

# Examining the evidence

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**Audit committee effectiveness in the police sector**

June 2015



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# Introduction

The police sector is undergoing a profound shift in the way it operates, framed by a 20 per cent reduction in central government funding and greatly increased public and media interest in the sector. Although the uncertainty over the political climate has largely settled following May's general election, the sector continues to face significant financial challenges. In responding to these, many police bodies are contemplating transformational change at an organisational level, while others are considering increased collaboration across a variety of functions and services. These, and other initiatives designed to respond to the challenges faced, often require major programmes and anticipate significant restructuring and cultural change. The need for effective governance and governance structures overseen by effective audit committees has never been greater.

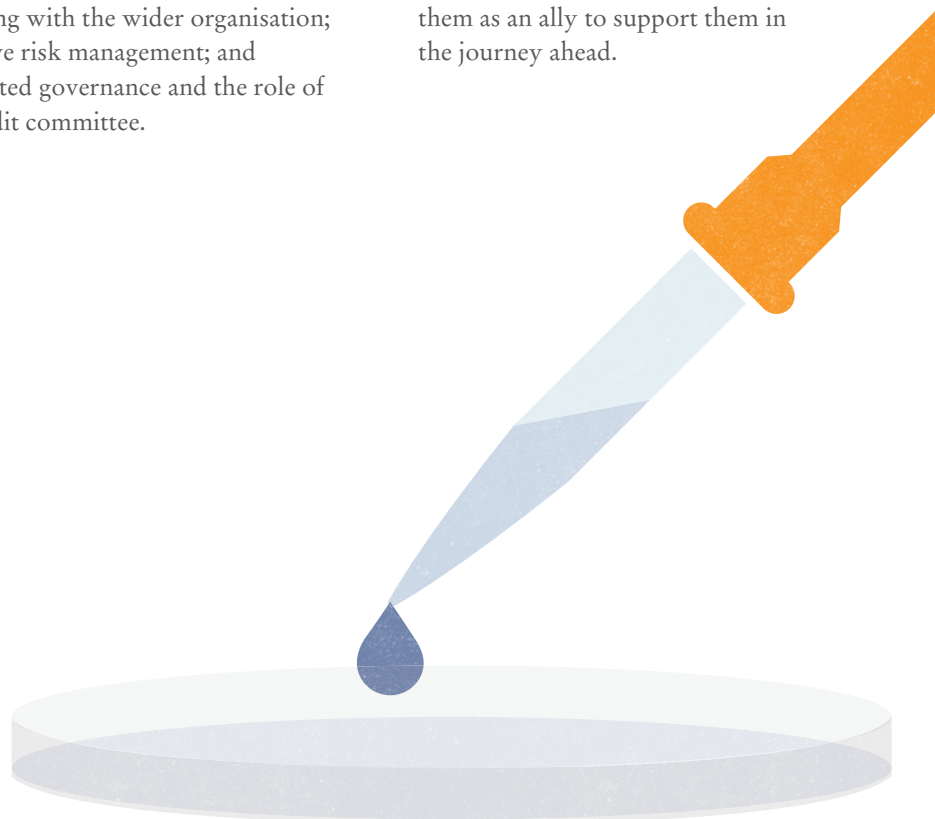
By providing an independent assurance function to both the police and crime commissioner (PCC), and chief constable and acting as a sounding board on matters of good governance, the audit committee plays a key part in creating a resilient and effective police service for the twenty-first century.

As part of our on-going support for the sector and their audit committees, our recent conferences for committee chairs and members provided a forum to discuss the challenges and opportunities faced, and share best practice.

Drawing on these discussions, this 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.

In our view:

- the governance model devised for the police sector is less well defined than for other sectors. This includes the role of the audit committee, whose effectiveness can be impaired by a lack of engagement from the wider organisations they serve. Despite this, some audit committees have found ways to make really useful contributions
- the scale of the change ahead for the sector as a whole means the risk of major programme failure may be increased if governance oversight is not adequate
- committees work most effectively where PCCs and chief constables see them as an ally to support them in the journey ahead.



# Engaging with the wider organisation

All police forces have established joint audit committees serving both the PCC and chief constable, yet many have difficulty in securing the attendance of the PCC and chief constable at committee meetings. As police audit committees are made up of independent members who may have limited opportunities to engage with senior officers outside of committee meetings, this lack of routine interaction can impact the committee's effectiveness.

