

**Annual Report of the Joint Audit Committee
of the Police and Crime Commissioner and Chief Constable of Hampshire 2015/16**

In Summary this report describes:

- the role of the JAC in terms of the Governance arrangements for both organisations in giving assurance or raising concerns to those charged with Governance, namely the CC and the PCC
- how the Joint Audit Committee has overseen the work of both the external and internal auditors
- the work of the Committee to monitor the effectiveness of the internal control and risk management systems of the two organisations

Introduction

1. In 2013, the Police and Crime Commissioner for Hampshire and the Isle of Wight (PCC), and the Chief Constable for Hampshire Constabulary (CC) established a Joint Audit Committee (JAC), as required by legislation, following the creation of Police and Crime Commissioners in England and Wales
2. During the 2015/16 year, the Committee comprised five non-executive independent members:

Mike Attenborough-Cox (chair)
Elizabeth Mackenzie (vice chair)
Elizabeth Dermody
Lesley Kirk
Peter Lloyd
3. The purpose of an Audit Committee¹ is 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 report and annual governance processes. In this context, the PCC and CC are those charged with governance, and the JAC remains an advisory body, i.e. its recommendations are advisory, and those charged with governance are not compelled to follow them.
4. The Committee is expected to report regularly on its work, and at least annually, to report an assessment of its performance. This, the third annual report of the Committee, aims to fulfil both these functions, thus enabling those charged with governance to meet their objective of holding the Committee to account.
5. In its 2013 Guidance, the Chartered Institute of Public Finance and Accountancy (CIPFA) has helpfully provided a framework on which to structure this report:
 - Has the JAC fulfilled its agreed terms of reference?
 - Has the JAC adopted recommended practice?
 - Have the needs of the JAC members been assessed, and, are members accessing briefing and training opportunities?
 - Has the JAC assessed its own effectiveness, or been the subject of a review?
 - What impact has the JAC had on the improvement of governance, risk, and control?

¹ From CIPFA: *Audit Committees: Practical guidance for Local Authorities and Police, 2013*

6. Unless otherwise stated, commentary provided herein applies equally to the separate governance and internal control systems of the PCC and CC.

Has the JAC fulfilled its agreed terms of reference?

7. The terms of reference (ToR) under which the Committee was operating is appended at Annex A with a summary of the reports received under these terms during 2015/16, at Annex B.
8. The Committee's terms of reference are modelled on those in the CIPFA Guidance, and were adopted by the Committee on 30 June 2014 as a working document pending further review as the Committee considered there are a number of shortcomings against best practice, which could hinder the Committee in its role and duty to provide independent advice to the OPCC and the CC and to enable it to operate independently, robustly and effectively.
9. During 2015-16, the Committee discharged its **governance, risk, and control** responsibilities by:
 - Reviewing draft and final versions of the Annual Governance Statement, making recommendations for change, in particular to improve the laypersons understanding of governance arrangements, and also to describe the proven efficacy of the risk mitigations put in place regarding in-year changes to financial systems
 - Considering the Code of Corporate Governance under which each organisation conducts its business
 - Considering the Treasury Management Statement and Investment Strategy through which value for money is achieved alongside prudent stewardship of public assets, and receiving a mid-year update on the same
 - Reviewing the risk register and supporting processes and accountabilities, and certain arrangements for securing integrity and combating the risk of fraud / corruption, and making related recommendations
 - Considering, with the assistance of the internal auditor, the effectiveness of the system of internal controls, particularly those pertaining to risk management
 - Meeting at least four times in the year, and ensuring that those meetings were open to the public, excepting where a relevant statutory exemption applies
10. In relation to its **internal audit** responsibilities, the Committee discharged these through:
 - An annual review of the internal audit charter, and separately, consideration of the Head of Internal Audit's Annual Report and Opinion
 - Regularly reviewing the audit plan, commenting upon the span of scrutiny, the resources available, and the length of time allocated to certain audits
 - Reviewing confidential internal audit reports relating to different aspects of the system of internal controls²; questioning and commenting upon the reports and upon progress made by management in implementing any necessary improvement

² System of Internal controls: e.g. finance, people, corporate governance, risk management, project/programme management, information management, policy/strategy development

- Noting the appointment of the internal audit service, and considering its independence.

11. **External audit** services were considered by the Committee:

- Commenting on scope of the external audit plan
- Commenting on the annual audit results report prepared by the EY, the external auditors
- Reviewing the annual audit letter provided by the external auditors, in which is detailed any issue of concern; in January 2016 the Committee noted that in that letter, the external auditors provided an unqualified audit opinion and an unqualified value for money conclusion for the preceding financial year.

