

Draft Internal Audit Report  
Audit Committee Effectiveness  
May 2017

DRAFT

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## 01 Introduction

As part of the Internal Audit Plan for 2017/18 for the Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police (OPCC), we have undertaken an audit of the effectiveness of the Joint Audit, Risk & Assurance Panel (JARAP).

The audit used the five good practice principles set out in the National Audit Offices (NAO's) good practice guide 'The Audit Committee Self-Assessment Checklist, 2012' and covered:

- The role of the audit committee
- Membership, independence, objectivity and understanding
- Skills
- Scope of work
- Communications

We engaged with the OPCC Chief Finance Officer and members of the JARAP during the review. As part of the review we utilised CIPFA's self-assessment tool which provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. JARAP members were required to independently complete the self-assessment and then a session was held with members to analyse further their responses. We are grateful for the assistance provided during the course of the audit.

## 02 Background

The Accounts and Audit (England) Regulations 2011 highlights how local authorities are responsible *'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'*

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management. In CIPFA's 'Audit Committee / Practical Guidance for Local Authorities and Police, 2013', it defines the purpose of an audit committee as *'to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.'*

The OPCC website refers to the JARAP as follows: *The PCC and the Chief Constable are responsible for ensuring good value for money, integrity and statutory compliance in all that they do and to provide the public with the confidence that this is done properly, an independent Joint Audit, Risk and Assurance Panel (JARAP) has been established. The JARAP will seek assurances that the Police and Crime Commissioner and Chief Constable have fulfilled their responsibilities to ensure the best use of resources and public money.*

## 03 Key Findings

### Examples of areas where controls are operating reliably

- Panel Terms of Reference clearly set out the roles and responsibilities of the Panel.
- There is a willingness to seek best practice through the commissioning of reviews into its effectiveness.
- Panel members are drawn from a variety of backgrounds, each of which are able to bring with them separate insight.
- Attendance at each Panel meeting of senior representatives of the OPCC and Force provides valuable support to Panel Members in fulfilling their responsibilities.
- Panel members regularly utilise the invites to other Force forums to supplement their assurance requirements.

Priority	Number of recommendations
1 (Fundamental)	-
2 (Significant)	6
3 (Housekeeping)	2
<b>TOTAL</b>	<b>8</b>

### Risk Management

Risk management is the process of identifying, assessing, controlling and managing risks across the organisation. It is an integral part of internal control and good governance. Risk Management enables the Office of the Police and Crime Commissioner for Leicestershire and Leicestershire Police to make informed decisions to achieve their objectives, based on calculated risk.

For the Office of the Police and Crime Commissioner for Leicestershire (OPCC) and Leicestershire Police, although risks are identified separately by the corporations sole, the recording, review and reporting process is overseen by a Risk & Business Continuity Advisor in the Force. The overarching responsibility of risk management for the Force lies with the Deputy Chief Constable. The Risk & Business Continuity Advisor works within Corporate Services and is responsible for overseeing the Risk Management system and acts as a gatekeeper for strategic risks and is responsible for advising managers and staff on risk management issues.

The Force have a Risk Management Policy and Procedure which has also been adopted by the OPCC. This outlines the principles of risk management and defines how risk is identified, assessed, recorded and managed within Leicestershire Police to enable delivery of their duties, force objectives and the Police and Crime Plan.

The risk register is reported quarterly to the Strategic Organisational Risk Board which is chaired by the DCC, with the OPCC also represented at this Board. A Joint Audit, Risk & Assurance Panel (JARAP) is also in place to oversee the risk management of both corporations sole.

In addition to the above, Internal Audit provide the Police and Crime Commissioner and Chief Constable with an independent and objective opinion on governance, risk management and internal control and their effectiveness in achieving the organisation's agreed objectives. It does this through its reporting to the JARAP. Internal audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control. The work of internal audit, culminating in its annual opinion, forms a part of the OPCC and Force's overall assurance framework and assists in preparing an informed statement on internal control.

## Sector Comparison

From our experience across our client base, we are seeing pressure on resources and higher service demands have resulted in challenges to the existing control environment. This often results in challenges in terms of availability of resources to fulfil certain control routines which had been previously relied upon. It is therefore important that organisations have effective audit committees / audit and scrutiny panels.

From our experience of attending or, in some cases, reviewing such arrangements across both the police sector and beyond, arrangements in place within Leicestershire Police / OPCC are generally sound. In particular, we have identified numerous areas of good practice where we believe the Panel compares well with its peers. A particular example of this is the use to which Panel members make of invites to other Force forums to supplement their assurance requirements. This provides a valuable insight into how the Force operates and, in our experience, one which some other audit committees could learn from.

