

**REVIEW OF TERMS OF REFERENCE****REPORT OF CHIEF FINANCE OFFICER**

---

**1. PURPOSE OF THE REPORT**

- 1.1 The Commissioner and Chief Constable have approved the terms of reference for the scope, remit and functions of the Joint Independent Audit Committee (JIAC). This report considers some insights and best practice as highlighted in two recent publications and looks at our own experience of the operation of the JIAC.

**2. AUDIT COMMITTEE**

- 2.1 The Home Office Financial Management Code of Practice sets out the financial governance, assurance, risk management and statutory financial duties for both the Office of the Police and Crime Commissioner and the Office of the Chief Constable including the establishment and operation of a joint audit committee. It states in summary:
- The Audit Committee should establish formal terms of reference, covering its core functions, which should be formally adopted and reviewed on an annual basis. Best practice principles should be considered in determining the activities of the Audit Committee.
  - PCC and Chief Constable representation: the executive of the PCC and the Force Command Team should be represented at meetings of the Audit Committee.
- 2.2 The current JIAC Terms of Reference can be found at Appendix 1.
- 2.3 We have been content that the Terms of Reference have been fit for purpose but we are always aware of emerging issues and the need to keep things under review, fit for purpose and up to date.

**3. BEST PRACTICE INSIGHTS**

- 3.1 Two reports have been published recently that highlight best practice. One prepared by the audit company Grant Thornton reviews the role of the audit committee specifically. The Tone from the Top report published by **The Committee on Standards in Public** covers the wider governance, standards and ethical frameworks of PCC/Forces as well as the role of the joint audit committee.
- 3.2 Those reports are summarised over.

**Grant Thornton - Examining the evidence - How police audit committees can drive an effective governance agenda – See Appendix 2.**

- 3.3 They state that the audit committee provides an independent assurance function to both the police and crime commissioner (PCC), and chief constable and acts as a sounding board on matters of good governance and that it plays a key part in creating a resilient and effective police service for the twenty-first century.
- 3.4 The report distils the challenges audit committees face into three broad areas: engaging with the wider organisation; effective risk management; and integrated governance and the role of the audit committee.
- 3.5 They conclude that:
- the governance model devised for the police is less well defined than in other sectors. Audit committee effectiveness can be impaired by a lack of engagement from the wider organisations they serve. However, notwithstanding this, some audit committees are still able to make really useful contributions
  - the scale of the change ahead for the sector means that, if governance oversight is not effective, there is an increased risk of major programme failure
  - committees work most effectively where PCCs and chief constables see them as an ally to support them in the journey ahead.
- 3.6 The report sets out 18 questions that it titles ‘Considerations for Effective Police Audit Committees’. Our assessment against those can be found below.

<b>Engaging with the wider organisation</b>	<b>Notes</b>
Do the PCC/chief executive and the chief constable/deputy chief constable regularly attend audit committee meetings?	Yes, nominated senior executives attend the meeting which is in line with the Code of Practice.
Does the audit committee chair have regular face-to-face meetings with the PCC and the chief constable to discuss the committee’s work programme and opportunities for the committee to add value?	Yes with the nominated senior executives.
Does the audit committee have private meetings with the external and internal auditors?	Yes.
<b>Risk management</b>	
Does the committee understand its role in relation to risk management? Is the committee satisfied its focus is aligned with, and providing assurance in respect of, the major organisational risks faced by the PCC and chief constable?	Yes. Risk registers are included on each agenda.
Is there an agreed process for making risk management decisions? Is the audit committee informed of the judgements that have taken place in accordance with the process?	Yes
Is the committee satisfied it has sufficient awareness of key organisational risks?	Yes. Risk register reported to each Committee meeting along with new/revised/deleted risks
Does the committee have oversight of risk management and governance arrangements for major change programmes and key collaboration/outourcing arrangements (whether with police bodies, other public sector bodies or the private sector)? Has the committee considered its role in respect of these arrangements?	Yes

