

WYPCC – Decision

From: Neil Rickwood , Head of Audit & Risk

Telephone: x27263

E-mail: nr1@wypa.pnn.police.uk

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Timing:	Joint Audit Committee required to be in place and operational from 22 November 2012.
Purpose:	Decision required
Cleared by:	Fraser Sampson, Chief Executive

SUBJECT : Joint Audit Committee Arrangements

Summary:

The establishment of an independent audit committee for the Police and Crime Commissioner (PCC) and Chief Constable is a requirement of the Home Office Financial Management Code of Practice.

Recommendation:

To adopt the joint audit committee which has been appointed from Police Authority and Standards Committee members for an interim period of up to twelve months but subject to review at any time by the PCC and Chief Constable, always provided sufficient time is allowed for any alternative arrangements to be put in place. .

Consideration:

- As highlighted the establishment of an independent audit committee for the Police and Crime Commissioner (PCC) and Chief Constable is a requirement of the Home Office Financial Management Code of Practice. This process have been reported and approved through the Transition Board.
- The Home Office Financial Management Code of Practice (the Code) provides clarity around the financial governance arrangements within the Police Service in England and Wales. The code is issued under the Police Reform and Social Responsibility Act 2011 and PCCs and Chief Constables must have regard to the code when carrying out their functions. Either party can depart from this code but only if this decision is properly understood and considered and that there is a compelling rational reason to do so.
- The Code states that the PCC and 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 Chief Constable according to good governance principles and advise them 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 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Audit Committees. This is included in at Appendix A.

- The guidance recommends that an audit committee should have a statement of purpose, with formal terms of reference covering its core functions. In order to be effective, an audit committee needs a chair and membership that has knowledge, experience and interest in the field. The committee will also benefit from members with financial awareness, independence of thinking and a balanced approach to significant issues (see Appendix B). Members must recognise and understand the value of the audit function.
- The Code states that the committee should comprise between three and five members who are independent of the PCC and the Force. In compliance with this requirement four members were selected from the Police Authority and Standards Committee membership subject to expressions of interest and a formal application and interview process. This ensures continuity initially and maintain police sector expertise in the new governance model.
- It is important to note that there is no definition of independence in the Code, and the means of recruitment of members and remuneration is left as a matter for local discretion therefore many of the decisions presented to the Transition Board have been based on a pragmatic approach.
- CIPFA guidance suggests that meetings be held quarterly but with flexibility to convene additional meetings if necessary. The Code is clear that the PCC and the Force should be represented at the audit committee.

Affordability: (1) Exact costs yet to be clarified but the reimbursement will be on a daily rate based on the historical Standards Committee daily rate (£232.44 per day (£115.12 per half day i.e. for 4 hours or less)). Flexibility regarding time commitments means that a definitive gross cost of the committee cannot be determined. (2) In addition the provision of IT remote working facilities for four members of the Committee is estimated to be in the region of £5,000 in total. (3) Member expenses will be in accordance with those agreed under the PCC expenses scheme. (4) A small training and development budget may also be necessary as the audit committee role develops.

Handling: No press coverage or media attention related to this decision.

Risks/Legal Opinion: The establishment of an audit committee itself is a statutory requirement. The main risk around the establishment of an audit committee is principally associated with the ability of the statutory s151 officers to discharge their responsibilities for ensuring an effective system of internal control is in place.

APPENDICES: There is one attachment to this paper which provides the audit committee background and proposals presented to the Police Authority for approval in June 2012.

SUBJECT: INDEPENDENT AUDIT COMMITTEE

Report of the Chief Executive and Chief Constable

RECOMMENDATION

1. That the Police Authority approves the setting up of the Audit Committee in accordance with the proposals detailed in this report.
2. That the Police Authority seeks expressions of interest, based on these proposals, from current members, including those on the Standards Committee, to sit on the independent Audit Committee. This decision is deemed to be necessary for an early resolution as external advertisement and recruitment may be required.

PURPOSE OF REPORT

- 3 This report sets out a number of proposals in relation to the establishment of an independent audit committee for the Police and Crime Commissioner (PCC) and Chief Constable, which is a requirement of the Home Office Financial Management Code of Practice. Following agreement at the Transition Programme Board a working group was established to formulate proposals to present to the Police Authority meeting in June for agreement.