To be fully effective, the committees need to understand the key issues and challenges that the PCC and chief constable face, and the assurances that they require from the committee. Committees also need to balance the assurances required from the two organisations respectively. This balancing act can only be done effectively with true insights into each organisation. It is therefore essential that audit committee chairs regularly meet face-to-face with the PCC and chief constable to: agree terms of reference; understand the concerns of those individuals and the assurances sought; and decide on the key risks on which the audit committee should focus its attention.

A number of committees have been successful in engaging with the wider organisation, including with the PCC and with senior officers in the force. Briefing meetings are routinely scheduled in diaries at least two weeks before the scheduled audit committee meeting. Regular, separate meetings with the PCC and chief constable take place, as do private meetings with the external and internal auditors. These separate meetings offer enhanced

interaction with the wider organisation and are vital in ensuring committee chairs and members are fully aware of the latest position regarding the key risks and challenges faced. In turn, this allows for more focused committee meetings, attuned to the areas where assurance is most critical to the achievement of organisational and police and crime plan objectives.

Where non-attendance of senior personnel is a recurring theme, opportunities to strengthen engagement with the PCC and chief constable include:

- scheduling formal briefings with officers before and after scheduled audit committee meetings
- having regular meetings with the PCC and chief constable outside the meetings
- setting up annual, private meetings with the external auditor
- agreeing the role of a champion in specific areas for audit committee members.

The introduction of champions among committee members helps manage the workload of individual members. Also, aligning members' skills and experience with individual areas of focus provides a greater understanding for the audit committee on particular matters, as well as more focused challenge. These areas may include performance monitoring, estates strategy, programme management, commissioning and victim services.

In many wider public sector entities, and in the corporate sectors, audit committees are committees of the board, comprised of board members and reporting directly to the board. As board members, committee members interact regularly with other executive directors, attend board and other committee meetings and are integrated in the leadership of the body. They are aware of key business, assurance and governance risks and challenges facing the organisation.

In the police sector, there is no board. All executive authority is vested in the PCC and the chief constable. A situation where committee members do not meet the PCC and chief constable regularly, where attendance at audit committees is limited only to CFOs from each organisation, and where engagement with the wider organisation is limited – not least by the independent nature of committee membership – weakens the effectiveness of the governance framework.

In the commercial sector, this would be akin to an audit committee whose members do not attend board meetings, never meet the chair or chief executive, have no wider involvement or insight in the leadership of the organisation and are not sighted directly on the concerns of the board or the assurance and governance risks facing the organisation. It is hard to see how an audit committee in this situation could be effective. It may cause some to question whether any meaningful governance structure exists at all.

Regular interaction with the leaders of both organisations helps a committee deliver truly insightful assurance on key areas of focus. It enables a committee to provide real value and benefit to the PCC and chief constable, and move away from simply providing a function to satisfy legislative requirements.



The joint Audit Panel for the **Mayor's Office for Policing and Crime** and the **Metropolitan Police Service** (MPS) is attended regularly by both the deputy commissioner and senior members of the Association of Chief Police Offices (ACPO), depending on the panel's agenda. This enables panel members to discuss key risk areas and governance matters directly with the leaders of the MPS, and demonstrates to the organisation the importance of the panel's work as part of the wider governance structure. This is a model meeting many good practice requirements.



**Cheshire** audit committee focuses in detail on the work of internal audit. Committee members hold regular one-to-one meetings with the head of internal audit and ensure that there is advanced reporting of the internal audit plan before it is agreed.

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# Risk management

Most audit committees see risk registers prepared by the PCC and the force at every meeting. However, there may be scope for members to challenge these documents in greater detail, seeking assurance that the right risks are being identified and that management's controls and risk mitigations are operating effectively. In particular, members may need to focus more on the arrangements for managing risk and ensuring effective governance over key initiatives and developments taking place, for example major change projects and collaboration.

