

Interim Auditor's Annual Report on The Police and Crime Commissioner for Lancashire and The Chief Constable of Lancashire Constabulary

2021/22

May 2023



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive summary	03
Opinion on the financial statements and use of auditor's powers	07
Key recommendations	08
Commentary on the Police and Crime Commissioner (PCC) and Chief Constable's (CC) arrangements to secure economy, efficiency and effectiveness in its use of resources	11
Financial sustainability	12
Improvement recommendations	15
Governance	16
Improvement recommendations	18
Improving economy, efficiency and effectiveness	19
Follow-up of previous recommendations	21
Opinion on the financial statements	22
Appendices	
Appendix A – Responsibilities of the PCC and CC	24
Appendix B – Risks of significant weaknesses, our procedures and findings	25
Appendix C – An explanatory note on recommendations	26
Appendix D – Key acronyms and abbreviations	27

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Executive summary






Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Police and Crime Commissioner (PCC) and Chief Constable (CC) have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their commentary on the PCC and CC's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the PCC and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources. Our conclusions are summarised in the table below.

The Police and Crime Commissioner and Chief Constable of Lancashire are together responsible for policing across the county of Lancashire. Lancashire Constabulary serves a population of 1.5m people, living in an area that covers 1,187 square miles and receives not only 53,000 students per year but in areas, such as Blackpool, at least 20m tourists per annum.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.	No significant weaknesses in arrangements identified, but improvement recommendations made.	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified	No significant weaknesses in arrangements identified, but improvement recommendations made.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified.	↔

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

Lancashire Police is effective at identifying and planning for financial pressures. During 2021/22 the PCC and Constabulary delivered a balanced financial position. A £1.3m overspend on the Constabulary budgets was matched by a £1.3m underspend on the PCC budgets. Lancashire Police plans for the sustainable delivery of services. The revenue budgets, workforce plans and capital programme are all consistent with the Police and Crime Plan. The General and Other Reserves at 31st March 2022 totalled £24.212m, with General Reserves at £12.707m being within the range deemed sufficient by the PCC and Chief Constable as sufficient to meet any unexpected or unusual financial issues in 2022/23. We have not identified any risks of significant weakness in the PCC's and Chief Constable's financial sustainability arrangements, but have made recommendations on the need for more regular reporting on the impact / potential impact of the forces finances given the current uncertain economic environment, improved management of the capital programme and on the need for more effective monitoring of the savings programme. See Pages 11-13.



Governance

In 2021/22 the PCC and Chief Constable had effective processes for managing risk and internal control, budgeting, making informed decisions, and maintaining standards. We found no evidence of significant weaknesses in the PCC's or Chief Constable's governance arrangements for ensuring that they made informed decisions and properly managed risks. We have made and improvement recommendations with regards to dating and reviews of policies / strategy documents. See page 17.



Improving economy, efficiency and effectiveness

In 2021/22 the PCC and the Chief Constable of Lancashire Police had effective arrangements in place for improving economy, efficiency and effectiveness. We found no evidence of significant weaknesses in the PCC's or Chief Constable's arrangements for improving economy, efficiency of effectiveness.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they: (i) present a true and fair view of the PCC and CC's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have not yet completed our audit of your financial statements. There is an ongoing issue in respect of the valuation of property, plant and equipment that is currently being worked through. There is also an ongoing national issue due to consideration being given to the impact of publication of the triennial pension fund valuation of Local Government Pension Schemes, particularly how changes in assumptions could lead to material differences to the 2021-22 IAS 19 valuation used to prepare the financial statements. Based on work completed to date and subject to the above matters, we expect to issue an unqualified audit opinion.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any Statutory Recommendations.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issues a Public Interest Report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have note applied to the Court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

We have not issued an advisory notice.

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for judicial review.

Securing economy, efficiency and effectiveness in the PCC and CC's use of resources

All PCCs and CCs are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The PCC and CC's responsibilities are set out in Appendix A.

PCCs and CCs report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the PCC and CC have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the PCC and CC can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the PCC and CC make appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the PCC and CC make decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the PCC and CC delivers their services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the PCC and CC's arrangements in each of these three areas, is set out on pages 7 to 20. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identify and manage risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Identifying and planning for financial pressure

The 2021/22 Net Revenue Budget for the Police and Crime Commissioner of Lancashire (PCC) and the Chief Constable of Lancashire Constabulary (Constabulary) was approved on 23rd February 2021 at £319.391m. The budget was allocated between the Constabulary £311.188m and the Office of the Police and Crime Commissioner £8.203m. At the 2021/22 financial year end a balanced budget was achieved, inline with the financial plan, and this was delivered by the PCC underspending by £1.3m, which was matched by a £1.3m overspend by the Constabulary.

The PCC underspend was due to reduced capital financing of the capital programme and reduced activity due to Covid. The Constabulary overspend was mainly due to the additional costs of Covid and loss of income due to Covid offset by an underspend on staff costs in order to meet the savings target of £2.625m.