KEY INFORMATION

4. The Home Office Financial Management Code of Practice (the Code) provides clarity around the financial governance arrangements within the Police Service in England and Wales. The code is issued under the Police Reform and Social Responsibility Act 2011 and PCCs and Chief Constables must have regard to the code when carrying out their functions. Either party can depart from this code but only if this decision is properly understood and considered and that there is a compelling rational reason to do so.
5. The Code states that the PCC and 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 Chief Constable according to good governance principles and advise them 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 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Audit Committees. This is summarised at Appendix A.
6. The guidance recommends that an audit committee should have a statement of purpose, with formal terms of reference covering its core functions. In order to be effective, an audit committee needs a chair and membership that has knowledge, experience and interest in the field. The committee will also benefit from members with financial awareness, independence of thinking and a balanced approach to significant issues (see Appendix B). Members must recognise and understand the value of the audit function.

7. The Code states that the committee should comprise between three and five members who are independent of the PCC and the Force. There is no definition of independence in the Code, and the means of recruitment of members and remuneration is left as a matter for local discretion.
8. CIPFA guidance suggests that meetings be held quarterly but with flexibility to convene additional meetings if necessary. The Code is clear that the PCC and the Force should be represented at the audit committee.

PROPOSALS

- 9 A number of proposals are made by the Audit Committee working group, as follows:
 - That a shadow Audit Committee should be established in September, as an interim arrangement initially for twelve months but subject to review at any time by the PCC and Chief Constable, always provided sufficient time is allowed for any alternative arrangements to be put in place. Meetings will be scheduled quarterly for September, December, March and June.
 - That the Committee will comprise four members with a quorum of three.
 - That recruitment to the Audit Committee should be from current Police Authority membership. This will provide continuity initially and maintain police sector expertise in the new governance model. This should be open to both independent and councillor members, including members of the Standards Committee, subject to an application and interview process. However the group didn't consider it appropriate that this should include Police & Crime Panel (PCP) members.
 - That the committee purpose, terms of reference and frequency of meetings will be based on CIPFA guidance with detailed proposals included in Appendix C.
 - The remuneration for the Audit Committee will initially be based upon an attendance allowance in line with the day rates currently received by members of the Standards Committee. The overall remuneration will be likely to be based on quarterly committee meetings, a training day and other ad-hoc commitments commensurate with the specification and terms of reference of the committee role, amounting to a maximum of 8-10 days in total. Additional attendance will be required of the Audit Committee chair.
 - That attendance at the Committee, dependent upon the agenda, will normally include representatives of the PCC, the Chief Constable, internal audit and external audit.
 - That the Committee, which will have an advisory role in relation to the governance and risk management arrangements put in place by the PCC and Chief Constable, will normally conduct its business in public, but may on occasion hold informal private sessions to deal with specific topics. This will also be at the discretion of the Committee as advised by the PCC and CC on a risk basis taking into account operational sensitivity and public reassurance.

STRATEGIC RISK IMPLICATIONS

10. In the absence of an effective independent audit committee, the strategic risks would be focused on a lack of assurance and transparency provided to the PCC and Chief Constable regarding the system of internal control operating within the Force and the Office of the PCC. In addition, there is a compliance risk in contravening the Home Office Financial Management Code of Practice issued under the Police Reform and Social Responsibility Act 2011.

RESOURCE IMPLICATIONS

11. The remuneration for the Audit Committee will be based upon an attendance allowance in line with the day rates currently received by members of the Standards Committee. The overall remuneration will be likely to be based on quarterly committee meetings, a training day and other ad-hoc commitments amounting to a maximum of 8-10 days in total, with additional attendance required of the Chair.

EQUALITY AND DIVERSITY CONSIDERATIONS

12. There are none in the context of this report.

HUMAN RIGHTS CONSIDERATIONS

13. There are none in the context of this report.

CONTRIBUTION TO THE BUSINESS PLAN

14. The report contributes to the corporate governance strand within the business plan of ensuring that decisions made are informed and transparent and are subject to effective scrutiny and risk management arrangements.

IMPLICATIONS FOR REGIONAL/COLLABORATIVE WORKING

15. There are no direct considerations in the context of this report, although the Internal Audit function itself provides audit services across the Region under collaborative agreements.

CONTACT OFFICER

Neil Rickwood
Head of Audit & Risk
West Yorkshire Police Authority
Ploughland House
62 George Street
Wakefield
WF1 1DL
01924 294000
nr1@wypa.pnn.police.uk

SUPPORTING DOCUMENTATION

Appendix A CIPFA Guidance in relation to Audit Committees.
Appendix B Person Specification
Appendix C Terms of Reference

BACKGROUND PAPERS

Home Office Financial Management Code of Practice.

