

# Appendix 2

## Terms of reference of the Joint Audit Committee

### 1. Introduction

- 1.1 The Joint Audit Committee (the Committee) has been established to provide independent assurance to the Police and Crime Commissioner (PCC) and the Chief Constable in accordance with the Financial Management Code of Practice. The role of the Audit Committee is to advise the PCC and the Chief Constable according to good governance principles and to adopt appropriate risk management arrangements in accordance with proper practices and the associated control environment and to oversee the financial reporting process.
- 1.2 The Committee will operate in line with the principles of good governance as laid down by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Financial Management Code of Practice for the Police Service of England and Wales.
- 1.3 The terms of reference of the Committee will be reviewed on an annual basis.
- 1.4 The Committee will consider the internal and external reports of both the PCC and the Chief Constable.
- 1.5 The Committee is an independent body and will seek assurance over the adequacy of the following:
  - The risk management and the internal control framework operated by the PCC and Chief Constable.
  - The effectiveness of their respective governance arrangements.
  - The appointment, support and quality of the work of internal and external auditors as they provide assurance on risk management, internal controls and the annual accounts through their work.
  - Financial and non-financial performance to the extent that it affects the PCC and Chief Constable's exposure to risk, weakens the control environment and undermines their ability to provide good value for money.
  - The financial reporting process.
  - Maintain an overview, in respect of contract procedures rules, financial regulations and code of conduct and behaviour.
- 1.6 The Committee has no executive powers, other than those specifically delegated in these Terms of Reference.
- 1.7 The Committee will establish effective communication with the PCC and Chief Constable, their nominated representatives, their respective Chief Finance Officers, Monitoring Officer, Head of Internal Audit, the External Auditor and other relevant stakeholders, including the Police and Crime Panel, for the purpose of fulfilling these terms of reference. A working protocol will be established to ensure that this is achieved by all parties.

### 2. Membership

- 2.1 The Committee will comprise of a chair and three members appointed jointly by the PCC and the Chief Constable, but who are independent of the PCC and Chief Constable.
- 2.2 Members of the Committee shall be recruited through open competition, in conjunction with the Police and Crime Commissioner and Chief Constable or their representatives. They shall be recruited to ensure that the Committee has all the necessary skills and experience to fulfil its terms of reference, in accordance with the job description. To ensure the independence of the Committee, members shall not be:
- A standing or ex-PCC or Chief Constable.
  - A member or ex-member of a Police and Crime Panel.
  - Serving police officers or have served as a police officer within the last 8 years.
  - Currently serving staff of Police or Office of the Police and Crime Commissioner.
  - Individuals who have significant business or personal dealings with the Office of the Police and Crime Commissioner or Force.
  - Individuals who have close relationships with any of the above including immediate family members and as such may not have the requisite level of independence required for membership of the Committee.
  - Individuals removed from a trusteeship of a charity.
  - Individuals under a disqualification order under the Company Directors Disqualification Act.
  - A person who has been adjudged a bankrupt, or made a composition or arrangement with his creditors.
  - Convicted in the UK, Channel Islands or the Isle of Man of any offence and has had passed on a sentence of imprisonment (whether suspended or not) for a period of not less than three months without the option of a fine, within the last five years prior to their appointment.
- 2.3 The Chair of the Committee will be jointly recruited by the PCC and the Chief Constable and will serve for one term (4 years) in the role as Chair where upon they can be re-appointed, if appropriate and subject to agreement by the PCC and Chief Constable. Subject to a maximum of 2 terms.
- 2.4 All Members will serve for a maximum of 2 terms, each term being a maximum of 4 years. To ensure continuity, where possible, members shall be rotated on and off the Committee in turn rather than as a group, therefore the term of membership will be determined on recruitment of the member.
- 2.5 All members of the Committee will be subject to an independent annual appraisal, the outcomes will inform the member development programme.
- 2.6 On joining the Committee, each member will 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 Committee. Members 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 & development programme established both for the Committee and its individual members as appropriate.

