



**Lancashire Constabulary**  
police and communities together

## JOINT MANAGEMENT BOARD

<b>ITEM 6</b>	<b>DATE: 7 JULY 2015</b>
<b>JOINT AUDIT COMMITTEE (JAC) – ANNUAL REPORT AND REVISED TERMS OF REFERENCE (Appendices A &amp; B refer)</b>	
<b>REPORT BY: IAN DICKINSON – STANDARDS AND GOVERNANCE</b>	

**Executive Summary**

The Annual Report provides the Police & Crime Commissioner and the Chief Constable for Lancashire with a summary of the work undertaken by the Joint Audit Committee in 2014/15.

The Terms of Reference of the JAC were agreed by the Committee in June 2014. The Committee has since undertaken a review of the Terms of Reference.

**Recommendation**

The Police and Crime Commissioner and the Chief Constable are asked to consider the Joint Audit Committee's Annual Report and approve the revised Terms of Reference.

Signature <i>Clive Grunshaw</i>	Signature <i>Shirley</i>
Police and Crime Commissioner	Chief Constable
Date <i>7th July 2015</i>	Date <i>7/7/15</i>

**1. Background and Advice**

- 1.1. The JAC has undertaken a review of its effectiveness against its terms of reference and objectives in line with national guidance and in doing so is presenting its Annual Report and a revised Terms of Reference to the Police and Crime Commissioner and Chief Constable.
- 1.2. The arrangements set out in the revised Terms of Reference meet the requirements of the Police and Reform and Social Responsibility Act 2011 (PRSRA), Home Office Financial Management Code of Practice (FMCoP) and the Chartered Institute of Public Finance and Accountancy Audit Committee Guidance.

**2. Links to the Police and Crime Plan**

- 2.1. The JAC provide a mechanism through which assurance can be sought and the public assured with regards to the probity, regularity and value for money of resources deployed in the pursuit of the Police and Crime Plan.

**3. Consultation - N/A**

**4. Implications**

- a. Legal – N/A
- b. Financial – N/A
- c. Equality considerations – N/A

**5. Background Papers**

**6. Public access to information**

Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.

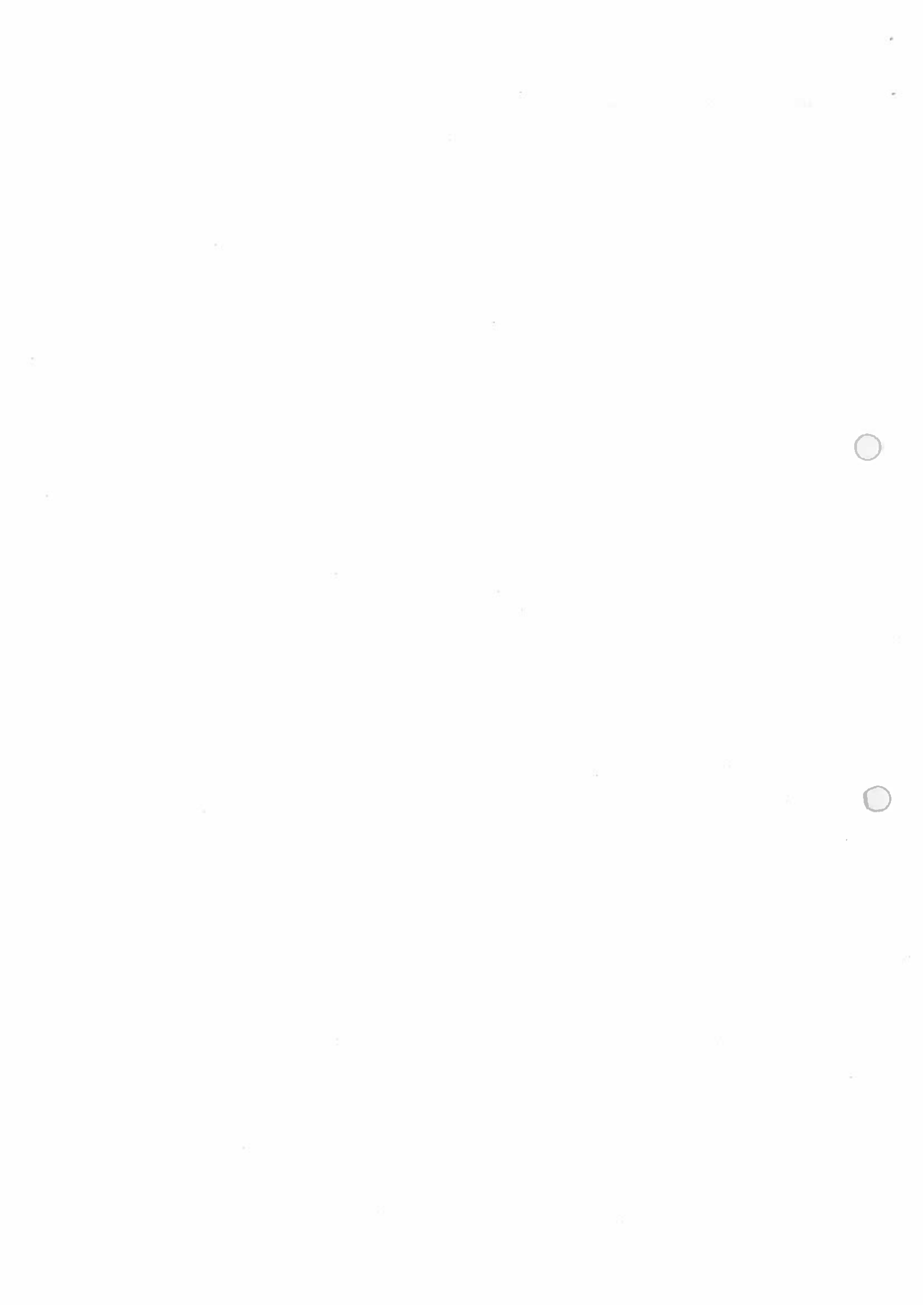
<b>Officer declaration</b>	<b>Date</b>
<b>LEGAL IMPLICATIONS – As above</b>	
<b>FINANCIAL IMPLICATIONS – As above</b>	
<b>EQUALITIES IMPLICATIONS – As above</b>	