12. **Financial reporting** responsibilities were executed by the Committee:

- Reviewing in detail at its September 2015 meeting, the annual statement of accounts preparatory to these being signed off by the Chief Financial Officers, the PCC and the CC as appropriate.
- Commenting at its June 2015 on the outturn report of the Treasury strategy

Has the JAC adopted recommended practice?

13. Recommended practice can be found in guidance issued by, for example, CIPFA, HM Treasury, and the National Audit Office, amongst others.

14. Recommended practices include:

- The production of this Annual Report
- Terms of Reference modelled on those included in the 2013 CIPFA Guidance, but are in the Committee's view in need of further review.
- Direct access to the internal and external auditors
- Membership that is wholly independent of the executive of either the Office of the PCC or the Constabulary³.
- The JAC follows recommended practice in other regards, for example by including amongst its members a knowledge base that encompasses policing, governance, risk management, financial management and accountancy, programme and project management, internal and external audit experience, and audit committee experience.

Have the needs of the JAC members been assessed, and, are members accessing briefing and training opportunities?

³ As required by *Home Office: Financial Management Code of Practice for the Police Forces of England and Wales, 2013*

15. The needs of the Committee were assessed in advance of the reporting year. A training session was scheduled before each meeting. These sessions have featured wide ranging briefings; for example:
 - On matters relevant to the terms of reference, such as the Statement of Accounts and underlying accounting policies
 - On operational policing matters, such as the Force Control Strategy and approach to Safeguarding. These briefings are intended to improve the Committee's understanding of the risk profile, and of the dynamic environment in which the Constabulary operates.
 - On information governance, presented by the Constabulary's Senior Information Risk Owner (SIRO) prior to the March 2016 meeting
16. This schedule is supplemented by an annual briefing on the statutory and economic conditions affecting the Treasury Management and Investment Strategy.
17. The Committee noted that CIPFA provides further briefing opportunities bespoke to PCC and CC Audit Committees and considers that attendance would benefit its work in future years.

Has the JAC assessed its own effectiveness, or been the subject of a review?

18. The Committee has not been subject to independent review. During 2015-16 it has undertaken a self-assessment process, as is recommended practice, and this will inform its future practices. This is attached at Annex C for reference.
19. The PCC and CC hold the JAC to account, and assess its effectiveness, partly through the evidence provided in this report, as well as that provided during the year by the performance of the JAC at each meeting. The PCC and CC have the right to attend JAC meetings and attended the September 2015 meeting for consideration of the Statement of Accounts.

What impact has the JAC had on the improvement of governance, risk, and control?

20. As explained previously, the Committee acts in an advisory capacity to the PCC and CC. Where time was of the essence, the Committee corresponded with the PCC and CC during the year to ensure that both might have regard to its advice before proceeding on a course of action.
21. Under ordinary circumstance, the agenda, minutes, and papers of each meeting are provided to the PCC and CC, to the officers that attend each meeting, and are published on the website of the OPCC. As shown in Annex B, a wide range of papers are received by the Committee at each of its meetings, leading to substantive discussion on points of materiality. It is fair to say that the Committee is not afraid to challenge the executive and senior managers when required, and it is clear that issues raised in those meetings have informed later actions albeit that the Committee's advice has not been adopted.
22. As outlined in previous Governance Statements of the PCC and CC, evidencing adherence to risk management processes has been a particular area of concern. The Committee spent significant time on this at each of its meetings during 2015/16. It has welcomed the parallel focus of the OPCC and Constabulary on this element of the system of internal controls, and notes that substantial progress continues to be made with performance on an upward

trajectory. Nevertheless, the Committee will continue to sustain focus in this area over the coming year.

23. Taking into account the variety of sources of assurance available to it, the Committee can offer the PCC and CC moderate assurance as to the effectiveness of the governance framework, system of internal controls, and risk management.