- 2.7 In accordance with the Committee's 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, 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 Committee agenda, or immediately if they arise unexpectedly in discussion.
- 2.8 Only members of the Committee have the right to vote on matters requiring a vote at meetings.
- 2.9 Members of the Committee will be remunerated and reimbursed for all expenses incurred in the fulfilment of their duties, roles and responsibilities in accordance with the schedule of allowance and expenses agreed by the PCC and Chief Constable.

### **3 Frequency and notice of meetings**

- 3.1 The Committee will meet at least **four** times a year. The calendar of meetings shall be agreed at the start of each year. One meeting shall be dedicated to the scrutiny and pre-approval of the statement of accounts of the PCC and Chief Constable before submission to external audit.
- 3.2 Further meetings outside of the normal cycle of the Committee can be convened at the request of the Chair or any of its members, subject to agreement by the Chair.
- 3.3 The PCC and or CC may ask the Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
- 3.4 Meetings can be requested by the external or internal auditors where this is considered necessary and on agreement of the Chair.
- 3.5 Unless otherwise agreed, formal notice of each meeting confirming the venue, time and date together with the agenda of items to be discussed, will be forwarded to each member of the Committee, any other person required to attend and all other appropriate persons determined by the Chair, no later than five working days before the date of the meeting.
- 3.6 Any meetings held outside the normal cycle of meetings should be convened with a minimum notice of five working days. Extraordinary or urgent meetings may be held with less notice but should be for exceptional matters only, subject to the Chair's agreement and quorum requirements. In this case the agenda and any supporting papers will be sent Committee members and to other attendees at the same time as the meeting notice is sent out, recognising that if the matter is so urgent that there may only be an oral report. If this is the case then this will be identified on the agenda.

### **4 Attendance at meetings and quorum**

- 4.1 Members of the Committee are expected to attend all meetings. Regular non-attendance of Committee members will lead to their removal as a member of the Committee on agreement by the Chair.
- 4.2 The PCC and Chief Constable, will attend all meetings of the JAC, or ensure that they are suitably and appropriately represented to ensure that the purpose of the Committee is not compromised and that members are able to appropriately fulfil their responsibilities. In addition, the Police Reform and Social Responsibility Act 2011, Section 114 of the Local Government Finance Act 1988 and

the Audit and Accounts Regulations 2011 assign a number of statutory responsibilities to each of the Chief Finance Officers of the PCC and Chief Constable. Given the nature of these responsibilities it is expected that both the Chief Finance Officers of the PCC and the Chief Constable will attend all meetings, or where this is not possible then their nominated representatives.

- 4.3 The Head of Internal Audit and representatives of the external auditor will be invited to attend meetings on a regular basis. Members of the Committee should meet with the Head of Internal Audit and representatives of the external auditor separately and privately at least once a year.
- 4.4 A minimum of three members of the Committee must be present for the meeting to be deemed quorate. Committee meetings will be held in private with the matters discussed being placed in the public domain.
- 4.5 The Committee may hold private informal meetings e.g. for briefing and training purposes without any non-members present if they so decide. Formal decisions cannot be taken at such meetings

## **5. Access**

- 5.1 The Chief Finance Officers, the Monitoring Officer, Head of Internal Audit and the representative of External Audit of the PCC and Chief Constable will have free and confidential access to the Chair of the Committee.

## **6. Minutes**

- 6.1 The Secretary will record the names of those present at the meeting, write minutes, including the key points and decisions of all meetings, along with any actions stemming from discussion that need to be taken before the next meeting. The minutes of the previous meeting must be approved by the Committee and signed by the Chair as a true record at each meeting.
- 6.2 The Secretary of the Committee will establish, at the beginning of each meeting the existence of any conflicts of interest and minute them accordingly, see also paragraph 2.7 of these terms of reference.
- 6.3 The unsigned and unapproved minutes of the most recent Committee meeting will be circulated promptly and no later than ten working days after the meeting to all members, to the PCC and the Chief Constable along with their nominated representative at the Committee, the Chief Finance Officers of the PCC and Chief Constable and to the internal and external auditors, once they have been approved by the Chair.
- 6.4 The minutes of the Committee will be placed in the public domain as soon as these have been approved and signed by the Chair, with exclusion to any matter deemed private and confidential, as per paragraph 2.7 of these terms of reference.