The achievement of a breakeven position against the 2021/22 budget indicates that the PCC and Constabulary were effective at identifying and planning for any financial pressures that arose in year. We note that a balanced budget for 2022/23 has since been approved by the PCC and Constabulary. A Medium Term Financial Strategy (MTFS) is kept regularly refreshed and updated and shows that from 2023/24 budget gaps arise, which is the net impact of inflation and other expenditure pressures compared with the forecast growth in funding from Government Grant and increases in Council Tax Income.

The most recent MTFS 2023/24 - 2025/26 shows a total funding gap of £9.855m, with a budget gap of £3.171m for 2024/25 and £6.684m in 2025/26. The PCC and Chief Constable continue to develop savings options to meet the gap in future years.

Lancashire Police was assessed by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) as 'outstanding' in its 'use of resources and the efficiency of its financial management' in its last published PEEL review (2018/19) before the recently published 2022 PEEL review. The most recent review states that 'The constabulary manages its finances well and has a strong governance structure in place to scrutinize the use of resources'.

The budget for 2021/22 was based on the Government's previously announced public sector pay freeze for 2021/22, and thereafter it was assumed that there would be pay rises averaging 2% per annum over the remainder of the MTFS forecast to 2024/25. Inflation on the majority of non-staff budgets has been set at 2% for the life of the medium term forecast in line with Bank of England estimates.

Financial plans are consistent with its Police and Crime Plan and the financial plans are kept under review and updated annually as part of the annual business planning / budget setting process. Given recent rises in inflation and other macro-economic uncertainty, a formal mid-year review of the in-year Medium Term Financial Strategy (MTFS), including assumptions, would help improve the accuracy of forecasts and financial plans. We raise an Improvement

Financial sustainability

Recommendation around this point (Improvement Recommendation 1, page 11).

Energy prices are however under a fixed deal until 31/03/2023 which will provide some certainty on that expenditure line for 2022/23 but will be an uncertainty going into 2023/24 given the changes in Government support on energy costs.

Whilst the impact of the inflationary pressure are currently being managed in the short term, we recommend that under the current economic climate there is formal and frequent reporting on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates. This will provide transparency on the sector wide uncertainties the PCC and Constabulary are subject to and the potential impact of these on its financial sustainability. This is reflected in our improvement recommendation around this point (Improvement Recommendation 1, page x)

Identifying achievable savings

The MTFS covering 2021/22 – 2024/25 identified a savings requirement for 2023/24 of £5.852m and for 2024/25 of £3.885m savings needed to be delivered to offset rising costs, during 2022/23 these figures have been revised to £7.303m for 2023/24 and £1.480m. The key driver in the level of savings requirements is inflationary pressure. The impact of the current financial uncertainty means that regular updates to the MTFS will be required along with regular scenario planning in order to endure that spend is contained within the available resources. The 2022 PEEL Review stated the following; ‘the constabulary has a strong track record of fiscal management and has made over £88m savings over the last ten years’.

For 2021/22 there was a savings and efficiency target of £2.625m, which was achieved. This was expected to be achieved via £2.4m of general efficiency savings, £0.1m of reduced combined liability insurance policies and £0.125m of reduced travel and subsistence expenditure. Having reviewed the quarterly finance reports the delivery and reporting of the schemes that make up the savings and efficiency target are not provided amongst the finance information reported. It is good practice to share and report on this information. Plans are in place to produce detailed rolling savings and efficiency plans for 2022/23 to 2024/25. These plans will be continually updated (monitored) independently with a live

record of financial efficiency saving assumptions feeding into the MTFS and future forecasts. This separate reporting means the savings and efficiency schemes will be reported and monitored in a separate report alongside the regular financial reports to the PCC and Constabulary senior teams. We have made an improvement recommendation around this point (Improvement Recommendation 2, page 12).

Consistency with other plans

The Capital Programme is the largest financial commitment beyond day to day expenditure on staff costs and other non staff expenditure. The Capital expenditure is approved as part of the annual business planning / budget setting process and for 2021/22 was approved on 23rd February 2021 at a value of £36.947m, along with a draft capital programme extending out until 2025/26 at a total value of £197.097m. This is summarised in Figure 1 below;

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
IT Strategy	6.278	4.000	4.000	4.000	4.000	22.278
Emergency Services Network (ESN)	0.200	3.900	3.900	3.800	1.300	13.100
Accommodation Strategy						
Critical Policing Infrastructure Programme	6.600	0	0	0	0	6.600
Pendle briefing base	7.150	7.000	1.521	0	0	15.671
Burnley police station replacement	0.629	4.300	4.800	5.651	0	15.380
Refurbishment of custody suites	0.825	2.583	3.842	2.409	0	9.659
Refurbishment of operating bases	5.134	9.575	19.385	13.910	3.000	51.004
East infrastructure strategy	0	5.742	5.800	6.582	8.000	26.124
Other major schemes	3.945	0	0	1.210	3.540	8.695
Minor works	1.000	1.000	1.000	1.000	1.000	5.000
Total Accommodation Strategy	25.283	30.200	36.348	30.762	15.540	138.133
Vehicle Replacement	4.355	4.000	4.000	4.000	4.000	20.355
Other Schemes	0.831	0.600	0.600	0.600	0.600	3.231
Total	36.947	42.700	48.848	43.162	25.440	197.097

