

Joint Audit Committee

19th September 2016

Review of the Effectiveness of the Joint Audit Committee

Recommendations

The Audit Committee is asked to note the findings of the review of the Effectiveness of the Joint Audit Committee.

The Audit Committee is asked to approve the improvement (action) plan and to note progress made to date.

1. Introduction

Best practice and guidance recommends that an Audit Committee should undertake a review of its effectiveness and performance as stated below:

- The UK Code of Corporate Governance requires that the Board of an organisation should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees.
- HM Treasury states that “the annual report of an Audit Committee should include the Committee’s view of its own effectiveness including ways in which it needs to be strengthened and developed.
- CIPFA advises that “All (audit committees) should at least annually report an assessment of their own performance”.
- Grant Thornton , the external auditors, write that “the main purpose of.....the Audit Committee reviewing their effectiveness is to ensure that the Committee is working sufficiently well to ensure that good governance practices are in place and operating effectively.

There are several frameworks that can be used to assess the effectiveness of the Audit Committee. This Audit Committee undertook a self-assessment on 20th June. They evaluated their performance using the following three frameworks

- CIPFA’s framework for “Evaluating the Effectiveness of the Audit Committee”
- Grant Thornton’s guidance in “Knowing the Ropes – Audit Committee Effectiveness Review 2015”
- Grant Thornton’s checklist in “Examining the evidence – Audit Committee Effectiveness in the police sector 2015”

The self-assessments are attached in Appendices A-C.

2. The Findings of the Self Assessment

Members of the Audit Committee recognised that the Audit Committee was operating effectively and undertaking the core functions and responsibilities of an Audit Committee as set out in the guidance. They noted the improvements and progress that had been made following the creation of the Committee. They identified the key strengths as being the mix of skills and knowledge the members possessed, their persistence, commitment and hard work and the challenge they give to the Police and Crime Commissioners and their Offices, and the Chief Constables and the Forces.

The members of the Audit Committee identified some weaknesses and areas for improvement using the three frameworks. These are summarised below:

CIPFA's "Evaluating the Effectiveness of an Audit Committee"

- Though the Chair does produce an Annual Report covering the work of the Committee, no formal annual evaluation has been undertaken previously.
- The Chair has received verbal feedback from both the commissioners and Chief Constables in previous years. However feedback has not been formally sought from those attending the committee or relying on its work.
- The Committee has taken action to address and resolve weaknesses. No formal action plan has been developed in previous years, nor does one currently exist.

Grant Thornton's "Considerations for Effective Police Audit Committees"

- The Committee recognised that they did not have sufficient oversight of risk management and governance arrangements for some key collaborations, citing PPL as an example.
- There was a need to develop an assurance map.
- Terms of reference were reviewed annually but had not been updated annually.
- There was no current comprehensive forward plan for the Committee. However a generic plan had been prepared when the Committee was first established and this was updated in December 2015.
- The Committee had not considered whether all standing items on the agenda were adding value to their work.

Grant Thornton's "Knowing the Ropes"

- The Committee felt that the role of the Audit Committee and its relationship with the Trust, Integrity and Ethics Committee required further clarification and consideration.
- The agenda papers were felt to be voluminous.
- The Committee recognised that it had not set targets formally for what it wanted to achieve nor had it considered how its performance would be measured.

A general discussion took place at the workshop. The Committee requested that:

- Members and attendees of the Audit Committee complete a questionnaire (based on CIPFA's guidance) evaluating the Committee's performance and its impact. This would give an independent external assessment.
- The practice of circulating minutes of the meetings of the Police and Crime Panels to the members of the Committee be reinstated.
- Further work be undertaken on arrangements for Counter Fraud and Corruption activities.
- An assurance map be produced.
- The Audit Committee receive a written report covering the governance and assurance arrangements for PPL.