## Major change programmes

Britain's most senior policeman, Sir Bernard Hogan-Howe, Commissioner of the Metropolitan Police, said forces face "years of more austerity and shrinking budgets", and warned that public safety will be at risk unless radical measures are taken to deal with these funding cuts.<sup>1</sup>

The impact of austerity, combined with the introduction of directly elected PCCs, means the police sector is experiencing the most significant transformative change since its creation in 1829. Forces across the country are considering and embarking upon significant transformation of their own ways of working. The most common examples of this include: large-scale investments in new IT infrastructure; collaborative working with other police forces; sharing resources with other 'blue light' services; and outsourcing back and middle office functions to the private sector. Other forces are fundamentally considering what the police service as a whole will look like in five years' time. They are considering

how the force will need to interact with the public and third sector partners, and what services the police should provide to the public. In doing so, they are considering what existential and entity-wide transformational change is needed to get there and meet the financial challenges ahead.

Many forces are embarking on significant major change initiatives and transformation projects to meet the fiscal challenge they face over the next few years. Programmes of this size and scale carry with them risks and complexity. Audit committees need to assure themselves that they have a good understanding of what these programmes entail and that the governance arrangements are sufficient for the scale, complexity and risk inherent in these programmes. They also need to assure themselves that the risks involved are understood by the organisation and are being effectively managed.

Not all audit committee members felt fully sighted on these areas. There was not always a comprehensive

understanding of what the major change programmes were, the scale of the organisational risks of these programmes and the effectiveness of responses to challenges faced, in particular those relating to programme set-up, management, governance, risk escalation and benefits realisation.

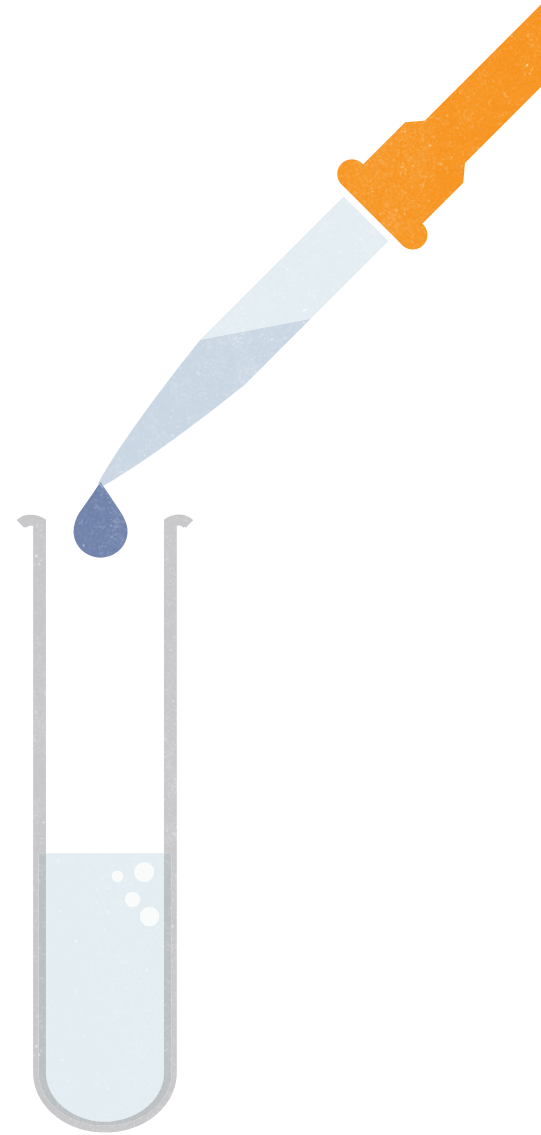
Audit committees need to assure themselves that they have a good understanding of their PCCs' and chief constables' thoughts regarding the future shape of the police service and the transformational change programmes that are being considered and implemented. This can be achieved by:

- better engagement with the PCC and chief constable, and with programme senior responsible officers (SROs)
- audit committee members having observation roles on internal panels and boards within the force
- the committee having sight of risk management and assurance papers relating to major change programmes.

<sup>1</sup> <http://www.theguardian.com/commentisfree/2014/dec/14/reform-cuts-public-risk-police-emergency-services-austerity>

There is no hard and fast rule about, or right answer to, the extent to which audit committees should be involved in formal oversight of change programmes. Some committee members may feel they can take assurance from the fact that an appropriate programme governance structure has been put in place. Others feel they have a role to play in challenging and testing the operation of this structure, to gain assurance it is operating effectively and, crucially, likely to identify significant

risks and respond accordingly. In reality, it will depend on an assessment of the effectiveness of the organisational and programme arrangements in place and the extent to which members feel these arrangements provide assurance over the inherent and potential risks. Importantly, members will also need to self-assess the skillsets available to them in considering these wider risks, and evaluate whether additional training or support would be beneficial in ensuring the committee's effectiveness.



