

**OPEN** (except for Appendix 3 due to the inclusion of personal information)

**OFFICE OF THE POLICE AND CRIME COMMISSIONER  
FOR HUMBERSIDE  
DECISION RECORD**

Decision Record Number: **2/2012**

Title: **JOINT INDEPEPENDENT AUDIT COMMITTEE – SELECTION PROCESS**

**Executive Summary:**

To secure your approval to establish a joint independent audit committee and to proceed with the appointment process.

**Recommendations:**

- (i) that you agree to establish a joint independent audit panel with terms of reference at appendix 1 and role profiles as appendix 2,
- that you agree to the applicants on the short list at appendix 3 being interviewed by a panel chaired by the chief executive in accordance with best practice,
- that a list of applicants recommended for appointment by the panel, is then proposed to yourself and the chief constable,
- that you agree to the daily allowance for members of £215 and for the chair £240 (see appendix 4).

***Police and Crime Commissioner for Humberside***

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct. Any such interests are recorded below.

I have a personal interest as I know one of the applicants. I will not be involved in the selection process.

The above request has my approval.

**Signature**



**Date 22.11.12**

**POLICE AND CRIME COMMISSIONER  
FOR HUMBERSIDE**

**SUBMISSION: SUPPORTING REPORT FOR DECISION**

**Title: JOINT INDEPEPENT AUDIT COMMITTEE –  
SELECTION PROCESS**

**Date: 22<sup>nd</sup> November 2012**

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**1 Purpose:**

The purpose of this report is to secure your approval to establish a joint independent audit committee and to proceed with the appointment process.

**2 Issue**

The financial management code of practice for police<sup>1</sup> recommends that you and the chief constable establish a joint independent audit committee and that in doing so you have regard to the guidance for local authorities<sup>2</sup>.

**3 Recommendations**

- that you agree to establish a joint independent audit panel with terms of reference at appendix 1 and role profiles as appendix 2,
- that you agree to the applicants on the short list at appendix 3 being interviewed by a panel chaired by the chief executive in accordance with best practice,
- that a list of applicants recommended for appointment by the panel, is then proposed to yourself and the chief constable,
- that you agree to the daily allowance for members of £215 and for the chair £240 (see appendix 4).

**4 Background**

Audit committees are an essential part of good governance and have been a feature of the public sector for some time. The respective guidance states:

*Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an audit*

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<sup>1</sup> Financial Management Code of Practice for Police, 2012

<sup>2</sup> Audit Committees: Practical guidance for local authorities, CIPFA 2005

*committee, independent from the executive and scrutiny functions*<sup>3</sup>.

The guidance recommends the committee consists of between 3 and 5 members, all of which are independent.

A recruitment process commenced in October, overseen by an independent professional hr adviser, David Taylor. It consisted of:

- an advertisement circulated in the local media and informal business networks seeking to attract those with the skills, experience and qualities, which matched the role profiles for the chair and members (see appendix 2),
- an application form designed in accordance with good practice and based on the competences in the role profiles was submitted by 12 people,
- the evidence supplied was assessed in an objective short listing process,
- a short-listing panel, consisting of the two chief financial officers, deputy chief constable and the chief executive individually assessed the evidence against a structured framework,
- six applicants were deemed to more closely meet the requirements for members, with 3 of these suitable for chair.

## 5 Options

The overall objective is to support yourself and the chief constable in securing effective assurance of the adequacy of your financial management and reporting through independent arrangements. This can be achieved by appointing capable members to a joint independent audit committee. Therefore I have assessed the available options against the following criteria:

- What option will give local people the most confidence in your governance arrangements?
- How do we ensure we appoint members who are most capable?

### ***Option A – Do not establish an audit committee***

There is no legal requirement to establish an independent audit committee. However, the commissioner and chief constable must be able to demonstrate to the external auditor (and local people) that proper governance arrangements exist. Therefore in the absence of an independent assurance committee there will be a significant risk of adverse comment and thereby lack of public trust and confidence.