Financial sustainability

The funding of the capital programme is reflected in the MTFS and relies on the organisation to be financially sustainable into the future. Figure 2 summarises how the capital programme is expected to be funded;

Figure 2 – Sources of funding for the Capital Programme 2021/22 – 2025/26

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
Capital Grant/Contributions	0.294	0.294	0.294	0.294	0.294	1.470
Capital Receipts	0.500	0	0	0	0	0.500
Revenue Contribution	5.710	6.410	7.410	8.410	9.410	37.351
Borrowing	24.484	28.690	34.531	29.224	14.435	131.363
Reserves	5.960	3.406	2.713	1.433	0	13.513
Funding for ESN	0	3.900	3.900	3.800	1.300	12.900
Total	36.947	42.700	48.848	43.162	25.440	197.097

During 2021/22, as in previous years, the proposed capital expenditure was not delivered to budget. At the end of 2019/20 there was an underspend of £10m against that years capital plan, in 2020/21 an initial capital plan spend of £46m was budgeted for but at year end only £18m had been spent. The reasons are multi-faceted including scheme slippage and also lack of availability such as new vehicles. Re-profiling of the 2021/22 capital programme was reported regularly through the year with a reduced plan of £24.938m at year end with expenditure at £15.005m, a £9.933m variance to the revised plan. The reduced capital spend impacts on the revenue expenditure directly due to reduced cost of capital but also potentially in increased costs of maintaining older vehicles / premises / equipment and impacting operational efficiency.

The impact of this constant re-profiling and slippage impacts on borrowing and finance with a knock on impact on the cost of borrowing included in the MTFS. The timing of investments and borrowing, given the current financial uncertainty and changing interest rates, will impact the financial position and an accurate understanding of the timing of capital investments will be critical.

Capital scheme slippage is currently automatically re-profiled into future years. It is important, moving forward, that this automatic re-profiling is reviewed and revised to ensure it is still realistic and deliverable. We raise an improvement recommendation around this point. (Improvement Recommendation 3, page 13)

Financial Resilience

At the end of 2021/22 the organisations' Usable Reserves were £12.707m in General Reserves and £11.505m in Other Reserves, a total of £24.212m.

The majority of reserves are earmarked for specific purposes but the General Reserve can be used to support the budget, this includes specific contingencies for both the PCC and Constabulary in the event that expenditure exceeds the budget

The general reserves on 31 March 2022 were £12.707m (around 3.9% of the 2021/22 budget requirement) and were within the 3% to 5% range assessed by the PCC and Constabulary, along with the Chief Finance Officer's, as sufficient to meet any unexpected or unusual financial issues in 2021/22. There is some national benchmarking on Police Forces total reserves including earmarked reserves, the latest data comes from March 2020 which stated that Lancashire Constabulary's percentage of reserves against funding was 7.3%, the national average across the forty two forces who had published data was 11.7%, with a range between 4.8% and 30.7%.

The Chief Finance Officer's have developed a reserves strategy that is published as part of the overall budget setting process. The reserves strategy meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget.

Conclusion

Overall, we found no evidence of any significant weaknesses in the PCC and Constabulary's arrangements for planning and managing its resources to ensure it can continue to deliver its services. Although savings and efficiencies were not monitored independently in 2021/22 plans are in place in 2022/23 to strengthen processes. Lancashire Police plans for the

Financial sustainability

sustainable delivery of services and the revenue budgets, workplace plans and capital planning are all consistent with the Police and Crime Plan. We have made two improvement recommendations around the need for a formal mid-year review of the in-year MTFS, including assumptions, which would help improve the accuracy of forecasts and financial plans, and the need for a more robust capital programme process.

Improvement recommendations



Financial sustainability

Recommendation 1

Given the current economic uncertainties a formal and more frequent review and update of the assumptions underpinning the MTFS (Medium Term Financial Strategy) should be undertaken. This would include sensitivity analysis and scenario planning on key assumptions and estimates. This should be undertaken at least mid year and more often if possible.

Why/impact

By reviewing and revising the assumptions in the MTFS on a more than annual basis it will ensure more accurate financial forecasting and allow for any remedial actions or plan changes in a timely manner. This would also allow the PCC and Chief Constable to challenge and scrutinise the revised financials and deliver enhance oversight.

Auditor judgement

Given the current uncertain economic climate with interest rates and Government support changing in year it is important that organisations become more agile in their financial management and forecasting. An MTFS updated more regularly than during budget setting will help ensure financial forecasting remains accurate.