<b>CONSULTATION – As above</b>	
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**Director to the Office of the Police and Crime Commissioner (Monitoring Officer)**

I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature.....Date.....



**JOINT AUDIT COMMITTEE FOR THE LANCASHIRE POLICE AND CRIME  
COMMISSIONER AND CHIEF CONSTABLE**

**Annual Report - April 2015**

**Introduction and Background**

The Joint Audit Committee for the Lancashire Police and Crime Commissioner (PCC) and Chief Constable (CC) was established on 1 April 2014 replacing the Interim Combined Audit Committee which had been in place following the abolition of Police Authorities in November 2012.

The Police Reform and Social Responsibility Act 2011 which abolished Police Authorities introduced a Financial Management Code of Practice (FMCP) which requires that PCC's and CC's have an independent audit committee and recommends that this requirement is met through a shared body. The FMCP sets out the audit committee's role as considering the internal and external audit reports and advising both bodies (PCC and CC) on good governance principles and risk management arrangements. The FMCP makes it clear that the role of the audit committee is "to advise" the PCC and CC. The PCC and CC each have overall responsibility for governance in their organisations.

The Joint Audit Committee agreed its Terms of Reference (ToR) at its first meeting on 16 June 2014 and has recently carried out a self assessment exercise of its performance in relation to the ToR over the last 12 months. The committee is proposing a small number of revisions to the current ToR which are attached to this report for the approval of the PCC and CC going forward.

**Membership**

The following individuals were appointed as Members of the Committee following an open recruitment exercise and interviews:

Mr Stephen Dobson

Mr David Jones

Mr Clive Portman (Chair)

Ms Karol Sanderson (Vice Chair)

Mr Russell Weaver

**Meetings**

The Committee met four times in 2014/15 and all members attended each meeting.

Meetings were held on:

16 June 2014

15 September 2014

1 December 2014

2 March 2015

Committee Members also attended a day of Induction Training on 29 May 2014.

All meetings of the Committee consider Internal and External Audit Reports; Professional Standards and Integrity Reports along with specific reports from statutory officers. In addition other reports consider matters arising reflecting the annual work programme and timetable of officers as follows:

Spring meeting – Audit Planning and reporting

Summer Meeting – Internal Audit Annual Opinion, Annual Governance Statements and Risk Registers

Autumn Meeting – Annual Accounts, External Audit Opinions, Annual Governance Report

Winter Meeting – Risk Management Report, Anti Fraud and Corruption strategies, Internal Audit Monitoring Reports

### **Assurance**

The Committee provides assurance to the PCC and CC by effectively challenging the arrangements for risk management, maintaining effective internal control and reporting on financial and other performance. It does so by focusing its work plan on the areas set out above. One of the barriers to audit committee effectiveness is that most members are engaged for only four meetings a year but in a number of cases members have held meetings with officers of the PCC and CC outside of the regular meeting cycle including visiting the force's operational base. The Committee is grateful for the opportunities for meetings outside the Committee meeting cycle which have assisted members in their broader understanding of both organisations.