### ***Option B – Continue with the police authority informal audit panel***

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<sup>3</sup> Audit Committees: Practical guidance for local authorities, CIPFA 2005, page 1.

The former police authority informal audit panel could transfer to the joint independent audit committee. It could easily perform the required function. However, the members were not recruited as members of an audit committee, but as members of the police authority or standards committee. Therefore as they have not been specifically assessed against the role profiles at appendix 2, their capability is uncertain.

***Option C – Establish a new joint independent audit committee***

This option offers the opportunity to establish a new arrangement with members appointed following a professional, open and transparent selection process. It will provide you and the chief constable with effective and capable support.

Option C is the preferred option. It will provide the best means of assuring that your governance arrangements are fit for purpose.

It minimises the risks associated with the other two options.

**6 Risks/Implications**

Those applicants not on the short list may feel aggrieved and challenge the decision. The robust, objective process with a proper audit trail, which has been assured by a professional adviser and is in accordance with the guidance, will mitigate against this risk.

There is a reputational risk if your governance arrangements are criticised by internal and/or external auditors. This will be mitigated by having informed, independent and effective scrutiny of your overall governance arrangements.

**7 Financial Comments**

There are no prescribed allowances for members therefore a benchmarking exercise has been undertaken. The findings are that the role of members is reasonably aligned to that of police authority members, with that of the chair being akin to the standards committee chair.

The proposed remuneration levels of £215 (per day) and £240 (per day) respectively (see appendix 4) are supported by your chief finance officer.

**8 Legal Comments**

The statutory framework and associated guidance essentially direct the commissioner and chief constable to establish a joint independent audit committee.

**9 Equality Comments**

The selection process has been developed in accordance with professional advice to ensure that any appointment will meet the principles of fairness, openness and merit.

**10 Next steps**

If the recommendations are accepted I will arrange for a properly constructed panel to interview the short-listed candidates. Those deemed suitable for appointment will be proposed to yourself and the chief constable for approval.

On your behalf I will write to those who did not make the short list.

Once the membership has been approved, the chief financial officers arrange for the chair and members to commence their work on the committee in accordance with the terms of reference

**11 Background/Supporting Papers**

Police Reform and Social Responsibility Act 2011

Policing Protocol Order 2011

Financial Management Code of Practice for Police

Chartered Institute for Public Finance and Accountancy; Audit Committees:

Practical guidance for local authorities, 2005,

Recruitment pack and completed applications forms.

## Joint Independent Audit Committee Terms of Reference

### Membership

The Committee shall comprise of members who are independent of the office of the PCC and Humberside Police. Representatives of the Office of the PCC and the Force shall attend each meeting of the Committee.

### Schedule of Meetings

The Committee shall meet on at least 4 occasions during the year.

### Quorum

The quorum for the meeting shall be 3 members.

### Purpose of the joint independent audit committee

To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the 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<sup>4</sup>.

### Core functions<sup>5</sup>

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 taken 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, 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.

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<sup>4</sup> CIPFA Audit Committees : Practical Guidance for Local Authorities, page 9,

<sup>5</sup> CIPFA Audit Committees : Practical Guidance for Local Authorities, page 13,

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.

### **Terms of reference<sup>6</sup>**

1. To consider the Head of Audit's annual reports and opinions, summaries of internal audit activity (actual and proposed) and the level of assurance that can be provided in respect of the corporate governance arrangements in place.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of internal audit services.
4. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the external auditor.
9. To commission work from internal and external audit.
10. To maintain an overview of the governance arrangements in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

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<sup>6</sup> CIPFA Audit Committees : Practical Guidance for Local Authorities, appendix 1

11. To review any issue referred to it by the PCC, Chief Constable, Chief Executive and other senior members of staff or associated bodies.
12. To monitor the effective development and operation of risk management and corporate governance in the OPCC and the Force.
13. To monitor policies relating to concerns raised at work, through the PCC and the Chief Constable's anti-corruption strategy and the complaints processes.
14. To oversee the production of the Annual Governance Statements for the Office of the PCC and the Force, including the arrangements for Internal Control and to recommend the adoption of the Statements.
15. To consider the arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
16. To consider compliance with internal and published standards and controls.
17. To 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 that need to be brought to the attention of those charged with governance).
18. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.