Examples of forces embarking on organisation-wide change programmes include the following case studies. In cases such as these, it is important committee members are aware of the scale and complexity of the programmes and the risks they carry. It is equally important members gain assurance over the arrangements in place to identify and manage these risks. Members should also assure themselves over the processes for recognising and escalating missed milestones which place the whole programme in jeopardy.



The PCC and chief constable for **Greater Manchester Police** have established a transformational portfolio of work to deliver a force that is 'Fit for the Future'. This was recognised by Her Majesty's Inspectorate of Constabulary (HMIC) as an innovative way to deliver effective services while achieving savings.



The **Metropolitan Police Service (MPS)** is developing the Commissioner's 'One Met Model' to set out the proposed structure of the organisation in 2020, shape the organisation's long-term financial resilience and develop a comprehensive vision for how the organisation will look in the future. It is also developing a portfolio of major change programmes to reshape the organisation over that timescale.



**West Midlands Police** has entered into a five-year partnership with Accenture to transform the way policing is delivered across the West Midlands and redesign the future shape of its services. This is being developed via 'WMP2020', an ambitious transformation programme to meet the fiscal and operational challenges faced.

## Collaboration

Collaboration is an increasingly important factor in how forces are working – both in terms of working with each other and with other public and private sector bodies. Coupled with the PCC's commissioning powers, the future shape of police and crime services is likely to change. This makes collaboration an area of growing focus for both police audit committees and police and crime panels (PCP), especially in terms of governing the risks that come with working with other local bodies. This is often not as easy as it sounds: governance and scrutiny arrangements often have to be created from scratch as organisations collaborate, and audit committees from each organisation need to ensure duplication of scrutiny is minimised to avoid inefficiency, without leaving assurance gaps across the wider collaboration arrangements. Organisations can also have significantly different cultures, assurance models and governance arrangements, all of which need to be sewn together to form a cohesive framework across areas of collaboration.

Where collaboration occurs, the audit committee should: ensure it is aware of the strategic objectives; seek assurance on the arrangements in place to manage potential risk, both in their 'home organisation' and across the collaboration arrangement; and forge relationships with their counterpart committee members to gain an overview across the wider collaboration area.

Currently, many audit committees do not feel they have great visibility of collaboration arrangements. A key question is how members obtain full oversight of significant collaboration activity and, in particular, whether the committee is provided with the relevant reports from the PCC and chief constable.

Effective governance can be enhanced by:

- sharing audit committee meetings with key collaboration partners
- using the guidance and processes that the collaboration standard, BS 11000 offers on how to improve collaborative relationships.

## MAJOR CHANGE DIAGNOSTIC

As the largest assurance provider to the UK police sector, Grant Thornton has worked with forces across the country which are engaged in significant change programmes.

This has led to the development of a **major change diagnostic** which is tailored to the police sector. The diagnostic is delivered by staff with expertise in project and programme management from across the public and commercial sectors, and allows forces to assess their arrangements across the following parts of the programme's lifecycle:

- Initiation
- Business case
- Governance
- Delivery
- Risk management
- Benefits realisation

*"We have to have a shared view of the risks to public safety, from countering terrorism to child protection. We must be open about these risks with the public, politicians and the media, so we can together make informed choices about our priorities. We should share support services where possible, and make them as efficient as the best of the private sector. That means opening up all but core policing functions to competition."*

**Sir Bernard Hogan-Howe**  
**The Guardian, 14 December 2014<sup>2</sup>**

<sup>2</sup> <http://www.theguardian.com/commentisfree/2014/dec/14/reform-cuts-public-risk-police-emergency-services-austerity>

## BS 11000: STRUCTURED COLLABORATION

BS 11000, the first national standard on collaboration, was released in 2010. It represents a step change in how partnering can be managed. Structured collaboration is relatively new to the UK and early adopters include the defence, aerospace and rail industries. There could be considerable benefits for the police sector in learning how to apply the concepts and tools set out in the standard.

Benefits of using the standard include:

- changing behaviours and improving trust, to make collaboration more efficient within and between organisations
- introducing a common language to improve communication between parties
- aligning aspirations and capabilities between partners and playing to organisations' strengths to improve productivity
- providing greater continuity and flexibility of resources
- enhancing governance, for example by adopting shared approaches to risk management
- promoting innovation and continuous improvement.