### **Issues to Note from Joint Audit Committee Meetings Held**

#### **16 June 2014**

- Internal Audit reported substantial assurance over the internal control environment; substantial assurance over procedures operated for core financial systems and substantial assurance over the new governance arrangements implemented from 1 April 2014 in their 2013/14 annual report.

- The Internal Audit annual report for 2013/14 reported full or substantial assurance obtained from 10 audit reviews undertaken with one exception, a review of ICT services at the Constabulary where limited assurance was obtained. The Internal Audit report identified positive progress being made but at the time of the review only limited assurance could be given. This issue was followed up by an Audit Committee member who reported to the next Committee meeting that appropriate action was being taken to address the relevant issues. A follow up review by Internal Audit is included in the 2014/15 work programme.
- The Committee received reports on risk management arrangements and reviewed the risk registers for both the PCC and CC.
- Internal Audit reported one irregularity within the Constabulary which led to the dismissal of a number of officers along with a further irregularity which was under investigation by the force Professional Standards Department.
- The Committee considered and approved the 2014/15 which provided for 200 days input including 15 days devoted to following up areas where only limited assurance had been obtained.
- The Committee approved the external audit Joint Audit Plan for the 2013/14 audit with external audit fees of £67,890 (£42,890 re PCC and £25,000 re CC). The external audit fees reflect the work programme and scales of fees prescribed by the Audit Commission. The fees for the 2014/15 audit are expected to remain at £67,890 but for the 2015/16 audit a reduction in external audit fees of 25% is expected based on scales of fees recently published.

### **15 September 2014**

- The Committee considered a report on the Constabulary Risk Management arrangements and the current risk register.
- The Committee received reports from the Chief Finance Officers of the PCC and CC setting out the key issues in relation to the 2013/14 financial statements.
- The findings of the external audit of the 2013/14 accounts were presented. No control weaknesses were identified which needed reporting to the Committee and no material issues had arisen. The external auditor (Grant Thornton) was proposing to issue unqualified audit opinions and unqualified VFM conclusions for 2013/14 on the accounts of the PCC and CC and the consolidated group accounts.

- The Committee agreed a protocol for the reporting of financial and accounting irregularities to the Chair and the Committee going forward.

### **1 December 2014**

- The Annual Audit Letter for the 2013/14 audit by the external auditor was presented. The key findings were to confirm that unqualified opinions on the accounts and VFM conclusions were given by the deadline of 30 September 2014 and that external audit fees were as stated in the earlier audit plan. It was noted that the external audit for 2013/14 had been formally concluded.
- Internal Audit reported that all areas reviewed to date in their 2014/15 audit plan received substantial assurance.
- The Committee were supportive of a report relating to the establishment of an Ethics Committee and an internal Ethics Panel (a tactical group of police officers and staff).
- As part of a report on Integrity and Standards the Committee noted that an Audit Team was formed within the force Professional Standards Department on 1 April 2014.
- The Committee received an oral report of a seminar for Police Audit Committee members organised by Grant Thornton which two of the members of the Committee had attended.

### **2 March 2015**

- Internal Audit reported substantial assurance obtained in all areas under review with the exception of the expenses system operated by the office of the PCC where only limited assurance had been obtained. A number of actions have been agreed with senior officers in the office of the PCC including the move to an electronic expenses system similar to the system operated by the force. Implementation of the agreed actions will be followed up by internal audit in the 2015/16 programme of work.
- Internal Audit reported that no issues have been identified from work to date in 2014/15 that have any significant implications for the internal control environment as a whole.
- The Committee approved the draft internal audit plan for 2015/16 noting the operational reviews which are risk based following discussions with senior officers.
- The Committee approved the external audit plan for the 2014/15 external audit noting that external audit fees are estimated to be at the level of the previous year.



- The Committee received and noted a report on the revenue and capital budgets for the PCC and CC for 2015/16.
- The Committee received a report on the proposed interim structure for the office of the PCC along with an update on Integrity and Standards matters and HMIC inspection activity.