## JOINT INDEPENDENT AUDIT COMMITTEE CHAIR - ROLE PROFILE

### BACKGROUND

An independent Audit Committee for the Office of the Police and Crime Commissioner (OPCC) and the Chief Constable of Humberside Police is to be established. It will be a combined body that will advise the Police and Crime Commissioner (PCC) and the Chief Constable.

The Audit Committee will comprise of between three and five members who are independent of the OPCC and the Humberside Police Force. It will meet at least four times a year. Officers from both organisations will be required to attend each meeting of the Committee together with representatives of internal and external audit.

### COMMITTEE CHAIR ROLE

The Committee Chair plays a key role in enhancing public trust and confidence in the governance of the OPCC and Humberside Police, and assisting the PCC and Chief Constable to discharge their responsibilities

Key Responsibilities:

1. To maintain an up to date knowledge and awareness of national and local policing and crime issues.
2. To ensure the committee effectively advise the PCC and the Chief Constable and/or their nominated representatives of the key risks, compliance and governance issues that arise in conducting Committee business.
3. To attend occasional meetings with the PCC and the Chief Constable and/or their nominated representatives to gain a good understanding of the internal control and operating environment.
4. To ensure the committee establishes appropriate Terms of Reference for the Audit Committee in line with guidance and best practice and to review them on an annual basis.
5. To ensure the Committee effectively discharges its responsibilities:
  - To provide independent assurance on the adequacy and effectiveness of the internal control environment (including risk management) in operation within the OPCC and the Force, advising the PCC and Chief Constable as appropriate.
  - To oversee the effectiveness of the framework in place for ensuring compliance with statutory requirements.
  - To scrutinise independently financial and non-financial performance to the extent that it affects the OPCC's and the Force's exposure to risks and weakens the internal control environment.
  - To oversee the financial reporting process.

- To advise the PCC and Chief Constable on the appropriate arrangements for external and internal audit and ensuring an appropriate response to audit reports and findings.
6. To chair effectively meetings of the Committee ensuring all aspects of business are adequately covered in line with the agreed Terms of Reference.
  7. To meet separately with the External Auditor and Head Audit and Risk to discuss risk, compliance and governance issues arising as a result of external or internal audit activity.
  8. To ensure the committee provides assurance to the External Auditor on governance issues.
  9. To facilitate an annual review of the effectiveness of the Committee.
  10. To promote equality of opportunity and work to eliminate unlawful discrimination.
  11. To comply with all relevant codes of conduct and maintain the highest standards of conduct and ethics.

## **CORE ATTRIBUTES AND COMPETENCIES**

In addition to those for members of the committee, the chair will also have the following:

<b>Experience</b>	Substantial current (or recent) experience of leading senior management boards / groups / committees,
<b>Skills &amp; competence</b>	Outstanding leadership skills with the ability to effectively chair meetings with senior stakeholders, promoting open debate on all relevant information, especially where complex issues and conflicting views are present.
<b>Qualities</b>	Experience of securing credibility, respect and recognition from peers and stakeholders as an effective chair / leader of a Board / group.
	A deep understanding and commitment to corporate governance arrangements, such as financial, performance and risk management, accounting concepts and standards, and the regulatory regime.

## **JOINT INDEPENDENT AUDIT COMMITTEE MEMBER - ROLE PROFILE**

### **BACKGROUND**

An independent Audit Committee for the Office of the Police and Crime Commissioner (OPCC) and the Chief Constable of Humberside Police is to be established. It will be a combined body that will advise the Police and Crime Commissioner (PCC) and the Chief Constable according to good governance principles.