Areas for further improvement in the Committee's effectiveness

24. The Committee is pleased to note the improvement, including as noted above, in its working relationship with the OPCC officers and acknowledges that the working relationship with the Constabulary officers remains excellent. The Committee nevertheless remains concerned to ensure it is enabled to be as effective as possible in its role as the only independent source of assurance (other than the external auditors) to the OPCC and Constabulary. In this connection the Committee,
 - 24.1 is pleased to note the importance attached to the functions of the JAC in public statements by each of the recently appointed PCC and Chief Constable.
 - 24.2 regrets that to date the formal meetings of the JAC have only been attended by the OPCC and Chief Constable (prior to the recent appointments) on one occasion in three years and looks forward to more frequent attendance. The Committee was pleased that meetings have been attended by Deputy Chief Constable(s) who have taken a robust approach to the need to make improvements to the management of the Strategic Risk Register and we hope that this will continue to be seen as a priority commitment.
 - 24.3 continues to ask for changes to its Terms of Reference including to enable it to take a more direct role (albeit advisory) in approving the performance and appointment of the internal and external auditors in order to ensure best performance and value for money.
 - 24.4 would like to see the Committee supported in its role in a more orthodox and independent manner consistent with good governance, by the adoption of a protocol which could include i) the provision of an independent part time clerk reporting to the Committee chair, ii) the facility for the Committee to take independent legal and other advice in the rare occasions this may be necessary subject to proper consultation with the OPCC on cost, iii) proper opportunity for the Committee members to take up opportunities for attendance at external training events and conferences assisting in identifying best practice by means of a suitable training budget administered by the independent clerk under the direction of the Chair, and by including in the clerk's remit the identification of suitable events, iv) allowing the Chair via the independent clerk to manage times and dates for Chair's briefings and meetings subject to consultation with the Officers v) enabling the first draft minutes of meetings to be provided to the Chair by the clerk rather than after editing by the OPCC officers, and enabling the provision to the Chair, via the clerk, of suitable confidential secretarial and administrative support and finally, vi) as already alluded to above, by the more regular attendance at the Committee of the PCC and Chief Constable to ensure opportunity for direct communication and discussion of the Committee's concerns and advice.
 - 24.5 considers that improvements such as those suggested above would make a major contribution to the effectiveness of the Committee and assist and encourage the members and the Chair in the willing and energetic performance of their duties.
25. The Committee raises these potential improvements again in reliance on the extensive experience of its members in ensuring good governance and best practice as members (between them) of many other audit committees and independent boards. The changes required are not extensive or fundamental and do not have significant budgetary implications but would be transformative for the effectiveness and membership of the Committee moving forward.

Hampshire Police and Crime Commissioner and Hampshire Constabulary

Independent Joint Audit Committee

Statement of Purpose and Terms of Reference

Statement of Purpose

- 1.1 Our Joint Audit Committee is a key component of Hampshire Police and Crime Commissioner's and Hampshire Constabulary's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 1.2 The purpose of our Joint Audit committee is to provide independent advice and recommendation to The Police and Crime Commissioner and the Chief Constable on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the Committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of the Office of the Police and Crime Commissioner and Hampshire Constabulary's governance, risk management and control frameworks, their financial reporting and annual governance processes, and internal audit and external audit.

Terms of Reference

- 1.3 These terms of reference summarise the core functions of the Committee in relation to the Office of the Police and Crime Commissioner (OPCC) and to the Constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

- 1.4 The Committee will, in relation to the Police and Crime Commissioner and the Chief Constable.
- Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
 - Review the Annual Governance Statement prior to approval and consider whether they properly reflect the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
 - Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
 - Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and the Constabulary.

- Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them.
- Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions
- Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy actions and resources.

1.5 And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Internal audit

1.6 The Committee will:

- Annually review the internal audit charter and resources.
- Review the internal audit plan and any proposed revisions to the internal audit plan.
- Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- Consider summaries of internal audit reports and such detailed reports as the Committee may request from the Police and Crime Commissioner and the Chief Constable including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, as required by the Accounts and Audit Regulations.

External audit

1.7 The Committee will:

- Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- Consider the external auditor's annual management letter, relevant reports, and the report to those charged with governance.
- Consider specific reports as agreed with the external auditor.
- Advise and recommended on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

- 1.8 And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Financial reporting

- 1.9 The Committee will:

- Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the Police and Crime Commissioner and/or the Chief Constable.
- Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.
- Review and consider the reports from the PCC's Chief Finance Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report;

- 1.10 And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Accountability arrangements

- 1.11 The Committee will:

- On a timely basis report direct to the Police and Crime Commissioner and the Chief Constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- Report direct to the Police and Crime Commissioner and the Chief Constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the Police and Crime Commissioner and the Chief Constable.