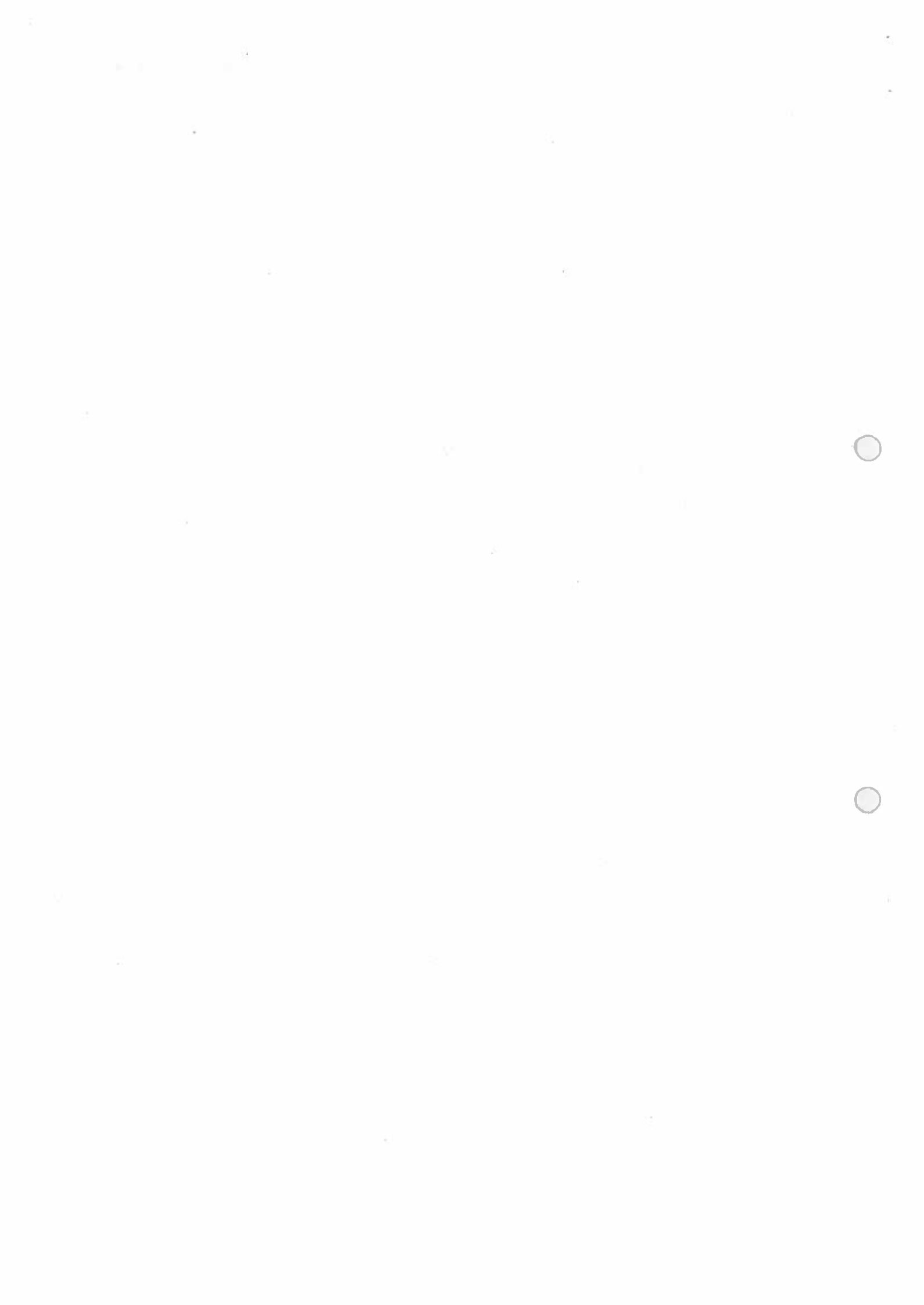
### **Summary Conclusions**

The Committee is satisfied that the PCC and CC can take substantial assurance in respect of maintaining effective internal control; reporting on financial and other performance and in respect of arrangements for risk management. There were two areas where only limited assurance could be obtained. In both of these areas the Committee was satisfied that appropriate action was being taken to address the issues identified. Both areas will be subject to a follow up review by Internal Audit (ICT in 2014/15 and OPCC Expenses in 2015/16).

A revised version of the ToR of the Joint Audit Committee is attached for the approval of the PCC and CC.

Clive Portman  
Joint Audit Committee Chair

April 2015



**Joint Audit Committee for the Lancashire Police and Crime  
Commissioner and Chief Constable**

**Terms of Reference (April 2015 Review Version)**

**Statement of Purpose**

The Audit Committee is responsible for enhancing public trust and confidence in the governance, financial reporting and financial performance of the Office of the Police and Crime Commissioner (PCC) and of the Chief Constable of Lancashire Constabulary (CC).

It also assists the Commissioner in discharging statutory responsibilities in holding the Chief Constable to account and helping to deliver an effective policing service.