Summary findings

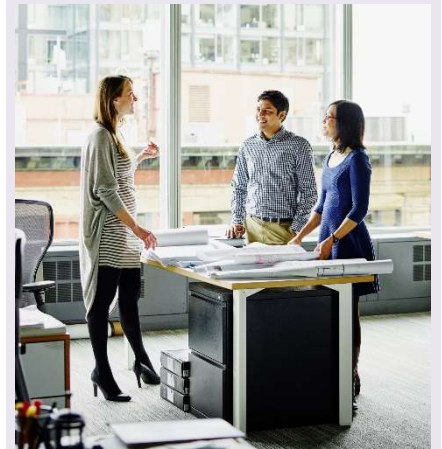
There is a well established annual MTFS update process during business planning / budget setting along with sensitivity analysis and scenario planning. This process would be enhanced by more frequent MTFS updates.

Management Comments

The Constabulary Finance SMT are looking at ways to enhance the MTFS process and tools through benchmarking and peer review. Whilst the existing MTFS process has worked well to date, any opportunities to enhance in terms of timeliness and accuracy, along with designing a user friendly toolkit, will be considered and launched as appropriate ahead of FY 2024/25. In reality the MTFS is constantly updated throughout the year as it is a 'live' document. When any changes become apparent for the assumptions it contains the plan is amended through consultation between CFOs and senior management teams.

The MTFS assumptions are reported in the budget decision and in the financial outlook report to the Accountability Board. In future an annual financial strategy document will also be published including the MTFS assumptions.

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement recommendations



Financial sustainability

Recommendation 2

The PCC and the Chief Constable should build on the work already undertaken and develop a robust savings / efficiency programme that identifies additional recurrent savings given the likelihood that the budget gap will increase further given the current economic climate and inflationary pressures.

Why/impact

It is important that the PCC and Chief Constable identify and deliver efficiency savings for a balanced budget to be achieved on an annual basis.

Auditor judgement

Given the current uncertain economic climate and inflationary pressures it is likely that forecast budget gaps will be understated.

Summary findings

The PCC and Chief Constable have started to develop a longer term savings / efficiency programme but as yet the programme is not routinely reported alongside the routine financial reports. A separate RAG rated programme report should be developed and become a standard report in the monthly / quarterly reporting cycle.

Management Comments

A comprehensive process is already in place with business planning scheduled for autumn each year and savings targets led by latest financial forecasts. However, as part of the work for HMIC in 2022, a Savings and Efficiency Report was published, compiling all areas of pressure, savings and efficiency across the Constabulary. This is now designed to be an annual report that will be based on latest relevant information and report into the Constabulary HMIC Boards routinely to inform stakeholders of financial pressures and potential solutions.

It is intended that detailed monitoring of savings delivery will form part of the quarterly financial monitoring reports to the PCC that are published on the OPCC website.



Improvement recommendations



Financial sustainability

Recommendation 3

The Capital Programme regularly underspends with multiple changes in year and slippage rolled forward into subsequent financial years. More robust programme management arrangements are required.

Why/impact

The majority of the capital Programme is internally funded and as such impacts on the overall expenditure incurred in both the PCC's and Chief Constable's budgets. The revenue impact being a key part of the MTFS and the revenue consequences of the capital programme and slippage impact directly onto expenditure and forecasts.

Auditor judgement

The operational and financial consequences of the slippage on the capital programme impact on the accuracy of the financial forecasts in year and in the MTFS.

Summary findings

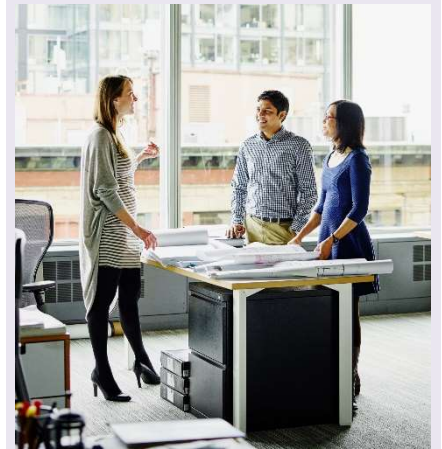
The Capital programme is approved as part of the annual budget setting process and in recent history the planned expenditure has failed to be delivered. This impacts on both operational and financial efficiencies and as such a focused process needs to be put in place to deliver the programme as near to plan as possible in each financial year.

Management Comments

Accurate estimates of capital spend have provided challenging across the public sector – particularly in recent years where delays have been experienced as a result of supply chain and resourcing issues resulting from Covid-19, Brexit, Ukraine war and the economic downturn. Nonetheless, we recognise the importance of ensuring that capital budgets and forecasts remain as accurate as possible and the potential financing impacts of inaccurate estimates. Along with the MTFS, an updated capital reporting process will be picked up as a key objective for the Constabulary Finance SMT and will report directly into the Constabulary Asset and Infrastructure Board on a routine basis in 2023/24.