We have, however, identified a number of areas where we believe processes could be strengthened and these are outlined in section 04 below.

## 04 Areas for Further Improvement and Action Plan

Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

We identified a number of areas where there is scope for improvement in the control environment. The matters arising have been discussed with management, to whom we have made recommendations. The recommendations are detailed in the management action plan below.

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p><b><u>Assessment of the Effectiveness of the JARAP</u></b></p> <p><i>Observation:</i> The JARAP Terms of Reference (ToR) requires that the JARAP review its own effectiveness annually; it states:</p> <p><i>'9.4 The JARAP will annually review its own performance to ensure it is fulfilling its terms of reference and operating effectively. In doing so it will make any recommendations for change to the PCC and Chief Constable. This annual review of performance will include an individual appraisal of all members of the JARAP, including the Chair. The performance review of the JARAP and its members will be commissioned and undertaken independently.'</i></p> <p>Whilst reference to a JARAP member 'Development Day' was referred to on the agenda at its meeting on 9/12/16, there was limited evidence that the JARAP regularly reviews its own effectiveness and puts in place action plans to aid its development. From discussions with members, whilst one of the JARAP members has, in the past, produced a report that went some way to meeting this requirement, there was no specific action plan</p>	<p>Actions identified following this review of the JARAP's effectiveness should be agreed and monitored at subsequent meetings via a standalone action plan.</p> <p>The JARAP work plan should be amended to include a regular review of its own effectiveness (possibly as part of the annual review of its ToR). Areas of best practice from other similar organisations discussed during the review should be considered.</p> <p>As part of the JARAP's review of its own effectiveness, consideration should be given to securing feedback from other (ie non-Panel members) contributors to the JARAP as to its effectiveness.</p>	2		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>and any actions coming out of it were captured within the JARAP existing rolling action plan.</p> <p>From review of the JARAP annual work plan, there is no mention made of reviewing the JARAP's own effectiveness (other than this one-off exercise in May 2017).</p> <p><i>Risk: Opportunities are lost to develop the Panel and to ensure that it is meeting its terms of reference.</i></p>				
4.2	<p><b>JARAP Terms of Reference</b></p> <p><i>Observation:</i> CIPFA's Position Statement provides a best practice example of audit committee terms of reference and this was compared to that in place for the JARAP.</p> <p>The JARAP ToR, whilst it does not follow the precise format of the CIPFA Position Statement, broadly covers the content. The JARAP ToR are reviewed annually, with the latest review being carried out at the March 2017 meeting. However, we noted a few of areas where consideration should be given to further development of the JARAP ToR. These included:</p> <ul style="list-style-type: none"> <li>Whilst para 5.4 of the ToR states '<i>meetings can be requested by the external or internal auditors where this is considered necessary and on agreement of the JARAP Chair</i>', consideration should be given to prescribing at least an annual meeting with the auditors.</li> </ul>	<p>The Terms of Reference for the JARAP should be reviewed, updated, agreed and uploaded to the website. The review should consider the following:</p> <ul style="list-style-type: none"> <li>prescribing the requirement for an annual meeting with the auditors;</li> <li>determining whether the Chair signs the minutes as a true representation of the meeting.</li> </ul> <p>Consideration should be given to presenting a report setting out the respective roles and responsibilities of the JARAP and other relevant forums / groups on a regular basis.</p>	3		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<ul style="list-style-type: none"> <li>Para 8.1 of the ToR states that <i>'the minutes of the previous meeting must be approved by the JARAP and signed by the chair as a true record at each meeting.'</i> It was confirmed that whilst the minutes are agreed at subsequent meetings, the JARAP Chair does not actually sign them.</li> </ul> <p>Furthermore, from discussions with the Panel it was agreed that whilst the ToR would not necessarily require amendment, clarity over the role of the Panel would be enhanced by setting out the boundaries of the Panel's responsibilities and, in particular, what areas the Panel should not cover so as to avoid duplication with other forums (examples discussed included performance and ethics). It was acknowledged that a report broadly setting this out had been presented to the JARAP in the past, although a refresh would be welcomed.</p> <p><i>Risk:</i> The Panel's terms of reference are not fit for purpose and do not clearly set out its role and purpose.</p>				
4.3	<p><b>JARAP Annual Report</b></p> <p><i>Observation:</i> The JARAP (through the OPCC CFO) produces an annual report which is presented by the JARAP Chair to the PCC and CC annually. From review of the annual report it was confirmed that it broadly covers most areas of best practice. What it perhaps does not cover (or, at least, it may need strengthening) is explicitly setting out (a)</p>	There should be a review of the extent to which the JARAP annual report fulfils the areas of good practice set out in the NAO's five good practice principles. This should include:	2		



