

LEICESTERSHIRE POLICE AUTHORITY

ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE 2010/11

Chairman's Foreword

This has been a year of significant change, both in terms of government policy and future funding (and their consequent impact on the finance and administrative infrastructure more widely), in the senior leadership of the Force and Police Authority (with consequent need for adequate handover and accumulated knowledge) and in legislative proposals for new Police governance arrangements (for which there needs to be adequate planning to ensure effective handover and proper stewardship of assets).

This report summarises the Committee's work against that background.

Introduction

1. This is the second Annual Report of the Audit and Risk Committee (formerly the Audit Committee) of the Leicestershire Police Authority. It is good practice to prepare such a report and for the full governance body to receive it. It covers the work of the Committee for the financial year ended 31 March 2011. The report is drawn from the contents of, discussions on and conclusions drawn from the reports it has considered and the work it has done during the year. The aim of the report is to provide a level of assurance to the Police Authority, its Chairman and the Chief Constable and Chief Executive who sign the Annual Governance Statement. During the financial year a review was undertaken of the Committee and meeting structure of the Authority and it was decided to put more emphasis on the management of risks and therefore re-name as the Audit and Risk Committee.

The Audit and Risk Committee

2. The Committee meets on four occasions each year and comprises six members. Over the last year the following members have served on the Committee:
Mr David Prince
Mrs Wendy Martin
Dr Shofiqul Chowdhury
Mrs Adrienne Roberts
Mr Joe Orson
Mr Brian Page
Mr David Snartt
Mr David Bill
3. Specific training is provided each year for committee members. Members are also provided (by our internal and external auditors as well as our officers) with regulatory and statutory updates and briefings during the year in order to be fully up to date with current policy. In place of a formal training session this year we had input from the then Head of Internal Audit into the revision and restructuring of the Police Authority's Risk Register, which was set as a priority task for the incoming Chief Executive/Treasurer. Going forward we

have earmarked a special session to consider the Committee's specific tasks during the formal handover to the Police and Crime Commissioner, due to take place in January 2012.

Audit and Risk Committee Terms of reference

The terms of reference were reviewed at the time of the Police Authority Development Plan, and subsequently amended following the arrival of the current Chief Executive/Treasurer. The existing terms of reference appear below. They are subject to annual review by the Police Authority.

Terms of Reference:

The Audit and Risk Committee is an essential element of good governance and should act as the main scrutiny body for the Authority in line with the recommendations from the Chartered Institute of Public Finance and Accountancy.

It will help to raise the profile of internal control, risk management and financial reporting issues, and will give independent assurance to the Authority that these matters are controlled adequately.

The Committee will monitor risk and threat facing the Authority and ensure adequate arrangements for mitigation.

Working Arrangements:

The Committee will comprise six members and will meet quarterly.

Functions:

- Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Scrutinise the force risk arrangements and Register.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Authority's assurance statements 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. **(Delegated Function)**
- 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 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.

External Audit

4. External audit is carried out on behalf of the Audit Commission by PricewaterhouseCoopers. They are required under the Audit Commission's Code of Audit Practice and Auditing Standards to issue an Annual Audit Letter on completion of their audit, demonstrating that the audit objectives in the Code have been addressed and summarising all issues of significance arising from their work. Progress reports are produced for each meeting giving members a clear appraisal of timescales, issues and areas for noting for all statutory elements of external audit work.
5. The latest ISA 260 was presented to the Audit Committee on 7 September 2010. It recorded that an unqualified opinion on the Authority's 2009-10 financial statements had been issued, no material weaknesses had been identified in the accounting and internal control systems, and that on value for money and use of resources the Authority has "no significant areas of concern to report in this context". The auditors stated in their summary that they were pleased to report an intention to issue an unqualified value for money conclusion. The Annual Audit Letter was presented in January 2011.

Internal Audit

6. The Accounts and Audit regulations of 2003 (as amended in 2006) state that "a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". This places the responsibility for internal audit with the authority.
7. The Chartered Institute of Public Finance and Accountancy (CIPFA) then issued a statement reflecting the unique position of the Chief Financial Officer in the police service. This document said "in order to ensure that the statutory duties are discharged effectively, the Treasurer should be able to control and influence both the work programme of the internal audit in support of those duties and the quantity and quality of staff made available to undertake the relevant internal audit projects and any other staff required to fulfil his/her duties". Due regard was taken of this in the appointment of a joint Chief Executive and Treasurer in fulfilling these requirements.
8. CIPFA provide further advice in their *Code of Practice for Internal Audit in Local Government in the UK 2006* which also applies to Police Authorities. In terms of responsibility for internal audit plans the Code states that "the Head of Internal Audit should consult stakeholders on the draft plan and revise the plan if appropriate.....once the planned work has been determined, this should be compared to resource availability. Where there is an imbalance between the two, the audit committee should be informed of

proposed solutions. The audit committee should approve, but not direct, the internal audit plan”.

