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Introduction and Background

1. The Metropolitan Police Authority (MPA) is responsible for ensuring the implementation and maintenance of appropriate systems of internal control and governance across the MPA and the Metropolitan Police Service (MPS). The role of the Corporate Governance Committee is to oversee, monitor and challenge these arrangements and it forms an essential part of the governance framework. A review of the Committee is carried out every three years, to take account of changes of Members, Officers and the external environment.
2. The Committee is not just about audit, but about governance, financial reporting and performance of the authority as a whole. A good corporate governance committee requires independent, effective assurance about the adequacy of financial management and reporting, risk management and internal control operation. This assurance is best delivered to a Committee that is independent from the executive and scrutiny functions.
3. An effective Committee raises the profile of internal control, risk management and financial reporting issues within the Authority. By providing a forum for the discussion of issues raised by internal and external audit, the Committee plays a vital role in enhancing public trust and confidence in the financial governance of the authority, highlighting the independence of audit and raising awareness of the importance of internal controls.
4. The Committee assesses the quality of the risk and control environment throughout the year, considers the work undertaken by officers and other review agencies to identify key risk areas, address weaknesses in control design or compliance, and provide assurance on the continuing effectiveness of internal control. At the end of the year, the Committee considers the Chief Executive's Annual Governance Statement, which is published within the Authority's financial statements.

Scope of Review

5. This report compares the performance of the committee against established best practice according to the CIPFA Position Statement and Checklist, and reviews best practice adopted by private sector Audit Committees, many of whom have recently updated their practices to take into account the effect of the current economic circumstances on risk and control. The report identifies opportunities for change for consideration by Members.

Main Conclusions

6. The Committee is dealing with the key areas expected of it and in compliance with its terms of reference and CIPFA Guidance. As the economic cycle makes events and business risks more immediate and uncertain, best practice in the private sector is moving towards more tactical monitoring of emerging issues and there is perceived to be a clear advantage in being able to monitor a picture of risk and control “hotspots” across the organisation and assess how they are being managed. The Corporate Governance Committee of the MPA could be made more effective by:
- Gaining a clearer picture or “map” of the inherent risks across the organisation and highlighting where assurance work and audits are taking place to manage those risks and to ensure compliance with controls.
 - Being briefed on emerging risks and in particular, strategic and financial risks on a quarterly basis, along with the impact of these on the future audit and assurance plans
 - Gaining an oversight of work carried out by the large number of internal assurance functions operating within the MPS.
 - Encouraging shorter, clearer reports to be presented to committee and ensuring papers are issued to Members within the timelines set out by the committee protocol.

Summary of Areas for consideration by Members

Overview of the Risk and Assurance Map of the Authority

7. The Committee may find it useful to be presented with an overview map of the Authority’s Risk and Assurance picture which shows the relative risk rating of the key business areas across the MPS and MPA, (indicators should be based on inherent risk of activities by £ value and reputation; risk management maturity; and control compliance history) and the sources of Assurance being provided to cover each area.

Awareness of emerging risk issues

8. Members should consider the value of receiving a quarterly verbal report from the Head of Audit on any emerging issues arising from audit work, enquiries or other areas of significant control breakdown brought to her attention during the quarter. The Committee should consider the need for meeting twice per year, in private with the Head of Internal Audit and with the External Auditors.

9. Although Members receive reports to monitor the ongoing work to manage risk across the organisation, the Committee should also be aware of emerging strategic risks and major changes to the risk environment so that it is in a position to guide on more strategic mitigation action. The presentation and discussion of top strategic risks to the MPS and the MPA and how they are being managed should be presented to the Committee either quarterly or half yearly.

Financial Reporting

10. In addition to the annual financial reports presented to the Committee, Members could also consider receiving reports focused on key areas of financial risk to enhance their oversight of financial reporting. Awareness of the financial risks to the MPS and MPA and understanding how that informs the judgments made by Officers concerning the budget and calculation of appropriate reserves and provisions in the accounts, would enable members to review more effectively the major judgmental areas of financial reporting.

Monitoring the performance of Internal Audit

11. The Committee should consider reviewing the planned programme of audits on a rolling quarterly basis rather than just annually. The review would provide members with an insight into the Head of Internal Audit's on-going assessment of control issues, including results of audits and other reviews in the previous quarter, which may alter priorities for internal audit in the next quarter.
12. The Head of Internal Audit should consider reporting by exception, deviations to the planned delivery of audit assignments, including the postponement or delay to audit work in progress, issuing of draft reports and completion of finalisation discussions. This would assist the Committee in monitoring the progress of audit work and to identify and explore any areas of delay.