	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>issues that should be considered for the AGS or for long-term consideration and (b) its views on its own effectiveness and any actions that it feels it needs to take to strengthen the Panel.</p> <p>From discussion with Panel members, it was acknowledged that the annual report could be developed, particularly in terms of assessing its own effectiveness. It was agreed that good practice highlighted from annual reports produced by other similar organisations should be considered in its development. The review of the JARAP's annual report should include the extent to which it fulfils the areas of good practice set out in the NAO's five good practice principles (a summary of which is contained within the recommendation).</p> <p><i>Risk:</i> The Panel is not able to demonstrate how it fulfils its responsibilities and / or misses the opportunity to regularly review its own effectiveness.</p>	<ul style="list-style-type: none"> <li>a) the comprehensiveness of assurances in meeting the PCC and CC's needs;</li> <li>b) the reliability and integrity of these assurances;</li> <li>c) whether the assurance available is sufficient to support the PCC and CC in its decisions taken and their accountability obligations;</li> <li>d) the implication of these assurances for the overall management of risk;</li> <li>e) any issues the JARAP considers pertinent to the Governance Statement, and any long-term issues the Panel thinks the PCC and CC should give attention to;</li> <li>f) financial reporting for the year;</li> <li>g) the quality of both Internal and External Audit and their approach to their responsibilities; and</li> <li>h) the Audit Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.</li> </ul>			
4.4	<p><b><u>Administrative Support</u></b></p> <p><i>Observation:</i> In order to facilitate an effective independent assurance function, it is important that</p>	Given the previous issues with regards the quality of administrative support for the JARAP, and the subsequent return	3		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>the administrative support for the Panel enables it to fulfil its function.</p> <p>From feedback from, and discussions with, the Panel, it was acknowledged that issues had arisen with the quality of administrative support for the Panel. This included the quality of Panel minutes and the promptness with which papers and minutes were issued. As a consequence, responsibility for administrative support has recently returned to the OPCC. Initial comments at JARAP meetings, together with responses from the self-assessment, suggest improvements have been made.</p> <p><i>Risk:</i> The Panel are not able to effectively fulfil their duties.</p>	of the role to the OPCC, this should be kept under review for the time-being.			
4.5	<p><b><u>Disclosable Interests</u></b></p> <p><i>Observation:</i> The JARAP ToR sets out the following:</p> <p><i>'2.11 In accordance with the JARAP members code of conduct, each member will be required to record any conflicts of interest in the register of pecuniary and non- pecuniary interests. In addition, JARAP members will be required to disclose any such interests at the commencement of any meeting where there is a need to do so due to the nature of the JARAP agenda, or immediately if they arise unexpectedly in discussion.'</i></p> <p>Declarations of interest are a standing agenda item at JARAP meetings.</p>	All JARAP members should be required to submit a 'Disclosable Interest' form, even if there is no disclosure to be made, ie a 'nil return'.	2		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>Whilst there is no specific requirement to do so, the OPCC/Force have acknowledged that it is good practice to require each member to include a link to a 'Disclosable Interest' form. From a review of the OPCC website, there was only evidence that three of the four current members had made such a disclosure.</p> <p><i>Risk:</i> Reputational damage where the work of the Panel is brought into question as a consequence of a perceived conflict of interest.</p>				
4.6	<p><b><u>Panel Induction Training</u></b></p> <p><i>Observation:</i> The JARAP ToR sets out the induction and on-going training needs of the JARAP members; it states:</p> <p><i>'2.10 On joining the JARAP, each member must attend an induction training course to help them understand the roles of the PCC and the Chief Constable, the Police and Crime Panel and the organisations pertaining to the PCC and Chief Constable. Further training on specific relevant topics will be provided as necessary, according to the members' own relevant experience and emerging business needs of the JARAP. Members of the JARAP will be expected to attend all such training and to develop their skills as part of a member development programme. Training needs will be considered during the annual appraisal process and a training &amp; development programme established both for the JARAP and its individual members as appropriate.'</i></p>	<p>The imminent recruitment of the JARAP Chair and a member should be supported by effective arrangements for their induction training. Amongst the areas to be included in the induction training, consideration should be given to the areas of good practice set out in the NAO five good practice principles; these include:</p> <ul style="list-style-type: none"> <li>a) their appointment and purpose;</li> <li>b) the support and training that they will receive;</li> <li>c) the commitment required;</li> <li>d) their remuneration;</li> <li>e) conflict of interest procedures;</li> <li>f) expected conduct;</li> <li>g) duration of appointment and how often it may be renewed; and</li> </ul>	2		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>From discussions with Panel members it was generally felt that induction training was satisfactory. However, given the imminent departure of the Panel Chair, and the need to recruit a fifth member of the Panel, it was agreed that now was a good time to revisit the quality of induction provided.</p> <p><i>Risk:</i> New Panel members do not have a clear understanding of the role and, as a consequence, this hinders their effectiveness.</p>	<p>h) how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance.</p>			
4.7	<p><b><u>Ongoing Panel Training</u></b></p> <p><i>Observation:</i> As set out in 4.7 above, the JARAP ToR (at 2.10) sets out the on-going training JARAP members can expect.</p> <p>Whilst it is a subjective area to determine whether 'sufficient' training has been provided, the outcome of the questionnaires sent to Panel members as part of this review suggested that Panel members were generally happy with the level of training provided, although the level of training may have reduced since initial induction. This was further confirmed from discussions with Panel members and officers, who confirmed that there was now a requirement for a more structured review of Panel member skills, together with more structured training plans for each member.</p> <p><i>Risk:</i> Panel members do not have the skills to effectively fulfil their role.</p>	<p>Consideration should be given to reviewing the JARAP's training requirements, including the need for a 'skills audit' and training plans.</p>	2		