Variations to the profile of capital projects are reported to the PCC and Chief Constable throughout the year through financial reporting and through the internal governance boards in Constabulary with agreed changes published in the quarterly monitoring reports.

The range of recommendations that external auditors can make is explained in Appendix C.



Governance



We considered how the PCC and CC:

- monitor and assess risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out the annual budget setting process
- ensure effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensure they make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitor and ensure appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Monitoring and assessing risk and gaining assurance over internal control

Appropriate arrangements are in place for the PCC and Constabulary to identify, understand, report and monitor risk. Risk is identified at both operational and strategic level. High level operational risks are escalated to the strategic risk register after review by the Senior Leadership Team. The Strategic Risk Register is reported to and scrutinised by the Chief Officer Group, including the Constabulary, and the PCC Executive Team. Risk registers also reviewed by the Joint Audit and Ethics Committee which meets quarterly and reviews the risk registers at least three times a year. The arrangements for Risk Management are set out in the PCC Risk and Opportunity Management Strategy and the Constabulary Corporate Risk Management and Opportunity Policy. The Constabulary Policy is dated and the document is reviewed on a triennial basis, however the PCC Strategy is undated. There a number of undated or old policies / strategies, for example the Scheme of Consent / Delegation is dated April 2014, which would benefit from a cyclical review and to be dated. A recommendation to this effect will be made.

For 2021/22 Internal audit services for both the PCC and Constabulary were provided by the Internal Audit Service of Lancashire County Council, following a risk-based methodology. The plan was for eighteen audits to be undertaken in year, sixteen were completed with one audit, OPCC Public / Partnership Engagement deferred to 2022/23 and one audit, Grants from the reducing reoffending fund, removed from the audit programme.

We note that the Annual report of the head of internal audit for the year ended 31 March 2022 provided 'moderate assurance' regarding the adequacy of design and effectiveness in operation of the frameworks of governance, risk management and control of the Chief Constable and the Police and Crime Commissioner. This assessment was based on seventeen assessed audits of which six received moderate assurance assessments, ten substantial assurance and one audit (facilities management premises compliance) receiving a limited assurance assessment.

During 2021/22 the following audits gained 'Substantial Assurance': Mental Health; Officer uplift on-boarding; Public engagement processes; Complaint review process; Management of the Independent Visitor Custody Scheme; Accounts Payable, Accounts Receivable and General Ledger; Payroll processing; Treasury Management; 'Moderate Assurance' was received for the audits of: Neighbourhood Policing; Child sexual exploitation; PCRO on-boarding; CCTV compliance; Addressing Covid risks; 'Limited assurance' was given to: Premises compliance, relating to health and safety and other legislative requirements being monitored and complied with. Although no significant weaknesses were identified the overarching assurance framework for this area required to be put in place. In addition 16 days of internal audit time was given over to following up on previous internal audit recommendations; Of 71 agreed actions, dating back to 2020 audits and onwards, 35 (50%) have been implemented, with 25 (35%) in progress and five (7%) have not yet started to be implemented. The need for four actions (5%) has been superseded and 2 actions (3%) will not now be implemented. Internal audit recommendations once agreed need to be actioned and closed within the agreed timescales, unless superseded.

Governance

Budget Setting and Budget Monitoring.

The PCC and Constabulary have qualified accountants in post as Chief Finance Officers, and they co-operate on the finance function. There is an appropriately staffed finance team, with a good range of professional skills and qualifications. There is an Annual Business Planning process, which includes budget setting within its remit, this is a multi disciplinary approach which ensures all key stakeholders throughout the organization are involved in the process and are able to challenge and scrutinize the budgets whilst plans are being put together. The annual budget process takes around three months to complete, during this time various development and savings proposals are considered ranging from the micro to the strategic, which are prioritised and either included in the budget or discounted at various stages in the development of the budget. This process sets the annual revenue budget, Capital Programme budget, Treasury Management Strategy, Reserves Strategy, and updates the MTFS. There are a suite of clear and concise budget setting documents approved by the Commissioner in February each year.

Budget monitoring through the year 2021/22 was effective on the basis that actions were taken in year to ensure that the financial out turn position was break even. Budget holders each have a dedicated Finance Contact. The Finance Contacts provide monthly budget reports to budget holders and their senior leadership teams and have regular dialogue to ensure variances are identified and understood at an early stage and that appropriate mitigating actions are put in place, where necessary.

In addition there is regular budget monitoring and reporting during the year. Quarterly budget reports are presented as 'Financial Summary' reports to the PCC and Constabulary, Chief Officer Group and then at the Accountability Board meetings. The reports are informative and provide comprehensive financial information on the revenue and capital financial position, on revenue and capital spend, updates with regards to Operation Uplift and Treasury management information. There is also a summary of the key income and expenditure variances for both the PCC and the Constabulary.

We note that for 2022/23, at the end of Q3, it is forecast that the combined revenue budget for will be underspent by £1.031 at year end, with a forecast Constabulary underspend of £0.714m and the PCC forecast to underspend by £0.317m.