## **7. Reporting**

- 7.1 To ensure relevant and timely reporting throughout the year to the Committee a reporting time table will be prepared and agreed with the PCC and Chief Constable. This will be designed to enable the Committee to fulfil its responsibilities and receive the assurances it requires.

- 7.2 The Chair will provide the PCC and Chief Constable with an Annual Report timed to support finalisation of the accounts and the Annual Governance Statement, summarising its conclusions from the work it has undertaken during the year and drawing attention to any significant or emerging issues as appropriate. This report will be placed in the public domain following discussion with the PCC and Chief Constable along with their responses to the Chair's Annual Report. The Chair will be responsible for dealing with any public or media questions relating to that report.
- 7.3 The Committee will, having regard to best governance practice, review these terms of reference annually and make any changes deemed necessary in consultation with the PCC and Chief Constable.
- 7.4 The Committee 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.

## **8. Responsibilities**

### **8.1 Risk Management, Governance and Internal Control Responsibilities**

The Committee will seek assurance in connection with the following responsibilities:

- 8.1.1 The establishment and maintenance of an effective system of risk management, integrated governance and internal control, across the whole of the PCC and Chief Constable activities that supports the achievement of the objectives of the Police and Crime plan, ensuring probity, value for money and good governance.
- 8.1.2 The timely implementation of any actions necessary to ensure compliance with all internal standards and best practice, both financial and non-financial operated by the PCC and Chief Constable.
- 8.1.3 The adequacy of relevant disclosure statements, in particular the Annual Governance Statement, together with any accompanying Head of Internal Audit report, external audit opinion, risk register or other appropriate independent assurances, prior to endorsement by the PCC and / or the Chief Constable. Subject to this the Committee will recommend for adoption the Annual Governance Statements for the PCC and Chief Constable.
- 8.1.4 The adequacy of arrangements for ensuring compliance with relevant regulatory, legal and code of conduct requirements and fraud and corruption as set out in Secretary of State Directives and other relevant bodies or professional standards.
- 8.1.5 Notwithstanding the specific responsibilities of the Committee in connection with both internal and external audit, consider the adequacy of response by the PCC and / or the Chief Constable to recommendations contained within any external inspection report that has been received for the purposes of assurance.

### **9. Internal Audit Responsibilities**

- 9.1 It is anticipated that the PCC and Chief Constable will engage the same internal auditors. The role of the Committee in relation to internal audit will include advising the PCC and Chief Constable on the following:
- 9.1.1 Consider and make recommendations on the provision of internal auditors, including appointment, assessment of performance and dismissal.

- 9.1.2 Approving but not directing on the internal audit strategy and annual internal audit plan, ensuring that this;
- is consistent with professional standards;
  - meets the audit needs of PCC and Chief Constable; and
  - provides the Committee with adequate coverage for the purpose of obtaining appropriate levels of assurance over the adequacy of the risk management, governance and internal control environment of both the PCC and Chief Constable.
- 9.1.3 Consider the Head of Internal Audit's annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it gives over the risk management, internal controls and governance arrangements of the PCC and Chief Constable.
- 9.1.4 Consider the findings of internal audit reports (or their summaries), the assurance provided and the adequacy of the response by the PCC and / or Chief Constable.
- 9.1.5 Commissioning additional work from the internal auditor, having regard to any actual or potential conflicts of interest.
- 9.1.6 Ensuring co-ordination between the internal and external auditors to optimise audit resources.
- 9.1.7 Annually review the effectiveness of internal audit.
- 9.1.8 Where the Committee considers there is evidence of ultra vires transactions, evidence of improper acts, or if there are other important matters that the Committee wishes to raise, the Chair must initially take advice from the Monitoring Officer before raising the matter with the PCC and Chief Constable. Where appropriate the Committee may then seek independent legal advice. Exceptionally, the matter may need to be referred directly to the external auditor, HMIC and / or the Home Office e.g. fraud suspicion directly involving the PCC or Chief Constable.