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.8	<p><b><u>Audit Committee Chairs Forum</u></b></p> <p><i>Observation:</i> From discussions with Panel members, it was noted that some limited attempts have been made to work with audit committees in the region, with examples being given of a one-off chairs meeting and a Panel member attending another Force's audit committee meeting. It was acknowledged, however, that there was a requirement to enhance relationships with other audit committees in the region with a view to sharing best practice and discussing common issues.</p> <p><i>Risk:</i> Missed opportunity to share best practice from other audit committees in the region.</p>	<p>The Panel should continue to seek input / insight from other audit committees in the region with a view to driving best practice.</p>	2		

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# A1 Audit Information

Audit Control Schedule	
<b>Primary Sponsors:</b>	Helen King – Chief Finance Officer, Office of the Police and Crime Commissioner Leicestershire  Paul Dawkins, ACO, Finance & Resources
<b>Client contacts:</b>	Helen King – Chief Finance Officer, Office of the Police and Crime Commissioner Leicestershire  Joint Audit, Risk & Assurance Panel Members
<b>Internal Audit Team:</b>	David Hoose, Partner  Brian Welch, Audit Senior Manager
<b>Finish on Site \ Exit Meeting:</b>	17 <sup>th</sup> May 2017
<b>Draft report issued:</b>	25 <sup>th</sup> May 2017
<b>Management responses received:</b>	
<b>Final report issued:</b>	

## Scope and Objectives

The audit looked to provide assurance that there is an effective audit and scrutiny function in place to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance process, as set out in best practice guidance such as that published by CIPFA and the National Audit Office (NAO).

Using the five good practice principles set out in the NAO's good practice guide 'The Audit Committee Self-Assessment Checklist, 2012', and applying them to the Joint Audit, Risk & Assurance Panel, the audit objectives are to provide assurance over:

- *Principle 1: The Role of the Audit Committee* – Does the Audit Committee effectively support the Board and the Accounting Officer by reviewing the completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?
- *Principle 2: Membership, Independence, Objectivity and Understanding* – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?
- *Principle 3: Skills* – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?
- *Principle 4: Scope of Work* – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?
- *Principle 5: Communication* – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board, and other stakeholders?

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
<b>Significant Assurance:</b>	There is a sound system of internal control designed to achieve the Organisation's objectives.	The control processes tested are being consistently applied.
<b>Satisfactory Assurance:</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the Organisation's objectives at risk.	There is evidence that the level of non-compliance with some of the control processes may put some of the Organisation's objectives at risk.
<b>Limited Assurance:</b>	Weaknesses in the system of internal controls are such as to put the Organisation's objectives at risk.	The level of non-compliance puts the Organisation's objectives at risk.
<b>No Assurance</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse.	Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Definitions of Recommendations	
Priority	Description
<b>Priority 1 (Fundamental)</b>	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
<b>Priority 2 (Significant)</b>	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
<b>Priority 3 (Housekeeping)</b>	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

## A2 Statement of Responsibility

### **Status of our reports**

*We take responsibility to the Police & Crime Commissioner for Leicestershire for this report which is prepared on the basis of the limitations set out below.*

*The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.*

*We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.*

*The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.*

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