 Property

The financial impact of plans for the significant rationalisation or expansion of the estate, and provision for maintenance, should be included in the medium term financial strategy. The budget and policing plan issued by the PCC

should contain the revenue, capital and funding impacts along with the operational impact of estate changes.

The financial regulations and standing orders relating to contracts should contain provisions for the purchase and disposal of property, including estate, land and other assets.

9.3.2 Contracts and procurement

The standing orders relating to contracts should cover procedures for procurement, tenders and contracts.

The single set of standing orders relating to contracts should include tender thresholds and authorisation levels. These should comply with statutory requirements including EU procurement rules and comply with the statutory regulations for the provision of certain equipment and services for police purposes. Ensuring value for money should be a key consideration.

Further advice on contracting and procurement is set out in CIPFA's Joint Committee Standing Guide to the Commissioning of Local Authority Work and Services).

Regulations about the provision of equipment or services for police purposes may specify framework agreements or other contractual arrangements that must be used (the first such Regulations were The Police Act 1996 (Equipment) Regulations 2011). Where mini-tender exercises are conducted within such frameworks, the basis for acceptance should normally be that the tender provides the best overall value for money.

9.4 Virements

The financial regulations of the PCC should cover the extent to which the Chief Constable may vire money, including for emergency operational requirements, along with arrangements for how this should be controlled and monitored.

The Chief Constable should only be required to refer back to the PCC when virement would incur substantive changes in the policy of the PCC or where a virement might create a future year or continuing commitment. The thresholds for referrals should be agreed and set out in the financial regulations. Revenue expenditure can only be funded from revenue funding.

10 Treasury management

10.1 Banking

The financial regulations should cover banking arrangements and the Chief Finance Officer of the PCC should be responsible for these. For reasons of VfM and to minimise duplication, it is recommended that the PCC and Chief

Constables have shared banking arrangements for their main banking requirements.

The Police Force Chief Finance Officer should ensure that the procedures for any covert accounts required for operational policing purposes are maintained in accordance with clear procedures set by them and approved by the Chief Finance Officer of the PCC. These should be subject to normal internal and external audit requirements.

10.2 Loans and investment

The PCC is directly responsible for loans, investments and for borrowing money as he/she holds the Police Fund. The Chief Constable is not able to borrow money. It is recommended that any surplus funds be pooled and invested.

Within the policy agreed locally, the Chief Finance Officer of the PCC should decide what investments are to be made and approve any borrowing¹. Through the locally agreed financial regulations and scheme of consent, the daily management of loans and investment work could be undertaken by the Police Force Chief Finance Officer.

All loans and investments should be arranged in line with best practice as embodied in the CIPFA Code of Practice on Treasury Management. All borrowing undertaken should comply with CIPFA's Prudential Code for Capital Finance in Local Authorities.

11 Corporate governance

The PCC and the Chief Constable should ensure that the principles of good governance are embedded in the way in which the PCC and the force operate. This should be set out in an annual governance statement published with the Statement of Accounts.

Best practice corporate governance includes the consideration of Internal Audit and External Audit reports along with reports by Her Majesty's Inspectorate of Constabulary (HMIC) and other external inspectorates as important tools to establish and refresh governance arrangements and ensure that these are effective. There is a statutory duty to consider and respond to HMIC reports (Police Act 1996 Section 55 (5)) as well as the duty to maintain an internal audit function and respond to reports of the external auditor.

11.1 Audit

11.1.1 Internal audit

¹ Operating under sections 43-7 and 66 of the Local Government and Housing Act 1989 and associations regulations.

The PCC and the Chief Constable are required to maintain effective internal audit of their affairs by the Accounts and Audit (England) Regulations 2011 and the Accounts and Audit (Wales) Regulations 2005. In fulfilling this requirement the PCC and Chief Constable should have regard to the Code of Practice for Internal Audit in Local Government in the United Kingdom issued by CIPFA. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

In addition to enabling the PCC and the Chief Constable to fulfil their requirements in relation to the relevant Accounts and Audit Regulations, internal Audit is needed:

- to satisfy the PCC and the Chief Constable that effective internal control systems are in place; and
- to satisfy the external auditor that financial systems and internal controls are effective and that the Police Fund is managed so as to secure value for money.

PCCs and Chief Constables should look to minimise duplication and bureaucracy and to maximise VfM when designing their internal audit arrangements. PCCs and Chief Constables are therefore recommended to have a shared internal audit service which would cover both bodies. The details of audit arrangements should be agreed locally.

The Head of Internal Audit should draw up the audit plan in consultation with the PCC and the force for consideration by the Audit Committee (see section 11.1.3 of this document). How internal audit reports are to be received, distributed and followed up should be set out in this plan. External auditors should be granted full access to all internal audit reports.