Making Informed Decisions

Key strategic decisions are made by the PCC and Chief Constable, in consultation with the Chief Finance Officers, and other senior officers or agencies. The Joint Management Board provides the forum for decision making and there are processes for its' decisions to be published on the PCC website (with details of any relevant interests) within three working days.

Key strategic decisions are supported by papers and business cases, which are consulted on with functional specialist departments to ensure that all implications such as ICT, procurement, financial, legal, HR and risk management are taken into account as part of the decision making process. Functional specialists, the Director of Legal Services and the Chief Finance Officers are consulted on strategic decisions to ensure they are legal. Risks are also considered in the decision making process to ensure factors such as reputational risk are taken into account.

The PCC is responsible for holding the Chief Constable to account. At the start of 2021/22 the Strategic Scrutiny Board was the forum where this occurred but this was replaced in February 2022 by the Accountability Board which also met in public with papers and minutes posted on the PCC website.

External public consultations inform the Police and Crime Plan underpinning decision-making. The public are also consulted annually on the budget proposals, which includes major service developments. Both the Constabulary and PCC undertake a range of other engagement activities with the public and other stakeholders.

The PCC website provides regular information including reports, policies and forecasts on recent decisions.

Governance

The PCC website provides regular information including reports, policies and forecasts on recent decisions.

Monitoring and Ensuring Appropriate Standards

Effective processes were in place in 2021/22 for maintaining standards. The Constabulary has adopted the national Code of Ethics for policing. Standards of expected behaviour for police officers and staff are detailed in the code of conduct, which is aligned to the College of Policing Code of Ethics. Code of Ethics training and awareness was provided to all officers and staff and written into job application forms and terms of employment.

All officers and staff are subject to policies and procedures covering discipline, grievance and whistleblowing. The Constabulary has a counter corruption strategy, which defines how it will manage alleged corruption issues within the force. There are processes for registering business interests and an electronic recording system for gifts and hospitality. Within the PCC, the section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements and for reporting any such instances to the PCC and the Joint Audit and Ethics Committee or Police and Crime Panel if necessary.

There has been no history of serious breaches of legislation or regulatory standards in recent years. In relation to financial governance there is no history of significant non compliance with legislation.

The Joint Audit and Ethics Committee plays the main role providing independent assurance in respect of the arrangements for governance. This includes assurance on financial and non-financial performance where there is an implication for exposure to risk or where there may be a weakening of the internal control environment. The Committee is responsible for assurance on the overall adequacy of risk management arrangements and will oversee the financial reporting process.

The members of the Committee have a wide range of experience and invites are often extended to an appropriate range of senior leaders from the Constabulary and PCC, with the PCC and Chief Constable attending when the statement of accounts are approved.

There have been changes to both the PCC and Constabulary Senior Leadership teams since the beginning of 2021/22. A new Chief Constable took up post in April 2021 and a new PCC was elected in May 2021. The tone at the top has remained appropriate and some changes have been made to the committee structures to enhance the governance processes. During our 2021/22 audit we did identify and were not informed of any significant breaches of standards.

Conclusion

Overall, we found no evidence of any significant weaknesses in the PCC's and Constabulary's arrangements for making appropriate decisions in the right way in 2021/22. This includes arrangements for budget setting and management, risk management, and ensuring the PCC and CC make decisions based on appropriate information. We noted some undated and old policies / strategy documents for which we have made one Improvement Recommendation.

Improvement recommendations



Recommendation 4

There should be a consistent approach to the dating and setting of review dates for all Strategies and policies within both the PCC and Constabulary.

Why/impact

This will ensure that there is a consistent approach across both the PCC and Constabulary and will enable the readers to understand the date of publication and review date of key documents. Will also ensure that documents are never more than three years old.

Auditor judgement

Governance of documents is a key to ensuring that best practice and up to date policies are in force at all times across the organisations.

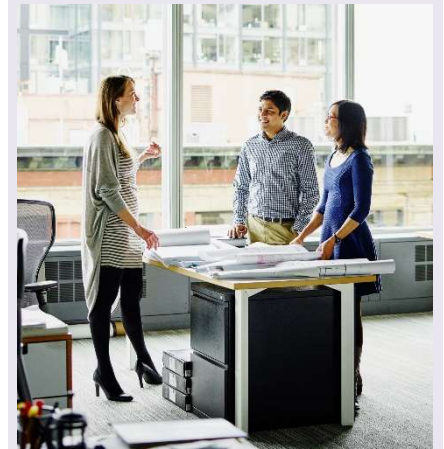
Summary findings

Most key documents are subject to a triennial review with dates of approval / publication followed by a review date as part of the document. However some documents are currently undated and some key ones, such as the Scheme of Consent (dated April 2014) are quite old.

Management Comments

A review of all strategies and policies is nearing completion and review dates will be set in all cases.

The range of recommendations that external auditors can make is explained in Appendix C.



