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3 April 2014

Dear Mr Fishlock

Thank you for your letter of 7 March requesting the thoughts of the APCC Secretariat on the review of the terms of reference of your independent joint audit committee. In particular you asked us to provide some comments on how other independent audit committees have approached their terms of reference, your proposed functions in relation to corporate risk management and in relation to expressing the independence of the committee.

I apologise for the delay in responding to you, but am now pleased to enclose a report on this matter and hope this is helpful. However, if you have any queries do please get in touch with cat.mcintyre@apccs.pnn.police.uk (Tel: 07714 399 754).

Kind regards

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Chief Executive

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England and Wales



Report on Review of Terms of Reference

- Independent Joint Audit Committee: Wiltshire Police and Crime Commissioner's Office

The APCC has been asked by the Chairman of the Independent Joint Audit Committee ('IJAC') of the Wiltshire Police and Crime Commissioner and Chief Constable to provide some thoughts on the review of the terms of reference of the IJAC and in particular comments on the areas of corporate risk management, exercising independence and information on how other audit committees have approached their terms of reference.

Introduction

The APCC has looked at the terms of reference of 15 other independent joint audit committees for police and crime commissioners/chief constables as well as considering the CIPFA guidance on audit committees and good governance, and the Home Office Financial Management Code of Practice in compiling this report. Links to the terms of reference of the other audit committees are set out in the Annex to this document. We have looked at the TORS in respect of matters traditionally covered by audit, such as risk management, governance, internal control, internal and external audit, annual accounts and financial statements and compared these with the Terms of Reference supplied by the IJAC.

In some cases, the remit of other committees has been extended beyond that of matters usually covered by audit into other areas associated with good governance, such as oversight of ethics, transparency, information assurance, diversity, health and safety, or external reviews and inspections. This is not obligatory under CIPFA rules about audit committees, which suggests that their key purpose 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 oversight of the financial reporting process. However, the CIPFA rules do not rule out audit committees extending their remit into other areas of assurance and scrutiny, so these additional functions may be of interest. This is explored in more detail towards the end of this report.

Audit terms of reference

Focusing first on the standard areas of audit and the particular points we were asked to cover, the following comments might be helpful:

1. **General Approach:** it might be useful to note that some independent audit committees for policing bodies have significantly more extensive Terms of Reference, which set out not only their key responsibilities, but also membership arrangements, frequency and notice of meetings, support to the committee, the rights of the committee, the information requirements of the committee, the reporting responsibilities of the committee and other associated matters. See for example, Avon & Somerset, Derbyshire and Surrey. Some have a separate document setting out their procedures and process – see for example, Dorset. There are also a number of audit committees that use a similar format to that used by Wiltshire, some of which have had additional information added in order to include information about how the committee will operate e.g. see Hampshire.

1. **Independence:** as noted above, some audit committees have more extensive terms of reference, and these provide a vehicle to express independence through sections which deal with how the committee operates. For instance, sections that deal with membership of the committee (who appoints members, who can and can't be members, skills and behaviours required of members), and meetings of the committee (whether in public, who can attend, what information the committee can expect to assist meetings). However, there are strengths in the approach of IJAC to its independence – in particular the section which deals with escalation of issues not satisfactorily dealt with by the PCC or Chief and we are not aware of any other TORS which contain similar proposals. That said, the committee might wish to consider incorporating some other points mentioned above - the TORS for Avon and Somerset might be particularly helpful in this respect, but a number of others have similar provisions.

2. **Corporate Risk Management:** in addition to some of the elements of risk management mentioned in the TORS for the IJAC, some other TORS make reference to risk management of internal control and systems of integrated governance (for instance, see para 10.1.1 of Derbyshire's TORS, although in some cases this is under a separate heading of 'internal control'). It might also be that the existing references to organisational risk could cover some of these points. However Wiltshire IJAC is one of the few to mention monitoring the insurance programme to ensure this provides adequate cover against risks, and also one of the few to mention monitoring business continuity plans as a key area of risk. The IJAC also highlights 'whistle-blowing' as a key area of risk to monitor – although this is common to most TORS, it sometimes appears under other headings (e.g. 'internal control') and is sometimes accompanied by a responsibility to monitor policies and risks associated with fraud, corruption and irregularity as well – see for instance the TORS for West Yorkshire.

3. **Other Approaches to TORS:** Looking firstly at areas traditionally associated with audit, it might also be that the IJAC would wish to add to its statement of purpose some additional areas of activity, for instance, monitoring schemes of consent (perhaps under the Corporate Governance and Regulatory Framework heading). Now that Stage 2 Transfers have been completed, this would allow the IJAC to monitor the consent arrangements, which replace schemes of delegation (and will in future allow the PCC to consent to the Chief Constable carry out some activities on his/her behalf, for instance entering into contracts up to a certain value) – see Sussex (8th bullet point under 'internal control environment' heading) or West Yorkshire (third bullet point). It might be interesting to note that the former example reflects the consent scheme as part of a Scheme of Corporate Governance, comprising a suite of documents. In other examples, these separate documents are picked up as separate monitoring functions, but either way, the committee might wish to consider whether it would want to include sections on monitoring the effectiveness of local financial regulations and standing orders on contracts. For further examples of this see TORS of Staffordshire (section (a)), Dorset (under the Internal Control heading) or Surrey (section 7)).