9. Internal audit for Leicestershire Police Authority has been outsourced to private sector firm RSM Tenon. The contract runs for five years from April 2009 and is a collaborative contract with the other East Midlands authorities plus Bedfordshire. This provides the opportunity not only for a cost saving but also easier sharing of good practice.
10. The internal audit programme for the year is prepared by RSM Tenon having regard to the risks they perceive being faced by the Authority. That programme is then discussed with the Treasurer, Deputy Chief Constable and Finance Director before being presented to the Committee.
11. Each individual audit contributes to an overall assessment by the end of the year of the level of assurance that the Authority can place on the risk management, governance and control arrangements in place. Audits are now assessed in terms of RAG status (Red, Amber or Green) and a dashboard presentation is used to show clearly the outcome of the audit.
12. At the end of each year RSM Tenon produce an Annual Report, based upon its work and findings over the year. The Report for 2010-11 was presented to the Audit and Risk Committee on 21 June 2011 and confirmed that the Authority has adequate and effective controls and governance processes to manage the achievement of the organisation’s objectives. In terms of risk management, the report identified an “Amber” position, recommending to the Authority the need to “ensure that all controls are clearly documented and that assurances are received to confirm that these controls are operating as required”.
13. During the year a total of 17 audits were carried out. Out of 46 categorised recommendations made there was just one “Fundamental/High”, 21 “Significant/Medium” and 24 “Merits Attention/Low”. The one Fundamental recommendation referred to an issue within Estates procurement and was very swiftly addressed by the Force. All recommendations were accepted and timescales for their implementation identified. The “Fundamental” and “Significant” recommendations are subject to regular scrutiny by the Audit and Risk Committee until they are implemented. Similarly, recommendations from the external auditor and from the Annual Governance Statement review are checked for implementation.
14. Audits are also given an assurance level. In 2010/11, there were no “limited” assurances given. There were just 3 “adequate” assurances with the rest being “substantial”.
15. By the end of the year only one significant recommendation was outstanding (transport costs recharging). It should be noted that with all action plan responses emanating from audit reports, both the Force and the Authority have made great strides in delivering robust and timely improvement mechanisms.

Risk Management

16. During the year, a significant amount of work has been produced and scrutinised by the Committee on the Constabulary and Authority risk

management processes. Each Committee receives a report highlighting the significant risks for both entities as reported through the ORCHID risk management system. Members scrutinise and challenge the highlighted risks and as a result more detailed reports are requested on areas of concern. During the year, additional reports were received on the Police Authority Development Programme, political uncertainties and transition, staffing changes in the Authority Secretariat. At the close of the financial year, significant risks were highlighted around health and safety issues.

17. The Committee chair (or his nominee) attends the Force Strategic Organisational Risk Board (SORB). A strategic risk is examined in depth at each meeting. The work of SORB is also used to inform some of the subsequent discussion at the Audit and Risk Committee and as the year progressed, there was significant synergy between the two meetings.

Other Activity

18. During the year the Committee has continued to refine and develop the Authority Risk Register, including the quarterly re-assessment of risk scores.
19. The Committee also reviewed the Development Action Plan and managed to ensure that key areas for improvement were delivered. The Self Assessment was also completed during the year and this tool was used to influence the work programme going forward. The Code of Corporate Governance was issued to the Committee so as to inform the Annual Governance Statement published with the Statement of Accounts.

Chairman's Meeting with Auditors

20. In July 2010, in line with best practice, the Chairman and Mrs Martin met privately with both external and internal auditors on conclusion of the annual accounts audit. A summary note of the meeting was provided for Committee members and the treasurer. No significant items emerged from the meetings. A similar meeting will be held in 2011, open to all Committee members.

Conclusion

21. This Report is intended to provide the Authority and members of the public with a clear perspective of the Audit Committee's substantive work during the year. It is a document placed in the public domain and it is hoped that it will assist those seeking information and assurance that the Authority receive sound advice on the topics that fall within the Committee's remit.
22. While in general the work of our auditors confirms that we continue to have proper systems of internal control and risk management we are nevertheless aware that the pressures referred to have individually and cumulatively changed and heightened the nature of our risk profile. It remains important, therefore, to maintain focus on both the management of the strategic risks and also on ensuring the continued and consistent management of the day-to-day risks inherent not just in policing but in running any major organisation. Some pressures have been identified during the year, and officers have throughout the year acted swiftly to address audit recommendations and ensure risk mitigations are in place and kept updated.

Our programme for 2011/2012 will emphasise the same dual focus.

Finally, thanks are due to Committee members and the officers who support our work, and to our auditors.

David Prince
Chairman of the Audit and Risk Committee