The members of the Committee also reviewed the agenda papers for the June meeting and asked that:

- The Annual Reports of the Police and Crime Commissioners and Money Matters no longer be considered as agenda items, but be circulated to members of the Committee electronically for information only in future.
- The Committee receive a summary heat map of the risks incurred by the Offices of the Police and Crime Commissioners and not the detailed risk register at all future meetings. This should be in a format similar to that currently produced by the Forces.
- The Treasurer, Deputy Treasurer, Head of Internal Audit and Head of SSI undertake a review of the reports produced by SSI with the aim of producing an informative report than can be made publicly available.

3. External Assessments of the Effectiveness of the Audit Committee

As requested a wider review of the effectiveness of the Audit Committee was undertaken. A questionnaire was circulated to the members of the Committee, the officers attending the June meeting of the Committee, the Head of Internal Audit and the external auditors. The two Commissioners, the two Chief Constables and the two Deputy Chief Constables were also asked for their views.

13 responses were received and a summary of these is shown in Appendix D.

This review considered the key strengths of the Committee to be:

- Its promotion of the principles of good governance and their application to decision making

- The contribution it has made to the development of an effective control environment
- The importance it places on and the scrutiny it gives to Internal Audit internal audit

It identified the major weaknesses which require significant improvement as :

- The development of the governance arrangements for partnerships
- The promotion of effective public reporting, transparency and accountability

Several respondents commented on the work of Audit Committee and made suggestions for improvement in several areas. The following key themes emerged:

- The volume, quality and relevance of the Agenda and the reports supporting it
- The arrangements for the pre-meeting and the meeting
- The further development of risk management arrangements and their effective scrutiny
- The need to establish effective arrangements for the governance of partnerships.

The Audit Committee will consider the findings of this review at its meeting in September.

4. Next Steps and the Improvement Plan

Following these two assessments, an assessment plan has been produced. This is attached in Appendix E.

It should be noted that the following actions will be completed before the meeting in September.

- The circulation of minutes of the Police and Crime Panels to members of the Audit Committee
- The production of a heat map of the risks of the OPCCs
- The review and revision of the reports and papers produced by SSI
- The review and revision of the agenda and papers of the Audit Committee.

The following actions are currently being undertaken:

- The review of the Counter Fraud strategy
- The production of an assurance map

The Audit Committee at its September meeting will consider arrangements for the pre-meeting. It will also conclude this formal review and agree an action plan to address the weaknesses identified.

The Audit Committee will receive a further progress report at its next (December) meeting.

Elizabeth Hall
Treasurer/Chief Finance Officer
30th August 2016

Appendix A

CIPFA SELF ASSESSMENT OF GOOD PRACTICE

Question	Yes	No	Partly
Does the authority have a dedicated Audit Committee?	X		
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's position statement?	X		
Is the role and purpose of the audit committee understood and accepted across the authority?	X		
Does the audit committee provide support to the authority in meeting the requirements of good governance?	X		
Are the arrangements to hold the committee to account for its performance operating effectively?	X		
Do the Committee's terms of reference explicitly address the following core areas: <ul style="list-style-type: none"> • Good governance • Assurance Framework • Internal audit • External audit • Financial reporting • Risk Management • Value for Money • Counter Fraud and Corruption 	X		
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all areas?			X
Has the Audit Committee considered whether the following wider areas and whether it would be appropriate for the committee to undertake them? <ul style="list-style-type: none"> • Considering governance, risk or control matters at the request of other committees or statutory officers? • Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values? • Reviewing and monitoring treasury management arrangements? • Providing oversight of other public reports such as the annual report? 	X		
Where the coverage of core areas has been found to be limited, are plans in place to address this?	X		
Has the committee maintained its non advisory role by not taking on any decision making powers that are not in line with its core purpose?	X		