## **10. External Audit Responsibilities**

- 10.1 It is anticipated that the PCC and Chief Constable will engage the same external auditors. The role of the Committee in relation to external audit will include advising the PCC and Chief Constable on the following:
- 10.2.1 Consider and make recommendations on the provision of external auditors, including appointment and dismissal in conjunction with the Body who are responsible for the appointment of external auditors in England to bodies subject to audit under the Audit Commission Act 1998.
- 10.2.2 Review, advise on and endorse the external audit strategy and annual audit plan, ensuring that this is consistent with professional standards and the External Audit Code of Audit Practice.
- 10.2.3 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 10.2.4 Consider specific reports as agreed with the external auditor.

- 10.2.5 Commissioning work from the external auditor, having regard to any actual or potential conflicts of interest.
- 10.2.6 Consider major findings of external audit work and the adequacy of response of the PCC and / or Chief Constable.
- 10.2.7 Ensuring co-ordination between the internal and external auditors to optimise audit resources.

## **11. Annual Accounts of the PCC and Chief Constable**

The Committee will:

- 11.1 Review, scrutinise and recommend for signature the annual statement prior to their external audit. Specifically, it will seek assurances whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements.
- 11.2 Consider the external auditor's report to those charged with governance on issues arising from the audit of accounts.

## **12. Auditor Panel**

- 12.1 The functions of the auditor panel are set out in the Local Audit and Responsibility Act 2014 and also the Local Audit (Auditor Panel) Regulations 2014 (the Auditor Panel Regulations).
- 12.2 The Committee is authorised by the PCC and Chief Constable to carry out the functions specified below and can seek any information it requires from any employees/relevant third parties.
- 12.3 The auditor panel is authorised by the PCC and Chief Constable to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such arrangements must be obtained in line with the PCC's existing rules.
- 12.4 The auditor panel's responsibilities are to advise the PCC and Chief Constable on:
  - i) The selection and appointment of the external auditor. This includes:
    - a. Agreeing and overseeing a robust process for selecting the external auditor in line with the PCC's normal procurement rules
    - b. Basing the selection of external auditor on effectiveness and cost
    - c. Excluding any proposed external auditor firms that include non-audit services in their offering
    - d. Ensuring that any conflicts of interest are dealt with effectively
  - ii) The maintenance of an independent relationship with the appointed external auditor.
  - iii) Any proposal from the external auditor to enter into a liability limitation agreement as part of the procurement process is fair and reasonable.
  - iv) Any decision about the removal or resignation of the external auditor.
- 12.5 The auditor panel will be involved in any discussions and receipt of relevant documents relating to public interest reports.

### **13. Information Requirement**

- 13.1 For each meeting the Committee will normally be provided with the following:
- A report summarising any significant changes to the PCC and Chief Constable risk and controls profile and any action planned in response.
  - A report on any governance matters arising or a note that no governance matters have arisen since the last meeting and any action planned in response.
  - A progress report from the head of internal audit summarising:
    - Work performed and a comparison with work planned
    - Key issues emerging from internal audit work
    - Management response to audit recommendations
    - Changes to the periodic plan
    - Any resourcing issues affecting the delivery of internal objectives
  - A progress report from the external audit representative summarising work done and emerging findings.
  - A summary report of actions being tracked and progress made in connection with their implementation on significant risk, governance and internal controls matters. Thereby providing for an on-going process of follow-up.

### **14. Support for the Committee**

- 14.1 The Chair, in conjunction with the PCC and Chief Constable has particular responsibility for ensuring that the work of the Committee is appropriately resourced, including appropriate secretariat support and any other specialist support necessary to ensure its members are effective in their role. The Chair has a duty to report any shortfall in the level of support to the PCC and Chief Constable in the first instance and in a public report if this is not remedied.
- 14.2 The allocation of secretariat support to the Committee and its funding will be agreed between the PCC and Chief Constable. This will include ensuring that best practice as contained in relevant good governance codes and protocols are upheld so that the Committee is effective and the members' independence is maintained.
- 14.3 The Committee may with reasonable justification and with joint approval by the respective Chief Finance Officers of the PCC and Chief Constable procure specialist ad-hoc advice e.g. legal, to obtain additional skills, knowledge and experience at the expense of the PCC and Chief Constable to support the Committee in the achievement of its terms of reference. This will be considered appropriate where specialist advice is not available within the existing Committee support arrangements or it is not considered appropriate to use this support.