Fraud and Corruption

13. Although individual reports are presented on anti-fraud initiatives, the Committee may find it helpful to see the work presented in the context of an overall anti-fraud and corruption strategy for the Authority along with a programme of activities designed to implement it and against which progress can be monitored over time.

Monitoring other sources of Assurance

14. Reports are currently received by the Committee from External Audit, Internal Audit, MPA officers on risk and control items in the Authority and MPS Officers on Risk and control within the MPS. However, there are also a large number (est. 20) internal assurance, inspection and review agencies who are working across the MPS, undertaking assurance work on risk management and controls compliance, regulatory compliance, and performance inspection, which are not being monitored by the Committee. Only one of these assurance functions currently reports to the committee, (health and safety risk management). Members should consider how and what information they need to enable them to monitor the quality and scope of this work effectively.

Reporting format and timetable

15. Where possible, papers should be circulated in compliance with the timetable set out in the committee protocol and presented in final form rather than draft reports where possible. Officers should also be encouraged to prepare shorter, more concise reports with greater use of graphics and tables to more easily highlight patterns and trends throughout the year

Agenda programme and planning

16. The Committee Agenda should be grouped around key areas of Risk and Assurance Functions, so that Members can easily identify the context for each paper in terms of where it fits into the overall governance framework and assurance programme for the year, and the impact that any issues arising may have on the overall picture. (see an example at Appendix A)

17. Members should consider requesting all planning material to be presented to one committee (September), so that more focus can be directed towards monitoring progress and considering issues at the other three meetings

18. Members should consider whether they feel that sufficient training has been provided and whether a training and update plan for Members should be prepared and planned in for the year.

Review against Best Practice

Purpose and Core Functions of the Committee

19. The Committee plays an important role in the governance framework,

- Providing independent assurance to members
- Scrutinizing financial management and reporting
- Providing challenge across the authority

20. The following core functions are set out in the CIPFA publication, Audit Committees- practical guidance for local authorities.

Core Functions of the Committee	Included in CG Committee Terms of Reference
Internal Audit Approve but not direct internal audit 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	√
External Audit Consider the reports of external audit and inspection agencies	√
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	√
Control Strategies 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	√
Financial Reporting Review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit	√

Internal audit

21. The Committee has a clear role in relation to the authority's internal audit function
- a. Formally approving (but not directing) the overall strategy to ensure that it meets the authority's overall strategic direction
 - b. Approving the audit programme of audits (in particular, whether there is sufficient and appropriate coverage)
 - c. Monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function. (including forming a view on whether internal audit meets the requirements of CIPFA's code of Practice for Internal Audit in Local Government in the United Kingdom 2003.)
 - d. The Committee should review summaries of work done, key findings, issues of concern and action in hand as a result of audit work. The committee should judge the effectiveness of internal audit by receiving feedback on the work carried out.
 - e. A key part of the role is receiving and reviewing the annual report from the head of internal audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The Head of Internal Audit reports independently to the committee and should have the opportunity to meet privately with the committee at least twice per year.
 - f. A review of the internal audit function was recently carried out by the external auditor and their findings presented to the Committee. No major issues were identified; the recommendations were around enhancing documentation of procedures for ensuring auditor independence in certain situations.

Areas for consideration by Members

22. Members should consider whether the frequency of review and approval of the programme of internal audits should be increased. The approval is currently given annually. It is recommended that the committee consider reviewing the programme of audits on a rolling quarterly basis, based on the Head of Internal Audit's on-going assessment of control issues arising, and events which have occurred during the previous quarters, and taking into account current emerging areas of risk for the authority.

23. The format and clarity of the internal audit progress report presented to each committee should be reviewed to more concisely and clearly summarise the work done during the quarter, highlighting findings, raise issues of concern and outline actions in hand as a result of audit work and proposals for monitoring. Members could also consider whether they should receive a verbal report from the Head of Audit on any

emerging issues arising from audit work, enquiries or other areas of significant control breakdown brought to her attention during the quarter.

24. The Committee should consider receiving a report from the Head of Internal Audit showing, by exception, deviations to the planned delivery of audit assignments, including the postponement or delay to audit work in progress, issuing of draft reports and completion of finalisation discussions. This would assist the Committee in monitoring the progress of audit work and to identify and explore any areas of delay

25. The committee should consider the need for meeting twice per year, in private with the Head of Internal Audit.

External Audit

26. The committee's role includes receiving reports from the external auditors. The programme of audits follows a nationally agreed path to some extent, but where the auditors risk assessment of the MPA highlights areas to be addressed, these are reported to the committee and the committee has the opportunity to comment on the inclusion of such work and to receive subsequent reports and monitor action. The committee contributes to the authority's response to the external auditors' Annual Audit and Inspection Letter, Reports and Opinion.