4. **Other Areas Covered by Audit Committees:** this section highlights some of the additional areas that have been brought within the functions of audit committees in some areas:

- To oversee a programme of scrutiny of key areas of policing activity – Nottinghamshire
- To monitor health and safety, and diversity policies - West Midlands: or equalities and human rights policies - Surrey
- Monitor inspection reports and other external reviews – W Midlands and Nottinghamshire

- To monitor and review ethics and professional standards, information assurance and transparency arrangements – Staffordshire.
- Monitor commissioning strategies, giving grants, treasury management strategy, gifts and hospitality – West Yorkshire
- Monitor PCC's decision making/accountability framework (amongst other things), comment on sponsorship strategies, and monitor policies on declarations of interest and receipt of gifts and hospitality -- Surrey (7th, 8th and 9th bullet points)
- Whilst advising and commenting on internal and external audit arrangements is a standard function, some committees go further and make provision for commissioning internal or external audit arrangements, and/or appointing external or internal auditors – South Wales (8th bullet on commission audit services), or Staffordshire (section (e) on appointing external auditors),
- Some TORS include a power for the committee to commissioning expert advice themselves (usually with the consent of the PCC and Chief) – see Sussex or West Midlands under 'rights' section, or Avon & Somerset para 4.3, or Derbyshire para 3.1.
- The Police Reform and Social Responsibility Act 2011 made achieving value for money a statutory duty for forces and some areas give a responsibility to audit committees to assist in ensuring VfM is achieved -- see South Wales, 7th bullet, or Nottinghamshire, paragraph 2.

Conclusion

The Independent Joint Audit Committee for the Wiltshire PCC and Chief Constable seems to have covered all the basic requirements in its Terms of Reference, and indeed goes further than most in relation to the management of corporate risk. The section on Independence might be strengthened by including some more detailed information on the membership of the committee and how it will operate, although it does already seem to have more robust provisions than other audit committees about how matters will be escalated if the Chief and PCC do not engage satisfactorily with IJAC. This report has also set out some additional areas that IJAC may wish to consider incorporating into its terms of reference.

We hope this is helpful, but if you have any queries, please contact cat.mcintyre@appcs.pnn.police.uk (07714 399754).

APPC Secretariat

3 April 2014

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The following are links to a selection of terms of reference for PCC/chief constable Audit Committee arrangements.

Avon & Somerset: <http://www.avonandsomerset-pcc.gov.uk/Document-Library/Audit-Committee-Papers/JAC-TERMS-OF-REFERENCE-final-Dec-2013.pdf>

Derbyshire: <http://www.derbyshire-pcc.gov.uk/Document-Library/Public-Information/JARAC/JARAC-Terms-of-Reference-2012-Final-v2-191212.pdf>

Dorset:

- Rules of procedure - [http://www.dorset.pcc.police.uk/Document-Library/JIAC/Rules-of-Procedure\(November2012\).pdf](http://www.dorset.pcc.police.uk/Document-Library/JIAC/Rules-of-Procedure(November2012).pdf)
- Functions/TORS - [http://www.dorset.pcc.police.uk/Document-Library/JIAC/Functions-of-the-Audit-Committee\(November2012\).pdf](http://www.dorset.pcc.police.uk/Document-Library/JIAC/Functions-of-the-Audit-Committee(November2012).pdf)

Hampshire: <http://www.hampshire-pcc.gov.uk/Document-Library/Audit-Committee/JAC-Terms-of-reference.pdf>

Hertfordshire: <http://www.hertscommissioner.org/pdf/Item%2004%20-%20Terms%20of%20Reference%20w%20amends%20following%20meeting.pdf>

Northamptonshire: <http://www.northantspcc.org.uk/site/docs/meetings/2012-11-29/ITEM%204%20-%20IAC%20Statement%20of%20Purpose%20and%20Terms%20of%20Reference.pdf>

Nottinghamshire: <http://www.nottinghamshire.pcc.police.uk/Document-Library/Public-Information/Meetings/Audit-and-Scrutiny-Panel/Joint-Audit-and-Scrutiny-Panel-Terms-of-Reference-amended-14th-Feb-2013.pdf>

South Wales: <http://www.southwalescommissioner.org.uk/Document-Library/Audit-Committee/JAC-Terms-of-Reference.pdf>

Staffordshire: <http://www.staffordshire-pcc.gov.uk/wp-content/uploads/2013/06/131113DraftTermsofReferance-v6.pdf>

Surrey: http://www.surrey-pcc.gov.uk/wp-content/uploads/2012/12/Independent-Audit-Committee-Terms-of-Reference_amended-040413.pdf

Sussex: <http://www.sussex-pcc.gov.uk/wp-content/uploads/2013/06/IT-5-FINAL-Appendix-A-Terms-of-Reference.pdf>

Thames Valley: <http://www.thamesvalley-pcc.gov.uk/Document-Library/Audit-Committee-Operating-Principles.pdf>

West Mercia and Warwickshire: http://www.westmercia-pcc.gov.uk/Document-Library/Audit-Committee/13_June/Agenda-Item-6-introductions.docx

West Midlands: [http://www.westmidlands-pcc.gov.uk/media/235694/jac 25 09 13 item 5 terms of reference and working protocols appendix 1.pdf](http://www.westmidlands-pcc.gov.uk/media/235694/jac_25_09_13_item_5_terms_of_reference_and_working_protocols_appendix_1.pdf)

West Yorkshire: <http://www.westyorkshire-pcc.gov.uk/how-we-work/joint-independent-audit-committee.aspx>