Appendix A

CIPFA SELF ASSESSMENT OF GOOD PRACTICE

Question	Yes	No	Partly
<p>Has the membership of the Committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p> <p>Core knowledge comprises organisational knowledge, understanding of the audit committee roles and functions, governance and the values of good governance, internal and external audit, financial management and accounting, risk management, counter fraud and treasury management.</p> <p>Core skills include strategic thinking and understanding of materiality, questioning and constructive challenge, focus on improvement, able to balance practicality and theory, clear communication skills and focus on the needs of others, objectivity and meeting management skills.</p>	X		
Does the Committee have good working relations with key people and organisation, including external audit, internal audit and the chief financial officers?	X		
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	X		
Has the Committee evaluated whether and how it is adding value to the organisation?	X		
Does the Committee have an action plan to address areas of weakness?	X		

**GRANT THORNTON – CONSIDERATIONS FOR EFFECTIVE POLICE
AUDIT COMMITTEES**

Question	Yes	No	Partly
Do the PCC/Chief Executive and the Chief Constable/Deputy Chief Constable regularly attend Audit Committee meetings?	X		
Does the Audit Committee chair have regular face-to-face meetings with the PCC and Chief Constable to discuss the committee's work programme and opportunities to add value?	X		
Does the Audit Committee have private meetings with the external and internal auditors?	X		
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 faced by the PCC and the Chief Constable?	X		
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?	X		
Is the committee satisfied that it has sufficient oversight of key organisational risks?	X		
Does the committee have oversight of risk management and governance arrangements for major change programmes and key collaboration/outsourcing arrangements? Has the committee considered its role in respect of these arrangements?			X
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?			X
Is the committee satisfied the work of internal audit is properly focused on the organisation's major risks including transformational change and collaboration?	X		

Appendix B

GRANT THORNTON – CONSIDERATIONS FOR EFFECTIVE POLICE AUDIT COMMITTEES

Question	Yes	No	Partly
Does the committee feel that 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?			X
Is the Committee aware of the work of the PCP and the assurances required by the panel from the PCC?	X		
Is the committee aware of inspections and findings by HMIC and other external regulators?	X		
Is the audit committee confident that appropriate actions are being taken to address recommendations?	X		
Are there clear terms of reference in place? Are they updated annually to take account of the changing strategic objectives and risks of the organisations?			X
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 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?			X
Do Audit Committee members attend training sessions to enable them to establish and develop the role?	X		
Has the Audit Committee assessed itself against the CIPFA guidance on the role of audit committees and considered any training needs?	X		
Has the Committee considered the balance of the skills available and their alignment to the organisational risks and areas of focus?	X		

Appendix C

GRANT THORNTON – KNOWING THE ROPES

Question	Yes	No	Partly
Relevance – Were audit committee members selected on the skills and experience they bring?	X		
Size – Is there a sufficient number of members or is the committee too small or too large to be effective?	X		
Frequency – Are meetings regular and does the length adapt to the content?	X		
Clarity – Is the role of the Audit Committee and its relationship with other committees defined?			X
Training – Is training provided for Audit Committee members?	X		
Communication – Do papers strike the right balance between detail and length?			X
Evolution – Is the Audit Committee continually developing?	X		
Industry specific – Does it reflect the nature and organisational arrangements of policing?	X		
Terms of Reference – Does the Committee have clear terms of reference?	X		
Performance – Has the Committee set targets for what it wants to achieve and has it defined how these will be measured to ensure it operates effectively?			X

CIPFA - Review of the Effectiveness of the Audit Committee

The attached questionnaire was scored by respondents with each category being given a score of 1 to 5 where:

- 1) The Committee has not supported improvements in this area.
- 2) The Committee has supported some improvements but with limited impact.
- 3) The Committee has mixed experience in supporting improvements with some impact but significant gaps exist.
- 4) The Committee actively and effectively supports improvements across some aspects of this area.
- 5) The Committee actively and effectively supports improvements across all aspects of this area, leading to clearly identifiable improvements.