Areas for consideration by the Committee members

27. Members should consider the need to meet privately and separately with the external auditor, at least annually, independent of the presence of officers with whom the auditor must retain a working relationship.

Inspection agencies

28. Reports from other external inspection and review agencies contribute to the overall assurance of the authority's financial management and governance. These are brought to the attention of the committee for comparison with any internal or external audit reports. The actions from such reports are implemented by the officers; however, the committee has a role to monitor implementation of recommendations.

Areas for consideration by Members

29. The programme of planned external inspection work, along with a progress report, a summary of issues arising and action plans could be presented to the committee

quarterly, so that they may be monitored as part of the overall Assurance arrangements for the Authority.

Risk and Control Strategies

30. The authority has a number of strategies in place to regulate its activities and control the actions of its employees, members and contractors. The role of the committee in this regard is to take a view on whether these strategies have been properly formulated and remain in place and effective. The committee should receive regular reports on the following areas of control:

- Corporate Governance arrangements and the workstreams in place to improve and monitor control over core financial and business processes.
- The work of the internal assurance, inspection and compliance functions and how this contributes to the overall assurance to the Authority
- Strategic Risks and risk management arrangements
- Arrangements for delivering value for money
- Anti-fraud and corruption arrangements including whistle-blowing guidelines and activity
- The assurance map and framework, building up to the Statement of Assurance and Annual Governance Statement

31. By reviewing these strategies, the Committee is in a position to monitor the recommendations made by auditors, inspection and review agencies and actions being taken to improve control.

Areas for consideration by Members

32. The Committee may find it useful to be presented with an overview map of the Authority's Risk and Assurance picture which shows the relative risk rating of the key business areas across the MPS and MPA, (indicators should be based on inherent risk of activities by £ value and reputation; risk management maturity; and control compliance history) and the sources of Assurance being provided to cover each area. This will take some time to develop, it is recommended that officers in the MPS and MPA work on this together to build it up over the next 12 months and provide progress reports to the Committee at each meeting.

33. Although individual reports are presented on anti-fraud initiatives, the Committee may find it helpful to see the work presented in the context of an overall anti-fraud and

corruption strategy for the Authority along with a programme of activities design to implement it and against which progress could be monitored over time.

Risk management

34. The risk management reports should highlight the different types of risks facing the MPA and MPS and how they are being communicated and managed

- Strategic risk (Communication, governance, major initiatives, planning and resource allocation, reputational risk)
- Operational Risks (e.g. hazards, health and safety, IT, people, physical assets, core policing activity risk)
- Financial Risks (e.g. budgeting, accounting and reporting, reserves, market)
- Compliance Risks (e.g. code of conduct, legal regulation)

Areas for consideration by Members

35. Although the level of detail will be a matter of judgment, the Committee should be in a position to monitor major changes to the risk environment and identify and guide on strategic actions.

Financial Statements

36. The Committee should review the financial statements before they are approved under regulation 10 of the Accounts and Audit Regulations 2003. The committee's review of the financial statements focuses on:

- The suitability of accounting policies and treatments
- Any changes in accounting policies and treatments
- Major judgmental areas e.g. provisions
- Significant adjustments and material weaknesses in internal control reported by the external auditor

Areas for consideration by Members

37. The financial reporting is considered annually after the statements have been prepared. Members also receive quarterly reports on the progress on implementation of IFRS and action to address financial control weaknesses identified by the external auditor. Members could also consider receiving reports focused on the management processes covering other key areas of financial risk and how that informs the judgements made concerning reserves and provisions. This would enable members to

review more effectively the major judgmental areas of the budget and financial statements.