Improving economy, efficiency and effectiveness



We considered how the PCC and CC:

- use financial and performance information to assess performance to identify areas for improvement
- evaluate the services they provide to assess performance and identify areas for improvement
- ensure they deliver their role within significant partnerships and engage with stakeholders they have identified, in order to assess whether objectives are being met
- where they commission or procure services assess whether they are realising the expected benefits.

Using financial and performance information

Annual, quarterly and monthly budget setting and monitoring processes are in place for monitoring the management of the PCC and Lancashire Police finances in 2021/22. Weekly updates on key areas of performance on service delivery, for example neighbourhood crime levels, incident numbers, calls for service, call answering, safeguarding, sickness levels is provided to the Chief Officer Group. In addition, the Chief Officer Group has access to daily updated information relating to: call taking, responding, arrests, recorded crime, investigation timeliness and quality, proactive activity, digital engagement, community engagement, staffing levels, sickness and performance reviews. The Senior Management Team of Lancashire Police, on a monthly basis, receives reports on performance against the National Outcomes Framework (NOF). This information provides details of where Lancashire Police is an outlier and exceptions compared to internal targets / projections and against regional and national comparative data. The NOF data is also shared externally, for example at the Regional Deputy Chief Constables' meetings.

Our 2020/21 value for money review included commentary relating to there being no direct system of monitoring service delivery performance against internally set objectives and targets specific to the Lancashire force and the Police and Crime Plan priorities for Lancashire. However following the appointment of the new Police and Crime

Commissioner for Lancashire in May 2021, a new 'Plan on a Page' summary of internally set measures lists the 'core areas' Lancashire Police needed to focus on as: People, Communities, Partnerships and Resources. The Plan on a Page also listed the success criteria for measuring performance against each core area and a Victim Focus Review Board has been created to monitor key performance indicators against each criteria. The 'Plan on a Page' approach has been seen as an improvement on previous approaches and provides clear performance targets and outcome measures.

National benchmarking is accessed and used regularly to compare performance with other forces. For example the www.gov.uk website provides comparative data for police forces against a variety of performance indicators and this data is used to understand Lancashire Police's relative performance against its peers.

Evaluating services and identifying areas for improvement

Lancashire Police is subject to an annual inspection by His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The 2018/19 inspection of Lancashire Police, known as Police Effectiveness, Efficiency and Legitimacy (PEEL) ranked the Force as 'Good' for Effectiveness, 'Outstanding' for Efficiency and 'Good' for Legitimacy. However, the most recent PEEL inspection, undertaken in the summer of 2022 relating to 2021/22, uses a changed set of criteria and approach to the grading of the Force and as such doesn't allow for direct comparisons between this most recent inspection and the 2018/19

Improving economy, efficiency and effectiveness

inspection. There was also a change from a four tier judgment to a five tier judgment

. The most recent inspection relating to 2021/22 reassessed how good Lancashire Constabulary is in nine areas of policing, only eight of the nine areas receive a graded judgement, ('How effective a service Lancashire Constabulary gives to victims of crime' was inspected, but the Inspector does not make a graded judgment in this area). Figure 1 below shows the graded judgments from the 2021/22 PEEL inspection;

Figure 1; 2022 PEEL Inspection of Lancashire Constabulary, graded judgments.

Outstanding	Good	Adequate	Requires improvement	Inadequate
	Preventing crime	Responding to the public	Investigating crime	
	Protecting vulnerable people			
	Managing offenders			
	Developing a positive workplace			
	Good use of resources			
	Treatment of the public			

The following are some of the key comments from the Inspector;

- The new leadership team has made a very positive start and is acting quickly on issues we have raised,
- The constabulary works well with partner organisations to keep communities safe,
- The constabulary engages well with its communities,
- The constabulary needs to continue improving the quality of its investigations and its recording of communications with victims, and
- The constabulary needs to improve its understanding of the responsibilities and capacity of response officers.

As part of the inspection report there is a section on Strategic planning, organisational management and value for money. The Inspector graded the Constabulary as 'Good' at operating efficiently. The main findings in this area are;

- The constabulary has an effective strategic planning and performance framework that ensures it tackles what is important locally and nationally,
- The constabulary understands its demands and is planning to make sure it has the right resources in place to meet future demands,
- The constabulary manages its finance well, and
- The constabulary makes the most of the benefits of working collaboratively.

The Inspector's findings are in line with our understanding of how the PCC and Constabulary are performing and the areas for further improvement.

Improving economy, efficiency and effectiveness

Partnership working

The PCC and Constabulary continue to participate in a number of partnership arrangements including large scale strategic arrangements as well as informal partnerships at a local level. Lancashire Police's strategic partnerships include the Multi Agency Safeguarding Hub in conjunction with neighbouring / local councils, and a collaboration with the University of Central Lancashire for the delivery of police apprenticeships training and forensic services.