The alliance concept between **Warwickshire Police** and **West Mercia Police** was cited by its audit committee as best practice in terms of driving savings using full scale collaboration. Governance was enhanced by adopting shared approaches to risk management. The audit committee believes this has helped to change behaviours and improve trust, making collaboration more efficient between the two organisations.



**South Yorkshire Police** and **Humberside Police** have increased collaboration by sharing services. Humberside provides legal and human resources services, while South Yorkshire provides IT and procurement services. This is a good example of aligning aspirations and capabilities between partners and playing to an organisation's strengths to improve productivity.

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# Integrated governance

Audit committees need to be seen as part of a wider governance and risk management framework, and not just as a ‘bolt on’. There is an ensuing role for the audit committee in helping stakeholders and, in particular, the PCC and chief constable to become ‘intelligent customers’, ensuring they are fully aware of the range of the committee’s work and the value and benefits of the assurance this can provide. This will help both parties ensure the committee’s work is adding value and should increase the impact and profile of the committee within both bodies.

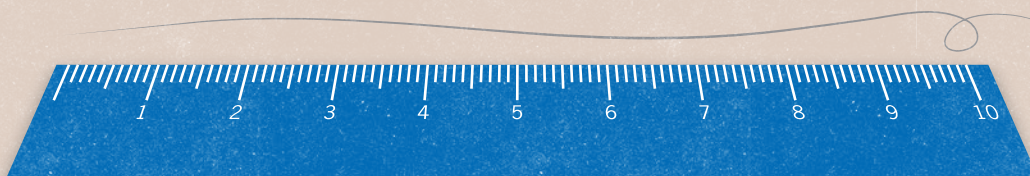
Audit committees should be aware of the wide range of regulatory, inspectorate and audit work undertaken, and form a holistic view across all sources of assurance. Members should also ensure they properly understand the different roles of each assurance provider and, in particular, understand how different regulatory bodies work together over similar areas of force activity. Assuming duplication because two separate providers cover similar topic areas without fully understanding the context and scope of the work undertaken risks committees missing key elements of assurance work that should be undertaken. This could also impair members’ understanding of the risks faced and the assurance gaps present. Equally, members need to be alert to

resistance to challenge from the sector, and be able to distinguish between genuine concerns about duplication and regulatory burden and inappropriate challenges arising from a lack of understanding of the differing roles of assurance and inspection providers.

Many audit committees, however, do not feel they have complete information about who their inspectorates are and their work. Not all committees receive reports from officers on inspection activity carried out and the organisation’s response. However, committees could request a summary of inspectorate work and an assurance map, by which to assess the framework that the PCC and chief constable gain assurance, and to gain a holistic view over the total assurance. This map may help to

identify potential gaps in assurance that may have previously gone unnoticed, as well as assist members in forming views on the adequacy of the wider assurance framework in place. This, in turn, would enable committee chairs to report more precisely on the areas where they may not be gaining full assurance, and where the residual risks lie, taking into account known assurance activity.

Many audit committees were not aware of the work of the PCP and its key areas of focus. Gaining an awareness of this will assist the committee in assessing the areas of focus on which the PCC may value independent assurance, and enable the committee to support the PCC in responding to future challenges from the PCP.





**Cheshire Police** commissioned a specific piece of assurance work from the audit committee over the use of tasers. The audit committee gained assurance over both operational and value-for-money challenges, demonstrating a mature approach to governance and risk management and a recognition by the force of the value of the assurance to be gained from the work of the audit committee.



**South Yorkshire Police** appointed a governance assurance board, that reports on an exception basis, to hold the chief constable to account. The board maps the assurances from other committees and meetings to avoid possible duplication of work and ensure effective reporting on operational issues.



**Thames Valley Police** set up a joint ethics and complaints committee which includes independent members and barristers, and is chaired by the deputy PCC. The committee ensured that the complaints procedure was adequately disclosed in the governance statement. This ensures that critical issues are in the public domain, furthering the transparency agenda and enabling the public to gain an insight on the assurances this provides.

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### Role of the audit committee

Effective audit committees have the ‘basics’ in place. This includes having appropriate terms of reference, agenda management and an understanding of the skills available within the committee, and the alignment of those skills with the organisation’s requirements and risks. Audit committees need a balanced skillset between financial and operational experience, and committees with a varied background tend to be more effective.

