

<b>Review Area 8</b>
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<b>Audit Committee</b>
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**Commentary**

- 8.1 Until early in 2006 there existed locally an Audit Panel, made up of members of the Finance and General Purposes Committee, and reporting to it.
- 8.2 Because of the challenge of police restructuring a decision was made to streamline the Committee structure with a view to using both member and officer time more efficiently.
- 8.3 Although that challenge has now disappeared for the time being (but not workload pressures within the Police Authority office), it has been replaced by another – future funding shortfalls due to government grant settlements and precept capping.
- 8.4 In view of this it is appropriate to review how the revised arrangements have worked and consider whether a return to a Panel, or the establishment of a Committee, should be agreed.
- 8.5 The pros and cons of the alternative models are described below.
- A dedicated part of the Finance and General Purposes Committee makes the most efficient use of members and officers time, and is a clear public demonstration of the Authority's processes in this area. On the other hand agendas can become quite full with the risk that discussion time on individual papers is limited.
  - An Audit Panel has all the advantages of a dedicated Committee, but does re-introduce another meeting commitment. It is held in private.
  - An Audit Committee satisfies all the arguments promulgated in the input documents, including being a public process.
  - The Audit Commission supports the establishment of a Committee in that it satisfies the key public sector principles of openness and accountability.
- 8.6 Whichever model is selected, consideration should be given to the functions and features of the Committee or Panel.
- 8.7 The guidance from CIPFA does not prescribe any particular model for an audit committee, but does suggest some features that should be common to all. They are: -

**A Statement of Purpose**

- 8.8 The local authority should formally approve a Statement of Purpose, along the following lines:

“The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and

weakens the control environment, and to oversee the financial reporting process.”

### **Core Functions**

8.9 Audit committees will:

- Consider the effectiveness of the authority’s risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being undertaken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the authority’s assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit’s strategy and plan, and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the head of internal audit.
- Consider the reports of external audit and inspection agencies.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.

### **Features**

8.10 Good audit committees will be characterised by:

- A strong chair – displaying a depth of skills and interest.
- Unbiased attitudes – treating auditors, the executive and management equally.
- The ability to challenge the chief officers when required.
- A membership that is balanced, objective, independent of mind, and knowledgeable.

### **Structure and Administration**

8.11 Although no single model of audit committee is prescribed, all should:

- Be independent of the executive and scrutiny functions.
- Have clear reporting lines and rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management Groups and other strategic groups.
- Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief finance officers or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the

committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.

- Be properly trained to fulfil their role.

### **Recommendations**

8.12 Members are recommended to:

- i. Consider whether to recommend to the Police Authority a continuation of the existing arrangements, a return to an Audit Panel, or the establishment of an Audit Committee.
- ii. Whichever model is recommended, further recommend that the relevant body adopts a statement of purpose as described above, and includes the core functions and structure as described above in its terms of reference.

8.13 **Output**

- i. An Audit Committee or equivalent that is conducting its business in accordance with the best practice promulgated by experts in the field.
- ii. Revised terms of reference for the Committee or Panel.