CIPFA Guidance in relation to Audit Committees

1. Statement of Purpose

The purpose of an audit committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the organisation's financial and non-financial performance to the extent that it affects exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2. Core Functions

Audit Committees will:

- Consider the effectiveness of the authority's risk management arrangements, the control environment and associate anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk related issues identified by auditors and inspectors
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement and Audit Opinion, properly reflect the risk environment and any actions required to improve it
- Approve (but not direct) Internal Audit's strategy, plan and monitor performance
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary
- Receive the annual report of the Head of Internal Audit
- Consider the reports of external audit and inspection agencies
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit.

3. Features

Good audit committees will be characterised by:

- A strong chair - displaying a depth of skills and interest
- Unbiased attitudes – treating auditors, the executive and management equally.
- The ability to challenge the executive (PCC/Chief Constable) when required
- A membership that is balanced, objective, independent of mind and knowledgeable

4. Structure and Administration

The audit committee should:

- Be independent of the executive and scrutiny functions
- Have clear reporting lines and rights of access to other boards e.g. Risk Management Group
- Meet regularly, about 4 times each year, and have a clear policy on those items to be considered in private, and those to be considered in public.
- Include, as regular attendees, the Chief Finance Officers or Deputies, the Head of Internal Audit, the External Auditor and relationship manager. Other attendees may be invited e.g. the Monitoring Officer for Standards issues. These officers should be able to have access to the Committee as required.
- Be properly trained to fulfil their role.

EXAMPLE PERSON SPECIFICATION

Core Criteria	How this is demonstrated
Qualifications	<ul style="list-style-type: none">• Graduate calibre or equivalent experience with a number of years experience at Board level or equivalent
Experience	<ul style="list-style-type: none">• Professional experience in financial management, audit, assurance or related fields <i>or</i> recent experience of regulation within the public or private sector.
Knowledge	<ul style="list-style-type: none">• Knowledge and experience of corporate management, risk management and corporate governance in public or private sector organisations.• Knowledge of issues affecting the police sector both at a national and local level.
Skills	<ul style="list-style-type: none">• Excellent analytical skills with an ability to examine complex and detailed information to make sound evidence-based recommendations and decisions.• Good interpersonal skills and a willingness to share views and listen to those of others.
Personal Attributes	<ul style="list-style-type: none">• High standards of conduct and integrity and actively promote inclusion and diversity.• Impartial, fair and objective.

Proposed Audit Committee Terms of Reference

STATEMENT OF PURPOSE
To provide independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the organisation’s financial and non-financial performance to the extent that it affects exposure to risk and weakens the control environment, and to oversee the financial reporting process.
Internal Control and Governance Environment
To support the PCC, Chief Constable and statutory officers in ensuring that effective governance are in place and functioning efficiently and effectively, and making any recommendations for improvement.
To review any issue referred to it by the statutory officers of the PCC and Chief Constable and make recommendations as appropriate
To consider and comment upon the Scheme of Consent.
To consider and comment upon any policy or strategy relating to sponsorship.
To review the effectiveness of internal control systems and provide assurance regarding such systems.
To scrutinise the annual governance statements prior to publication.
To review and monitor the effectiveness of PCC and Chief Constable policies on fraud, irregularity and corruption, including “whistle blowing”.
To consider and comment upon any policy or strategy regarding commissioning.
To consider and comment upon any proposals regarding the giving of grants.
To ensure that an effective system of scrutiny of the Treasury Management Strategy and policies is in place.
To review and monitor items of novel, contentious or repercussive expenditure.
To commission assurance work (eg specialist advice or audit)
To review compliance with polices relating to declarations of interest, gifts and hospitality.
To consider and comment upon the assurance framework.
To review its own effectiveness on an annual basis
Corporate Risk Management
To consider and comment upon the strategic risk management processes.
To provide assurance that organisational risks are being effectively managed.
Internal and External Audit
To consider the internal audit strategy and annual plan, and make recommendations as appropriate.
To consider the head of internal audit’s annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over corporate governance arrangements, and make recommendations as appropriate
To receive and review summaries of internal audit reports, and make recommendations as appropriate.
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale and make recommendations as appropriate.
To review the effectiveness of internal audit.

To consider the external auditor's annual plan, annual audit letter and relevant specific reports as agreed with the external auditor, and make recommendations as appropriate.

To review the effectiveness of external audit.

To consider and comment upon any proposals affecting the provision of the external audit service, including the level of fees charged.