Attributes of an effective Committee

38. The following Best Practice attributes of the Corporate Governance Committee as set out in the CIPFA guidance, demonstrate that it is operating mainly in line with best practice.
- a. Committee members possess financial awareness, objectivity and independence of thinking and a balanced approach to significant issues. Members also understand the role and value of an audit function
 - b. An effective committee will have a strong Chair who displays a depth of skills and interest in governance matters. Members will have unbiased attitudes – treating Auditors, MPA and MPS executives and officers equally, but the ability to challenge all parties when required
 - c. Meetings should be characterized by free and open discussions by all members without political influences being displayed and decisions should be reached promptly on all matters put before the committee
 - d. Agenda papers should be clear and succinct and circulated far enough in advance of meetings to allow adequate preparation by members
 - e. The committee displays a role in monitoring and where necessary chasing officers for responses to audit recommendation

Areas for consideration by Committee members

Timetable

- 39. During the last 12 months, the papers have often been issued to Members outside the timeline set out in the MPA Committee protocol for the issuance of papers. Additional papers have been frequently been submitted the day before the meeting. Where possible, the papers should be presented to the committee with more time available for review, prior to the meeting.***

Reporting Format

- 40. Many of the papers presented are presented in a narrative format. Shorter papers, with more use of tables and charts would make it easier for Members to absorb the information presented, and to identify patterns and trends throughout the year. It***

would also facilitate the officers' presentation of the material at the meeting and facilitate the committee's discussion of the issues arising and their role in monitoring.

Agenda programme and planning

- 41. The Committee Agenda could also be grouped around key areas of Assurance, so that Members can easily identify the context for each paper in terms of where it fits into the overall governance and assurance programme for the year, and the impact of any issues arising has on the overall picture. It is also recommended that the Committee reporting programme for the year should be revised so that it demonstrates what assurance is expected to be provided at each meeting during the annual cycle. It could further identify reports as either one off items, quarterly updates, half yearly updates or part of the annual reporting cycle.*
- 42. The Agenda could be grouped into the following five categories of report:*
- a. Ongoing Assurance plans for MPS and MPA of work completed, progress on completion against plan, issues arising from the work, emerging issues arising from control breakdown, and the forward programme for the next quarter*
 - b. Review of top strategic risks for both MPA and MPS and management action*
 - c. Progress reports on project workstreams being undertaken by officers in MPA/MPS to build and maintain the governance framework, and to respond to audit and inspection issues arising.*
 - d. Financial reporting.*
 - e. Reports from External Agencies such as External Audit and HMIC*
- 43. This would provide a context for each report, and allow more time for discussion of issues arising, priorities, and resources to be allocated. This would also enable Members to gain a clearer overview of the position, to consider the impact of the information on the overall state of governance of the Authority, to assess the ongoing level of Assurance being provided and direct corrective action where required. An example Agenda plan based on the reports of the last 12 months is included in Appendix A.*

Structure and Administration

44. The Best Practice guidance suggests that the Committee should be:

- Independent of the executive and scrutiny functions
- Have clear reporting lines and rights of access to other committees e.g. scrutiny and service committees, corporate risk management boards and other strategic groups
- Meet regularly, about 4 times per year, and have a clear policy on those items to be considered in private and those that are to be considered in public.
- Include as regular attendees, the chief financial officer, head of internal audit, external auditor. Other attendees should include monitoring officer, chief executive and head of resources. These officers should have access to the committee or chair as required. The committee should have the right to call any other officers or agencies of the MPA and MPS as required.
- All members should have appropriate training to fulfill their role

Independence

45. The committee needs to be independent from the executive and scrutiny functions. A link with the scrutiny function can be beneficial but the ultimate power of the committee could be compromised by too much cross-membership.

46. The Committee needs to retain the ability to challenge the executive on issues and to report to it on major issues and contraventions.

Meetings

47. Generally, at least 4 meetings per year are appropriate. One meeting annually should be taken up with setting the programme, agreeing audit plans and planning for the year ahead, leaving 3 meetings a year for monitoring purposes and to fit in with the cycle of assurance statements and financial reporting e.g. before the authority approval of the accounts to review both the financial statements and the draft Statement of Governance and after completion of the audit to review the auditor's report to those charged with governance. In line with Best Practice, the chair prepares a committee programme setting out the anticipated reports to be presented to the Committee throughout the year.

48. In order to make sure that adequate time is scheduled over the year for the Committee to meet all its responsibilities, the Committee could prepare this planner by key areas of assurance, to demonstrate what should be considered when and how it fits into the overall Committee responsibilities. At present, there is some overlap between planning being

presented by different agencies over 2 meetings, which leaves only two meetings per year to focus on monitoring. The June agenda is extremely heavy due to the volume of year end reporting, there is a danger that insufficient time and attention is given to the information presented.

Areas for Consideration by Members

49. Members could consider requesting all planning material to be presented to one committee meeting, so that more focus can be directed towards monitoring progress and considering issues at the other three meetings.