The delivery of the Constabulary's key partnerships is monitored through Strategic Partnership Boards, upon which senior officers represent the Constabulary. Management information is shared at these meetings including on performance and finance, including both pay and non pay against budget, with escalation to the Chief Officer Group or the PCC Executive Team by exception when issues arise. The Governance structures for the day to day running of partnerships vary in complexity according to the scale and value of the work. Most significant partnerships involving the Constabulary also have a governance framework, which provide a vehicle for partners to meet to discuss issues and improvements. During our audit we did not observe and were not informed of any significant loss from working with partners during 2021/22.

Commissioning and procurement

The PCC and Constabulary have an established joint approach to procurement and was in evidence throughout 2021/22. For goods and services, contracts were held on the Blue Light Procurement Contracts database. Any re-tendering of services was managed by the Procurement Team.

In December 2021, a new Procurement Strategy and Social Value Policy was approved with the aim of increasing the efficiencies within the procurement process, making savings and increased local sourcing, though no financial targets were set. The Social Value Policy states that there will be an annual evaluation of whether the stated

objective to: 'Apply a methodology that ensures a minimum of 2.5% of the quality element of the price/quality ratio will be allocated to social value, when it is identified in the commissioning/procurement process that additional social value outcomes are relevant and appropriate', has been achieved. The latest annual procurement review confirms the requirement has been met.

It is noted that there is expected to be changes to National Procurement Legislation in 2023. The PCC and Constabulary already have this reflected in their strategic risk registers.

Conclusion

Our work has not identified any risks of significant weakness in the arrangements with regards to improving economy, efficiency and effectiveness

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 Minutes of past meetings on the PCC website should be reviewed for completeness. Minutes on the website should be kept up to date.	Improvement	September 2022	A full review of the website has been undertaken with all minutes of meetings brought up to date and a regular review process put in place.	Yes	N/a

Opinion on the financial statements



Audit opinion on the financial statements

We have not yet completed our audit of the financial statements for 2021-22.

Audit Findings Report

We will highlight the key findings from our audit of your financial statements within our Audit Findings Report.

Whole of Government Accounts

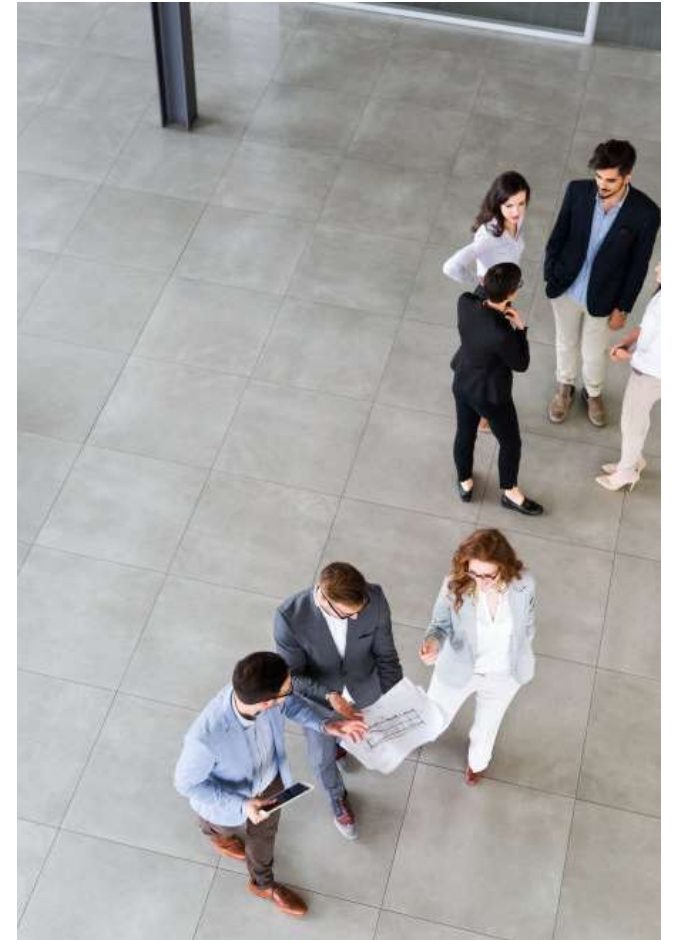
To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We will complete this work alongside finalisation of work on the financial statements.

Preparation of the accounts

The PCC and CC provided draft accounts in line with the national deadline.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Police and Crime Commissioner and Chief Constable

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the PCC and CC's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the PCC and CC will no longer be provided.

The PCC and CC are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the PCC and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was not identified as a potential significant weakness.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place, three improvement recommendations raised.
Governance was not identified as a potential significant weakness.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place, one improvement recommendation raised.
Improving economy, efficiency and effectiveness was not identified as a significant weakness.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the PCC's and CC's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the PCC and CC under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the PCC and CC. We have defined these recommendations as 'key recommendations'.	No	n/a
Improvement	These recommendations, if implemented should improve the arrangements in place at the PCC and CC, but are not a result of identifying significant weaknesses in the PCC and CC's arrangements.	Yes	Pages 11-13 and page 17

Appendix D - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

AGS – annual governance statement