Has the committee sought assurance over the governance arrangements for collaboration? Is the committee sure that risks and assurances in respect of collaboration are not 'falling between two stools'?	Not specifically.
Is the committee satisfied the work of internal audit is properly focused on the organisation's major risks, including transformational change and collaboration?	Yes. The audit plan is discussed, agreed and monitored.
<b>Integrated governance</b>	
Does the committee feel it has a holistic view of the assurance arrangements in place across the organisation? Has the committee considered requesting the development of an assurance map?	Seek views
Is the committee aware of the work of the PCP and the assurances required by the panel from the PCC?	CFO is writing to the PCP Chair and JIAC Chair to discuss ways of sharing information.
Is the audit committee aware of inspections and findings by HMIC and other external regulators?	Yes. They are reported to each meeting.
Is the audit committee confident that appropriate actions are being taken to address recommendations?	Yes. All recommendations are monitored.
<b>Audit committee roles, responsibilities and administration</b>	
Are there clear, detailed terms of reference in place? Are they updated annually, to take account of the changing strategic objectives and risks of the organisations?	Yes
Is the audit committee chair involved in agenda management? Is there a clear 'forward plan' which sets out how the committee will meet the objectives set out for it in the terms of reference? Has the committee considered whether all standing items on the agenda are truly adding value to the committee's work?	Yes
Do audit committee members attend training sessions to enable them to establish and develop the role?	Induction session planned for 7 <sup>th</sup> September 2015.
Has the audit committee assessed itself against the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on the role of audit committees and considered any training needs?	Not specifically.
Has the committee considered the balance of skills available and their alignment to the organisational risks and areas of focus?	Two new members recently started so that discussion needs to take place.

- 3.7 We are largely compliant with the considerations and no changes are suggested to the Terms of Reference.

**The Committee on Standards in Public Life - 'Tone From The Top' – Leadership, Ethics And Accountability In Policing – See Appendix 3.**

- 3.8 The second report much more wide ranging and has been published by the Committee on Standards in Public Life and was presented to Parliament in June 2015. The executive summary is attached at Appendix 3.
- 3.9 The report is a comprehensive review of the effectiveness of governance arrangements and accountability of Police and Commissioners in England and Wales. The 114 page report included input from many PCC/Forces including Northumbria and surveys of the public too.
- 3.10 The Committee has identified a number of positive practices including:

“the existence of various mechanisms, of varying effectiveness, to support high standards of behaviour and propriety such as information transparency, audit committees, ethical frameworks, scrutiny plans, controls to manage conflicts of interests and arrangements to engage, promote and monitor best practice – these arrangements will need to be consistently and actively implemented with regular monitoring of compliance and impact.”

3.11 But the Committee has also identified significant standards risks too.

3.12 The Committee has concluded that to provide assurance that high ethical standards of behaviour that are capable of being upheld and to sustain core policing values there needs to be a strong and continuing focus on:

- clarity of responsibility and accountability;
- developing a sustainable culture of embedding high ethical standards; and
- robust effective ethical leadership.

3.13 The Committee makes 20 recommendations ranging from code of conduct to open and transparent appointment processes. Not all the recommendations relate to areas that are currently within the Terms of Reference of the JIAC or would necessarily be part of their remit and they will need to be picked up as part of other governance arrangements.

3.14 The recommendations that do explicitly refer to the JIAC and the suggested action for each are noted.

Question	Notes
5. Joint Audit Committees should publish an Annual Report in a form that is easily accessible to the public.	An annual report is being prepared. This will need to be published within the appropriate section of the PCC/Chief Constables website. The requirement for an annual report is not currently included within Terms of Reference. Suggest change.
14. Where a Joint Chief Financial Officer is appointed, an explicit policy and appropriate controls should be put in place to manage any potential conflicts of interest; be made publicly available; and regularly monitored by the Joint Audit Committee.	A policy and framework would be required and performance measures need to be developed.  Decision to adopt and include with ToR required.
15. Where a Joint Press/Media Officer is appointed, an explicit policy and appropriate controls should be put in place to manage any potential conflicts of interest, be made publicly available, and regularly monitored by the Joint Audit Committee.	Not applicable as the post holders are not joint appointments with staff being force employees and the force providing a service to OPCC under a form of SLA.
16. The Joint Audit Committee should scrutinise the basis of the assurances provided as to the integrity of crime data, including the related performance management systems.	The current JIAC Terms of Reference do not specifically mention this although the JIAC do receive assurance reports at each meeting. Suggest no change.

#### 4. INTERNAL REVIEW

- 4.1 We have been content that the Terms of Reference have been fit for purpose. However, we have noted that the Terms of Reference could benefit with the role of the Committee in relation to the Annual Statements of Accounts and the Annual Governance Statements being explicitly stated. The table below sets out the suggested wording.

Area	To Add to Terms of Reference
Review of the Statements of Accounts	<p>A separate heading to be added for the role of assurance regarding the Statements of Accounts.</p> <ul style="list-style-type: none"> <li>• By the end of March each year - To seek assurance that appropriate accounting policies are in operation for the Statements.</li> <li>• By the end of September each year - To consider whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the Police and Crime Commissioner and/or the Chief Constable prior to their authorisation.</li> <li>• Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements and annual governance statements.</li> </ul>

#### 5. RECOMMENDATION

- 5.1 The changes will be implemented with the agreement of this Committee.