The table below shows the number of responses for each score and the average score for each question:

Question	1	2	3	4	5	Average
Does the Audit Committee promote the principles of good governance and their application to decision making? For example does it review the AGS or support reviews/audits of governance arrangements				10	3	4.23
Does the Audit Committee contribute to the development of an effective control environment? For example does it monitor the implementation of recommendations from auditors or does it raise significant concerns over controls with senior managers?				5	8	4.62
Does the Audit Committee support the establishment of arrangements for the governance of risk and for effective arrangements to manage risk? For example does it review risk management arrangements, monitor improvements and hold risk owners to account for major strategic risks?		1	4	3	5	3.92

CIPFA - Review of the Effectiveness of the Audit Committee

Question	1	2	3	4	5	Average
Does the Audit Committee advise on the adequacy of the control framework and consider whether assurance is deployed efficiently and effectively? For example does it identify gaps or overlaps in assurance, does it seek to streamline the reporting of assurances, does it review the effectiveness of internal audit, risk management, external audit etc?		1	4	5	3	3.77
Does the Audit Committee support the quality of internal audit activity and underpin the organisational independence of audit? For example does it review the audit charter and audit reports or assess internal audit's effectiveness and support improvements			2	7	4	4.15
Does the Audit Committee aid the achievement of the Commissioner's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements? For example does it review major projects and programmes and performance management arrangements to ensure that governance arrangements exist and are effective?		1	6	4	2	3.54
Does the Audit committee support the development of robust arrangements for ensuring Value for Money? For example are assurances for VFM arrangements received and does it consider how performance in VFM is evaluated?		1	5	5	2	3.62
Does the Audit Committee help the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks? For example does it review arrangements against professional standards and does it review fraud risks and the effectiveness of the strategy to manage the risks?		2	3	6	2	3.62

Appendix D

CIPFA – REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

Question	1	2	3	4	5	Average
Does the Audit Committee promote effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability? For example does it improve how the Commissioners undertake public reporting e.g. plain English or better targeting at the audience?	3	1	4	4	1	2.92
Does the Audit Committee support the development of the effective governance of partnerships? For example does it work with partner audit committees to review governance arrangements in partnerships or does it review the transparency of decision making through partnerships?	2	1	8	2	0	2.77
Does the Audit Committee ensure that it has adequate and effective arrangements in place to support its work?* For example are the pre-meetings, meetings, briefings, training, advice from officers agenda and papers effective and efficient? Are the working arrangements with other Committees adequately defined or is there duplication, overlap or gaps?			6	3	3	3.75

* 12 responses received

Appendix E

AUDIT COMMITTEE – IMPROVEMENT ACTION PLAN

Action	Responsible Officer	Target Date	Status
Previous practice of circulating minutes of the PCP to members of the Audit Committee be reinstated.	Deputy Treasurer	July 2016	Completed
Formal review of effectiveness of the Audit Committee.	Chair/ Treasurer	September 2016	For consideration at September meeting.
Heat map of strategic risks of OPCCs to be produced.	Deputy Treasurer	September 2016	Included with papers for September meeting.
Review of papers produced by SSI to be undertaken.	Treasurer/ Head of SSI/ Head of Internal Audit	September 2016	In progress
Review of Counter Fraud Strategy and activities to be undertaken.	Treasurer/ Director of Finance/ Head of Internal Audit	December 2016	In progress
Assurance map to be produced.	Chief Executives/ Treasurer/Director of Finance/ Head of Internal Audit	December 2016	
Governance and assurance arrangements for PLACE to be set out in a report.	Chief Executive (West Mercia PCC)/Treasurer/ Director of Finance/ Head of Internal Audit	September 2016	Included with papers for September meeting
Agenda and reports for Audit Committee to be reviewed.	Chair and Members of the Audit Committee	September 2016	For consideration at September meeting
Arrangements for the premeeting to be reviewed.	Chair and Members of the Audit Committee	September 2016	For consideration at September meeting
Development of formal plan for the work of the Committee	Chair/Treasurer/Director of Finance	December 2016	
Review of terms of reference	Chair/Treasurer/Director of Finance	December 2016	