This will be achieved by:

- Providing **independent assurance to both the PCC and CC** of the adequacy and efficiency of the risk management framework and the associated control environment within the Constabulary and the office of the Commissioner.
- **Independently reviewing** financial and non-financial performance to the extent that it affects the Commissioner and Constabulary's exposure to risk and weakens the overall control environment.
- **Providing assurance** that any issues arising from the process of drawing up, auditing and certifying the annual accounts are properly dealt with and that the appropriate accounting policies have been applied.

**Membership**

The Committee will comprise between 3 and 5 suitably qualified members who will be independent of the Commissioner and Chief Constable.

The executive of the Office of the PCC and representatives of the Command Team of the Constabulary are required to provide pertinent information as necessary and to attend each meeting of the Committee.

Attendees may include the Commissioner's Chief Executive and Chief Financial Officer, the Constabulary's Director of Resources, the Manager of Internal Audit and any other officers of the Commissioner and the Constabulary that may be called upon to attend meetings to address specific issues.

Private meetings will also be held with the Manager of Internal Audit and with the Engagement Lead of external audit no less frequently than once a year.

### **Frequency of Meetings**

The Audit Committee will meet no less than four times a year on dates to be determined by the Committee and has the authority to convene additional meetings as circumstances may require.

### **Terms of Reference**

In order to effectively discharge its function and purpose the Audit Committee is responsible for providing assurance to the PCC and CC in respect of:

#### **1 Internal Audit**

- 1.1 Ensuring appropriate arrangements for internal audit and approving the internal audit strategy.
- 1.2 Reviewing and approving the internal audit plan.
- 1.3 Ensuring that there are no unreasonable or unjustified restrictions or limitations on the work of internal audit.
- 1.4 Considering the annual report and opinion by the Head of Internal Audit, including a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the internal control environment and governance arrangements for the PCC and CC.
- 1.5 Considering summaries of specific internal audit reports as required.
- 1.6 Considering and monitoring the management and performance of internal audit by taking the above steps.

#### **2 External Audit**

- 2.1 Receiving and considering the external audit plan and scope of the audit.
- 2.2 Considering the external auditor's annual audit letter and reports.

2.3 Monitoring the responses of the staff of the PCC and CC to the findings and reports of external audit.

2.4 Monitoring the effectiveness of the work of external audit and ensuring that external audit provides value for money.

### **3 Statutory Accounts**

3.1 Reviewing the annual statement of accounts and considering whether the accounts are complete and consistent with information known to the Committee and whether appropriate accounting policies have been followed.

3.2 Reviewing other sections of the annual report and related regulatory filings before release and considering the accuracy and completeness of the information.

3.3 Reviewing, with management, the external auditor's report and opinion on the financial statements and reporting to the PCC and CC any issues arising from or difficulties encountered during the audit.

### **4 Internal Control**

4.1 Considering the effectiveness of the processes for assessing and managing key risks to the PCC and CC by reviewing risk registers for the PCC and CC at not less than 6 monthly intervals.

4.2 Considering the effectiveness of the internal control systems of the PCC and CC, including systems for monitoring compliance with relevant laws and regulations.

4.3 Reviewing the PCC and CC scheme of governance in respect of contract procedures and financial regulations.

4.4 Reviewing the draft Annual Governance statement for the PCC and the CC and reviewing the overall strategic processes and arrangements for risk management and effective corporate governance.

4.5 Reviewing the findings of any examinations by regulatory agencies, eg HMIC

**5 Reporting**

5.1 Reporting regularly to the PCC and CC about Committee activities, issues and related recommendations

5.2 Providing an open avenue of communication between internal audit, the external auditor and the PCC and CC.

**6 Other Responsibilities**

6.1 Review the PCC and the Constabulary's governance and framework documents to ensure they remain up to date and relevant.

6.2 Reviewing any issue referred to the Committee by the PCC and/or the CC.

6.3 Receiving reports from officers of the PCC and/or CC on matters referred for investigation, including any issues of alleged or proven fraud or financial irregularity. The CFO's for the PCC and CC will inform the Chair of the Committee of any significant cases and it is at the discretion of the Chair whether other Members of the Committee should be advised.

6.4 Reviewing and assessing the adequacy of the Committee Terms of Reference annually and seeking the approval of the PCC and CC for any proposed changes.

6.5 Confirming annually that all responsibilities outlined in the Terms of Reference have been carried out.

6.6 Evaluating the Committee's performance on a regular basis.

6.7 Performing any other relevant activities requested by the PCC and/or CC.

Review Date: April 2016