The Audit Committee will comprise between three and five members who are independent of the OPCC and the Humberside Police Force. It will meet at least four times a year. The PCC and the Force will be required to attend each meeting of the Committee together with representatives of internal and external audit.

### **COMMITTEE MEMBER ROLE**

As a Member of the Joint Independent Audit Committee you will play a key role in reassuring the public about the integrity, internal controls and standards that are adhered to within the OPCC and the Humberside Police Force, enhancing trust and confidence and assisting the PCC to discharge their responsibilities.

Key Responsibilities:

1. To assist the Committee Chair in advising the PCC and the Chief Constable and/or their nominated representatives of key risk, compliance and governance issues that arise in conducting Audit Committee business.
2. To review Committee papers and attending Committee meetings four times a year.
3. To assist the Committee Chair in effectively discharging the Committee's key responsibilities:
  - To provide independent assurance on the adequacy and effectiveness of the internal control environment (including risk management) in operation within the Office of the PCC and Force, advising the PCC and the Chief Constable as appropriate.
  - To oversee the effectiveness of the framework in place for ensuring compliance with statutory requirements, in particular those in respect of financial reporting audit.
  - To scrutinise independently financial and non-financial performance to the extent that it affects the OPCC's and the Force's exposure to risks and weakens the internal control environment.
  - To oversee the financial reporting process.
  - To advise the PCC and Chief Constable on the appropriate arrangements for external and internal audit and ensuring an appropriate response to audit reports and findings.

4. To maintain an up to date knowledge and awareness of national and local policing and crime issues.
5. To attend relevant training events to keep knowledge up to date.
6. To promote equality of opportunity and work to eliminate unlawful discrimination.
7. To comply with all relevant codes of conduct and maintain the highest standards of conduct and ethics.

## **CORE ATTRIBUTES AND COMPETENCIES**

### **Qualifications**

A recognised financial qualification or equivalent post graduate qualification in business management, risk management or similar (or substantial recent practicing experience at a senior level).

### **Skills & competence**

Substantial current (or recent) experience as a senior manager in the governance of a large, complex business or public sector organisation,

Experience and deep understanding of the importance of objective analysis and sound evidence based judgements from a broad range of information, systems and controls, which can impact upon effective governance / organisational arrangements,

Experience of the need and importance of having confidence to constructively challenge, support and question auditors and senior management,

### **Qualities**

Proven track record of establishing credibility and forging effective working relationships with a broad range of stakeholders, especially senior executives.

**CONFIDENTIAL**

**Short list of applicants for**  
**member / chair of joint independent audit committee**

This appendix is confidential due to the inclusion of personal information.

**INDEPENDENT JOINT AUDIT COMMITTEE REMUNERATION**

	Allowance	per day min	per day max
<b>Police Authority</b>			
7 - 10 hours per <i>Member</i> week	£8,993	£150	£214
<i>Committee Chair</i>	£13,490	£225	£321
<b>Standards committee</b>			
<i>Member</i>			£180
<i>Committee Chair</i>			£238
<b>Home Office Independent member - misconduct</b>			£212
<b>Therefore range</b>			
Members	£1220 - £1712	£150	£214
Chair	£2700 - £3852	£225	£321

	<b>Proposal</b>		
<b>Member</b>	<b>£1,720</b>	<b>£215</b>	
<b>Chair</b>	<b>£2,880</b>		<b>£240</b>

**MEMBER**  
If we look across existing allowances the PA member range is the most similar for members and goes across the range of others. Based upon minimum a member can attend and as we want to attract capable people, need to make it not seem derisory.

**CHAIR**  
rationale is that the best comparator for the type of role is the standards committee chair. As key issues are chairing, leading and occasional informal meetings. Not as similar to committee chairs.

The daily rate applies to meetings lasting over 4 hours. Where meetings last less than 4 hours then half of the daily allowance may be claimed.