11.1.2 External audit

The Audit Commission is responsible for the appointment of external auditors in England to bodies subject to audit under the Audit Commission Act 1998. The Code of Audit Practice prescribes the way in which auditors appointed by the Audit Commission carry out their functions under the Audit Commission Act 1998.

In auditing accounts required to be audited in accordance with the Audit Commission Act 1998, the appointed auditor is required to satisfy themselves that:

- the accounts are prepared in accordance with the relevant regulations;
- they comply with the requirements of all other statutory provisions applicable to the accounts;
- proper practices have been observed in the compilation of the accounts;
- and

- the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness.

The 'relevant regulations' for police bodies are the Accounts and Audit Regulations 2011, issued by the Secretary of State for Communities and Local Government. The CIPFA/LASAAC IFRS-based Code of Practice on Local Authority Accounting constitutes 'proper practices'

The Auditor General for Wales (the Auditor General) is responsible for the appointment of external auditors to bodies subject to audit under the Public Audit (Wales) Act 2004 (the 2004 Act). Auditors plan and undertake their audit in accordance with the requirements of the 2004 Act and the Code of Audit Practice issues by the Auditor General.

Section 17 of the 2004 Act requires that the auditor appointed under the 2004 Act must satisfy themselves that:

- the annual accounting statements have been prepared in accordance with the Accounts and Audit (Wales) Regulations;
- they comply with all relevant regulations;
- proper practices have been observed when the accounts were compiled; and
- the body has made proper arrangements to secure effectiveness, efficiency and economy in use of resources.

The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 define the CIPFA/LASAAC IFRS-based Code of Practice on Local Authority Accounting as proper practices for the preparation of accounts for police bodies in Wales.

The PCC should use the reports of external auditors to aid it in its monitoring role. The CFO of the PCC should send the Home Office copies of these reports each year.

11.1.3 Audit committees

The PCC and the Chief Constable should establish an independent Audit Committee. It is recommended that this be a combined body which will consider the internal and external audit reports of both the PCC and the Chief Constable. This committee will advise the PCC and the Chief Constable according to good governance principles and to adopt appropriate risk management arrangements in accordance with proper practices. In setting up the Audit Committee, the PCC and the Chief Constable should have regard to the CIPFA Guidance on Audit Committees.²

Membership: the Audit Committee should comprise between three and five members who are independent of the PCC and the force.

Terms of Reference: the Audit Committee should establish formal terms of reference, covering its core functions, which should be formally adopted and

² Audit Committees: Practical Guidance for Local Authorities, CIPFA, 2005

reviewed on an annual basis. Best practice principles should be considered in determining the activities of the Audit Committee.³

PCC and Chief Constable representation: the executive of the PCC and the Force Command Team should be represented at meetings of the Audit Committee.

12 Value for Money

The Chief Constable has a specific statutory duty under section 35 of the Police Reform and Social Responsibility Act 2011 to secure that they and the persons under their direction and control secure good value for money in exercising their functions. The PCC is required by section 1(8) and 3(8) of the 2011 Act to hold the Chief Constable to account, in particular, for their compliance with this duty. Achieving value for money bears on nearly all aspects of deployment of public resources: procurement, asset management, disposals, administrative systems and financing arrangements. It means finding solutions which achieve the best mix of quality and effectiveness for least outlay. This may not always mean choosing the immediately cheapest option since, for instance, it may be more cost effective to buy a more reliable service or a better quality asset with lower maintenance costs and a longer operating life. Additional notes on the scope of value for money are included at Annex B of this document.

As set out in section 4 of this document, the Chief Finance Officer of the PCC and the Police Force Chief Finance Officer are required to advise the PCC and Chief Constable respectively on value for money in relation to all aspects of PCC and Chief Constable/force expenditure.

13 Transparency

PCCs are required to publish the information that they consider necessary to enable the local public to assess their performance and that of the Chief Constable. In addition they are required to publish particularly information specified by the Home Secretary in the Elected Local Policing Bodies (Specific Information) Order 2011 and in regulations issued under section 11 of the Police Reform and Social Responsibility Act 2011.

14 Collaboration

Under sections 22A to 22C of the Police Act 1996 as inserted by section 89 of the Police Reform and Social Responsibility Act 2011, Chief Constables and PCCs have the legal power and duty to enter into collaboration agreements to improve the efficiency or effectiveness of one or more police force or PCCs. Any collaboration which relates to the functions of a police force must first be agreed with the Chief Constable of the force concerned. PCCs shall hold their

³ The HM Treasury Audit Committee handbook includes principles of good practice http://www.hm-treasury.gov.uk/audit_committee_handbook.htm

Chief Constable to account for any collaboration in which the force is involved and must consider doing so in co-operation with the other PCCs concerned. Existing collaboration agreements made under the old section 23A of the 1996 Act will be transferred automatically from police authorities to PCCs under the terms of paragraphs 5 and 21 of Schedule 15 to the 2011 Act.