Composition of the Committee

50. Size of the committee is not crucial, but should be large enough to ensure political balance, but small enough to prevent discussion becoming unwieldy. The committee should set a quorum to enhance relevance and standing of decisions that it makes.

51. Co-option may be beneficial to bringing a new approach and flavor to committee discussion. It is usual not to bestow voting rights on co-opted members

Skills and experience of members

52. Members require certain skills and experience in key areas to be considered by the committee. Financial awareness is essential, particularly for the Chair, a broad understanding of risk, control and corporate governance issues is more important than any professional accounting qualification.

53. Appropriate and timely training for members should build upon the key attributes of independence, a risk-focused attitude, and balanced approach. Best Practice suggests that new committee member induction should cover the role of the committee, terms of reference, the input of members, overview of authority activities, financial and risk environment of the authority.

54. In addition, regular and specific audit committee training should also be provided regularly to take account of new developments:

- Financial reporting and type of transactions executed by MPS and MPA
- Governance
- Understanding financial statements
- The regularity framework

- The role of internal and external audit
- The importance of risk management, the types of risks faced by the MPA and MPS in the current environment
- Ethics and Fraud

Areas for consideration by Members

55. Members should consider whether they feel that sufficient training has been provided and a training and update plan for Members should be prepared and planned in for the year. Training can be provided in a number of ways including seminars, briefings from external visitors, or internally arranged sessions

Administration

56. Regular attendance of key senior management is important to maintain credibility of the committee and to ensure that members are supported by appropriate professionals.
57. The MPA’s Treasurer and the MPS’s Director of Resources both have an important relationship with the committee. One of their key roles is “maintaining strong financial management underpinned by effective financial controls” as well as supporting and advising democratically elected representatives”
58. The Treasurer should be a key point of contact for the Committee members. This person or the deputy should attend all meetings of the Committee. It is a separate role and should not interfere with the head of internal audits responsibility to report independently to the audit committee in accordance with CIPFA’s Code of Practice for Internal audit in Local Government in the United Kingdom 2003

	Management Responsibility	Role of CG Committee
Ext Agencies	External audit HMIC Other external inspection agencies	Review EA Plan and results of work Review Annual opinion and EA Governance Report Review EA Annual audit Letter
MPA	Assurance Internal Audit	Review of IA Strategic Plan Monitoring of Progress v Plan quarterly Discussion of Issues Arising and how they have been dealt with Head of Internal Audit Annual Report
MPA	CG Framework Policy Management Treasury Management Risk Management	Review of Annual Governance Statement Review of Financial Reporting/Statements/policies Discussion of key risk areas and actions to mitigate
MPS	Assurance and Evaluation H&S Risk Management MPS Inspection Team TP Performance Unit DoI Assurance HR Evaluation Quality Assurance (follow up IA Recs)	Review of Strategic Plan for Assurance Teams Monitoring of progress v plan Discussion of Issues Arising and how they have been addressed Review of conclusions on Annual Assurance Statement
MPS	CG Framework Structures and processes (11 workstreams) Reporting to MPA and other stakeholders (2 workstreams) Standards of Behaviour (2 workstreams) Risk Management (part of S&P workstream)	Progress monitoring on implementation of controls Monitoring of interim exposure to risk Discussion of key risk areas and actions to mitigate

Review of agenda items for last 12 months

	Reports	Dec 2008	Mar 2009	June 2009	Sept 2009
Ext Agencies	EA Annual Audit Letter EA Update of EA/HMIC Use of Resources Project EA Fees and annual Plan 2009-2010 EA Annual Governance Report	√ √		√	√
MPA Assurance	Internal Audit Progress Report 2008-9 IA Plan 2009-2010 HIA Annual Internal Audit Report	√ √	√	√	
MPA	IFRS Implementation update Annual Governance Statement quarterly update Urgency procedure changes Risk Management Strategy paper and updates Annual Statement of Accounts Annual Governance Statement Treasury Management action plan Gifts and hospitality policy review (triennial)	√ √ √ √	√ √ √	√ √ √ √ √	√
MPS Assurance	H&S Performance Report Training Accident Report Assault Study Report H&S Assurance progress on implementation	√	√ √ √	√	√ √
MPS	Risk Management Strategy paper CG Framework update report Gifts and hospitality policy review (triennial) Business Card Update (p2) Implementation of high risk audit recs – progress (p2)	√ √ √ √	√ √ √ √	√ √ √	√ √
Committee Management	CG Work programme for year 2009-2010 Appointment of co-opted members			√ √	