Operating Principles

- 1.12 The following do **NOT** fall within the scope of the Joint Audit Committee:

- Constabulary performance
- Constabulary Operational risks

- HMIC reports with an operational theme / basis e.g. “A Review of the August Disorders” “Intelligence on Criminality Associated With Protest”
- The management of the internal audit function
- Any reviews carried out by the Police and Crime Panel

1.13 The Joint Audit Committee’s methods of working are as follow:

- Advises the PCC and Chief Constable according to good governance principles
- Adopts appropriate risk management arrangements
- Provides robust and constructive challenge
- Takes account of the principles of Corporate Social Responsibility (CSR) (which includes financial and economic stewardship {including VFM}; people and communities {including Diversity, Equality and Human Rights} and environmental sustainability and health & safety).

1.14 In the course of its work the Committee may forge links (direct or indirect) with the following, in no particular order and not limited to:

- Chief Financial Officers / section 151 Officers
- Monitoring Officers
- Equality & Human Rights Commission
- Government Equalities Office
- Head of Internal Audit
- External Auditors
- Her Majesty’s Inspector of Constabulary
- The Police and Crime Panel for Hampshire
- Regional Committees
- Community Safety Partnerships

- 1.15 In general any meetings should be attended by one of the statutory officers and minute-takers as appropriate, however the Joint Audit Committee are able to meet privately and separately with the external auditor and with the head of internal audit if this is considered necessary.
- 1.16 The committee will comprise 3-5 people, independent of both Hampshire Constabulary and the Office of the Police and Crime Commissioner. The quorum is 3 members.
- 1.17 Appointment of Chair & Vice-Chair will be as follows:
- Chair and Vice- Chair to be appointed annually by the PCC & CC
 - Chair may be re-appointed but to serve no more than 2 consecutive years as Chair.
 - If 2 years served as Chair there must be a break of at least 2 years before the person can be appointed as a chair again.
- 1.18 There will be 4 formal committee meetings scheduled per year (additional formal meetings may be required) A draft schedule of meetings is proposed for March, June, September and December. There will also be scheduled training and development sessions.
- 1.19 The agenda, reports and minutes of formal meetings will be made publicly available on the OPCC and Constabulary websites.
- 1.20 The Police and Crime Commissioner and the Chief Constable and their respective CFO's should attend or be appropriately represented at formal meetings of the Joint Audit Committee. Internal and External Audit will also attend as necessary.
- 1.21 All members of the Joint Audit Committee will be required to sign a confidentiality statement before being given access to restricted or confidential information.
- 1.22 All members of the Joint Audit Committee will abide by the code of conduct of the Police and Crime Commissioner for Hampshire, which sets out the desire to uphold office inline with the intentions of the Policing Protocol Order 2011 and abide by the 'Nolan Principles'.

Annex B

Reports received by the Joint Audit Committee 2014/15 under its Terms of Reference, and attendance by JAC members

	25 June 2015	21 September 2015	20 January 2016	17 March 2016
Governance, Risk Mgmt	<ul style="list-style-type: none"> • Draft Annual Governance Statements • Strategic risk registers • Risk update reports • JAC forward plan 	<ul style="list-style-type: none"> • Final Annual Governance Statements • JAC annual report 2013/14 • JAC forward plan 	<ul style="list-style-type: none"> • Strategic risk registers • Risk update reports • JAC annual report 2013/14 • JAC forward plan • 	<ul style="list-style-type: none"> • Code of Corporate Governance • Policy Review • Strategic risk registers • Risk update reports • JAC forward plan
Internal Audit	<ul style="list-style-type: none"> • Internal Audit Progress Report • Annual Internal Audit Opinion • Audit reports 	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit reports • 	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit reports • External assessment of internal audit • Proposed Approach to Internal Audit Benchmarking 	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit reports • Internal Audit Charter and Annual Internal Audit Plan
External Audit	<ul style="list-style-type: none"> • Joint audit plan • Annual audit fee letter 	<ul style="list-style-type: none"> • Audit results report 	<ul style="list-style-type: none"> • Progress report • Annual Audit Letter 	<ul style="list-style-type: none"> • External Audit Plan 2015/16 •
Financial reporting	<ul style="list-style-type: none"> • Treasury Management Outturn report 	<ul style="list-style-type: none"> • Statement of Accounts 2014/15 • Treasury mid-year report 2015/16 	<ul style="list-style-type: none"> • Treasury Management Report 	<ul style="list-style-type: none"> •
Mike Attenborough-Cox (Chair)	In attendance	In attendance	In attendance	In attendance
Liz Mackenzie (Vice-Chair)	In attendance	In attendance	In attendance	In attendance
Peter Lloyd	In attendance	In attendance	In attendance	In attendance
Lesley Kirk	In attendance	In attendance	In attendance	Absent
Elizabeth Dermody	In attendance	In attendance	In attendance	In attendance