15 Partnerships

As set out in section 10 of the Police Reform and Social Responsibility Act 2011, the PCC, in exercising its functions, must have regard to the relevant priorities of each responsible authority. Subject to the constraints that may be placed on individual funding streams, PCCs are free to pool funding as they and their local partners see fit. PCCs can enter into any local contract for services, individually or collectively with other local partners, including non-police bodies.

When the PCC acts as a commissioner of services, it will need to agree the shared priorities and outcomes expected to be delivered through the contract or grant agreement with each provider. The PCC is able to make un-ringfenced crime and disorder grants in support of local priorities. The inclusion of detailed grant conditions directing local authorities how to spend funding need not be the default option. The power to make crime and disorder grants with conditions is contained in section 9 of the Police Reform and Social Responsibility Act 2011. The power to contract for services is set out in paragraph 14 of Schedule 1 and paragraph 7 of Schedule 3 to the Police Reform and Social Responsibility Act 2011.

Annex A: Additional detail on income and pensions

Income

(a) Gifts, loans, sponsorships and trust funds

A PCC may decide to accept gifts of money, gifts or loans of other property if they will enable the police either to enhance or extend the service which they would normally be expected to provide. The terms on which gifts or loans are accepted may allow commercial sponsorship of some police force activities. Gifts, loans and sponsorship are particularly suitable for multi-agency work such as crime prevention, community relations work, and victim support schemes.

Gifts, loans and sponsorship can be accepted from any source which has genuine and well intentioned reasons for wishing to support specific projects. In return, the provider may expect some publicity or other acknowledgement. It is acceptable to allow the provider to display the organisation's name or logo on publicity material, provided this does not dominate or detract from the purpose of the supported project. The financial regulations should include further details on the conditions in which gifts, loans and sponsorship are acceptable and the ways in which these would be administered

The financial regulations should include detailed arrangements governing authorisation, setup, management and governance of any trust funds administered by the PCC or the Chief Constable as well as any charities or social enterprises linked to either the PCC or Chief Constable.

(b) Bribery Act 2010

The Bribery Act 2010 came into Force from 1 July 2011. Under the Act there are a range of issues and offences for organisations to consider including a duty for organisations to put procedures in place to prevent persons associated with them from participating in bribing. PCCs and Chief Constables are responsible for ensuring that adequate procedures exist to comply with the requirements of the Act.

(c) Income generation

The PCC and Chief Constable should adopt the ACPO national charging policies and national guidance when applying charges under section 25 of the Police Act 1996. It should keep in mind that the purpose of charging for special services is to ensure that, wherever appropriate, those using the services pay for them.

PCCs should ensure that there are arrangements in place to ensure that expected charges are clearly identified in their budgets and that costs are accurately attributed and charged. When considering budget levels PCCs should ensure that ongoing resource requirements are not dependant on

uncertain or volatile income sources and should have due regard to sustainable and future year service delivery.

When specifying resource requirements the Chief Constable will identify the expected income from charging. The Chief Constable should adopt ACPO charging policies in respect of mutual aid.

Pensions

(a) Police officer pensions

Police officer pensions are governed by the Police Pensions Act 1976 (as amended) and its related regulations. Of particular relevance to financial management are the Police Pension Fund Regulations 2007. The Chief Constable is responsible for ensuring the administration of the pension schemes and the appropriate maintenance and provision of the relevant accounts. The role of the PCC in the pension schemes will be limited to specific decisions and discretions concerning the pension and retirement of the Chief Constable, and discretion on the application of pension forfeiture for all police officers. The Home Office is responsible for the maintenance of the regulations.

The Chief Constable is responsible for ensuring that accurate and up to date information is provided to the Home Office on the force's pensions account and future forecasts for police pensions income and expenditure. This information is sought on a regular basis, following an annual cycle. Information should be provided in line with obligations set out in the relevant regulations, in the form and at the time which is specified in relevant requests from the Home Office.

(b) Police staff pensions

Outside London the pensions arrangements of police staff of the PCC and of the Chief Constable are provided through the Local Government Pension Scheme (LGPS) which is governed by the LGPS (Benefits, Membership and Contributions) Regulations 2007 and the LGPS (Administration) Regulations 2008 under section 7 of the Superannuation Act 1972. The Department for Communities and Local Government is responsible for the maintenance of these regulations. The LGPS is administered at a local level in England and Wales by 89 administering authorities, all of which are responsible for individual funds. Each administering authority must prepare a pension fund annual report including information on the management and financial performance of each of the pension funds maintained by the authority and the fund account and net asset statement.