The challenge of ensuring senior PCC and force officers’ attendance at audit committees is sometimes exacerbated by narrow terms of reference being in place. These in turn may prevent the committee from gaining a holistic view of governance and risk management across the organisation, and from gaining assurance over the key areas that matter to the PCC and chief constable.

A number of other challenges to establishing effective audit committees include:

- the risk that the audit committee is seen as a committee supporting the work of the PCC only, but is not something of relevance for the chief constable. This risks denying the chief constable an important governance and assurance function

- concern around audit committee members meeting quarterly and whether they can be effectively engaged with police issues given such a small time commitment. Some committees have met only a handful of times since they were established
- the perception, or potentially the reality, that the work of the audit committee is not properly supported or resourced.

The emerging success stories of audit committees vary in size and nature. For one force, restructuring the risk register improved internal processes and meant that the organisation was focused on the bigger risks. For another force, a key success was appointing four members to the audit committee to increase the likelihood of meetings being quorate. This improvement underlines the steady establishment of the audit committee as an independent oversight function, but again highlights the differing speeds at which progress is being made across the forces.

Other examples of effective work by audit committees included:

- challenging the work of internal audit through monitoring of resources, agreement of the audit plan and the outcome of their reports. This ensures a more risk-focused internal audit function, which works collaboratively with the audit committee
- completing a self-assessment of the work of the audit committee
- preparation of an annual report of the committee’s work to the PCC and chief constable. This also enables committees to discuss their own effectiveness and communicate their impact to the wider organisation.

Audit committees need to plan their work to make effective use of limited time. Reviewing standing items on agendas is crucial, as is regularly comparing the alignment of the committee’s focus with the key risks faced by the PCC and chief constable.





## CONSIDERATIONS FOR EFFECTIVE POLICE AUDIT COMMITTEES

### Engaging with the wider organisation

- ☒ Do the PCC/chief executive and the chief constable/deputy chief constable regularly attend audit committee meetings?
- ☒ 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?
- ☒ Does the audit committee have private meetings with the external and internal auditors?

### Risk management

- ☒ 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?
- ☒ 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?
- ☒ Is the committee satisfied it has sufficient awareness of key organisational risks?
- ☒ Does the committee have oversight of risk management and governance arrangements for major change programmes and key collaboration/outsourcing arrangements (whether with police bodies, other public sector bodies or the private sector)? Has the committee considered its role in respect of these arrangements?
- ☒ 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'?
- ☒ Is the committee satisfied the work of internal audit is properly focused on the organisation's major risks, including transformational change and collaboration?

### Integrated governance

- ☒ 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?
- ☒ Is the committee aware of the work of the PCP and the assurances required by the panel from the PCC?
- ☒ Is the audit committee aware of inspections and findings by HMIC and other external regulators?
- ☒ Is the audit committee confident that appropriate actions are being taken to address recommendations?

### Audit committee roles, responsibilities and administration

- ☒ 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?
- ☒ 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?
- ☒ Do audit committee members attend training sessions to enable them to establish and develop the role?
- ☒ 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?
- ☒ Has the committee considered the balance of skills available and their alignment to the organisational risks and areas of focus?

# How can we help?

Grant Thornton is a leading financial and business advisor to the public and private sectors. The firm is led by 185 partners and employs more than 4,500 professionals, operating throughout the UK.

The police sector is a chosen area of investment for the firm. As the largest external auditor of police bodies in England and Wales, we have the requisite technical and operational expertise, relationships and sector specialisms required to deliver innovative solutions and market insights. Our services to the sector include value-added assurance, internal audit services, advice on governance and the development of major change diagnostics.

As part of our continuing commitment to the police sector, we have:

- held many regional conferences, focusing on accounting, governance and police audit committees
- produced a number of sector briefings focused on accounting, governance and police audit committees.
- held, sponsored and spoken at many national conferences, including conferences for audit committee members, audit committee chairs, finance directors, CPC members and other national and local police specific events
- produced and sponsored a variety of insight reports for the sector, including 'Police reform: a developing picture', 'The future of policing accountability: Learning the lessons' and a number of insight documents and sector briefings on PCC transparency, police accounting, governance and audit committee effectiveness

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