The Chief Constable is responsible for ensuring the administration of the LGPS pension scheme and the appropriate maintenance and provision of the relevant accounts. The role of the PCC in the LGPS pension schemes will be limited to specific decisions and discretions concerning the pension and

retirement of the PCC staff and discretion on the application of pension forfeiture

The pensions arrangements of civilian staff of the Mayor's Office for Policing and Crime and of the Commissioner of Police of the Metropolis are provided through the Principle Civil Service Pension Scheme (PCSPS) which is governed by sections 1 - 6 of the Superannuation Act 1972, and the PCSPS Rules (which are made and amended under section 1 of the 1972 Act).

Annex B: Value for Money

*Managing Public Money*⁴ defines value for money as: the process under which an organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, value and avoidance of error and other waste, judged for the public sector as a whole.

This places a responsibility on the PCC and the Force to put in place proper arrangements to secure value for money in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control. The PCC and the Force should be able to satisfy the following principles which are set out in HMT's Managing Public Money guidance:

- i. The process for allocating resources against desired outcomes is transparent and based on clear, quantified evidence;
- ii. Risks to performance, improving processes and productivity are assessed. This is used to target improvement activity or develop contingency plans;
- iii. Services and support functions are tested against appropriate benchmarks to identify and tackle excessive costs or weak performance;
- iv. Public demand for services is understood and quantified, and informs deployment of staff;
- v. Staff are used efficiently. Programmes to minimise waste and increase employee engagement are in place to support this (most likely through Continuous Improvement);
- vi. End-to-end operational processes are focused on delivering for the customer, with data used to demonstrate this. Processes are streamlined, unbureaucratic and efficient;
- vii. Goods and services are procured and supply contracts are then managed in a way that maximises value, including through taking advantage of central or collaborative procurement where appropriate;
- viii. Data is fit for its intended purpose and are used and published routinely, providing clear line of sight between consumption of resources, production of outputs and realisation of outcomes.

⁴ http://www.hm-treasury.gov.uk/d/mpm_whole.pdf

Annex C: Glossary

Chief Constable:

This term is used to describe both Chief Constables appointed under section 2 of the Police Reform and Social Responsibility Act 2011 and the Commissioner of the Metropolis appointed under section 4 of that Act. Section 101 of the 1996 Act includes the Commissioner of Police for the City of London in the definition of a Chief Constable; however, this Code is not intended to apply to the City of London police force.

Chief Executive:

This term is used to describe the officer appointed as the head of the PCC's staff with responsibility for its general administration. This appointment is made under Schedule 1 (or Schedule 3) to the Police Reform and Social Responsibility Act 2011. For the purposes of section 5(1) of the Local Government and Housing Act 1989 (as amended by Reform and Social Responsibility Act 2011) the Chief Executive is designated as the body's monitoring officer with responsibility for ensuring the legality of the actions of the policing body and its officers.

Financial regulations:

This term is used to describe the regulations drawn up by the PCC, and developed in close consultation with the Chief Constable, the two Chief Finance Officers and the Chief Executive, to govern the respective responsibilities of the PCC and force on financial matters and the relationship between them in such matters.

Force:

This term refers to all those working for the Chief Constable. It covers both police officers and civilian staff. This use goes beyond the legal definition of a force (which applies only to those with the status of a constable) but is employed in this document for the sake of brevity and simplicity.

Local Policing Body:

This refers to PCCs (including the MOPC) and the Common Council of the City of London.

Mayor's Office for Policing and Crime (MOPC):

This term refers to the office held by the Mayor of London giving the Mayor responsibility for the totality of policing within the Metropolitan Police District.

Police and Crime Commissioner (PCC):

This term refers to the directly elected individual within each force area in England and Wales with the exception of the City of London and the metropolitan police district with responsibility for the totality of policing within their force area.

Police and Crime Commissioner (PCC):

All PCCs in England and Wales and, unless specifically stated, a reference in the FMCP to a PCC includes the MOPC

Police and Crime Panel:

This term refers to the body established in each police area (other than the metropolitan police district) to support the effective exercise of the function of the Police and Crime Commissioner. In London, the London Assembly must arrange for the functions of a Police and Crime Panel to be discharged on its behalf by a particular committee of the Assembly.

Police Fund:

This term describes the single fund held by the PCC which is used to fund both the PCC itself and the force.

Policing Protocol:

The Policing Protocol is a document issued by the Home Secretary by means of the Policing Protocol Order 2011 which sets out to all PCCs, Chief Constables, Police and Crime Panels and the London Assembly Police and Crime Panel how their functions will be exercised in relation to each other.

Standing orders relating to contracts:

These standing orders, drawn up by the PCC and developed in close consultation with the Chief Constable, the two Chief Finance Officers and the Chief Executive, govern the handling of contracts and the relative responsibilities of the PCC and the force. These standing orders should be distinguished from the standing orders relating to the procedures of the PCC.



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