

Police and Crime Commissioner for Hampshire and Hampshire Constabulary

Joint Audit Committee

Item 16

30 January 2018

Internal Audit Charter and Internal Audit Plan 2018/19

Report of the Chief Internal Auditor

1 Purpose

- 1.1 The purpose of this paper is to provide the Joint Audit Committee with a copy of the Internal Audit Charter and the proposed 2018/19 internal audit plan for the Office of the Police and Crime Commissioner (OPCC) and Hampshire Constabulary. These are attached as appendices.

2 Recommendations

- 2.1 That the Joint Audit Committee considers and makes recommendations as appropriate on the Internal Audit Charter and the 2018/19 internal audit plan for the OPCC and Hampshire Constabulary.

3 Internal Audit Charter

- 3.1 An Internal Audit Charter, meeting the requirements of the Public Sector Internal Audit Standards has been in place since May 2013 and has since been reviewed annually by the Joint Audit Committee prior to approval by the Police and Crime Commissioner and the Chief Constable.
- 3.2 The Internal Audit Charter for 2018/19 which was updated following suggestions made by the Joint Audit Committee last year is attached as appendix A for consideration. All changes to the version presented to the Committee last year are highlighted.

4 Internal Audit Plan

- 4.1 The internal audit plan for 2018/19, which has been prepared in accordance with the Internal Audit Charter and discussed at the joint liaison meetings with the OPCC and Hampshire Constabulary, is attached at appendix B for consideration.
- 4.2 The plan will remain flexible during the year to ensure that planned reviews continue to reflect the risk profile and to enable coverage of emerging risks as required.

4.3 Services provided under the shared service arrangements with Hampshire County Council and Hampshire Fire and Rescue Service continue to be reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication of effort. All three organisations contribute audit days to this plan which is also reported in Appendix B for information. An internal audit protocol for this work has been agreed with partner and shared services management.

4.4 An internal audit protocol for collaborative arrangements has been approved by the Regional and Bi-Lateral governance boards to avoid duplication of work. The overriding principle is that the lead Force for each area provides internal audit assurance to each of the collaborative partners. Thames Valley Police lead on IT and Information governance, however their internal audit plan has yet to be approved and will be reported for information when it becomes available.

5 External Audit Liaison

5.1 In the past we have had liaison meetings with the external auditors to discuss national and local audit issues, ensure that duplication is minimised and that reporting to committee is co-ordinated as far as possible and we propose that this arrangement continues in 2018/19 and beyond.

6 Significant Risks

6.1 The risk based approach to internal audit work ensures that audit work is directed to key risk areas with individual audit assignments focussing on the key business risks in the area under review.

Karen Shaw

Chief Internal Auditor

For further information please contact Karen Shaw, Chief Internal Auditor, 01962 846194 email: karen.shaw@hants.gov.uk

APPENDICES

Appendix A – Internal Audit Charter

Appendix B – Internal Audit Plan 2018/19

Section 100D (Local Government Act 1972) background papers

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. published works; and,
2. documents that disclose exempt or confidential information as defined in the Act.

Title	Location
None	None



Office of the Police and Crime Commissioner and Hampshire Constabulary

Internal Audit Charter 2018/19

Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission requiring that the internal audit function:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards which were updated in 2016 [‘the Standards’].

Purpose

The Police and Crime Commissioner (PCC) and Chief Constable are responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the PCC and Chief Constable that these arrangements are in place and operating effectively. The PCC and Chief Constable’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of their agreed objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

‘independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with receiving independent advice on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. For the Office of the Police and Crime Commissioner (OPCC) and Hampshire Constabulary this shall mean the Police and Crime Commissioner and Chief Constable.

Senior Management – those charged with responsibility for the leadership and direction of the OPCC and Hampshire Constabulary. For the OPCC this shall mean the Police and Crime Commissioner, the Chief Executive and Chief Finance Officer and for Hampshire Constabulary this shall mean the Chief Officer Group.

Joint Audit Committee – the independent audit committee appointed to provide independent advice and recommendation to the Police and Crime Commissioner and

Chief Constable on the adequacy of the governance and risk management frameworks, the internal control environment, financial reporting and delivery of the internal and external audit functions, helping to ensure efficient and effective assurance arrangements are in place.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within the OPCC and Hampshire Constabulary lies with the Chief Finance Officers for the PCC and Hampshire Constabulary (the Section 151 Officers).

For both the OPCC and Hampshire Constabulary, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Deputy Head of Partnership for Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

Senior management are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of the priorities and objectives agreed for the OPCC and Hampshire Constabulary.

Accountability for response to internal audit's advice lies with senior management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of internal audit to review the policies, procedures and operations at a later date.

The Chief Internal Auditor must be satisfied that senior management accept accountability for, and provide an adequate response to, issues raised through internal audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the audit sponsor, the Chief Finance Officers, the Deputy Chief Constable, Chief Executive or Joint Audit Committee as appropriate.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board and organisationally to the Chief Finance Officers who have statutory responsibility, as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the OPCC and Hampshire Constabulary's affairs.

The Chief Internal Auditor has direct access to the Police and Crime Commissioner and Chief Constable as those charged with governance. The Police and Crime Commissioner and Chief Constable carry the responsibility for the proper management of the OPCC and Hampshire Constabulary and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Monitoring Officer for the OPCC where matters arise relating to the Police and Crime Commissioner's responsibility, legality and standards.

The Chief Internal Auditor also has direct access to the Joint Audit Committee who are able to meet privately and separately with the Chief Internal Auditor if this is considered necessary by either of them.

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with members of the Joint Audit Committee, senior management and other professionals.

The Chief Finance Officer for the OPCC will provide the Chief Internal Auditor with the resources necessary to fulfil the OPCC and Hampshire Constabulary's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit charter and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management, the Board and the JAC will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be considered by the JAC and then submitted to senior management and the Board, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the OPCC and Hampshire Constabulary.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management, the Board and the JAC.

If the Chief Internal Auditor, the Board or Senior Management consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Finance Officers and JAC accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management, JAC and the Board;
- reports functionally to the Board;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management, the Board and the JAC. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (subject to the appropriate vetting and security requirements for access and on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises belonging to the OPCC and Hampshire Constabulary or key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Where audit reviews require access to classified documents, higher level checks will be carried out where required and appropriate authorisation will be sought from the data owner. Access to data held on RMS or in relation to covert operations will be excluded other than in exceptional circumstances which will require Chief Officer authorisation.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by senior management to inform their governance statements. The annual opinion will conclude on the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control.

A range of internal audit services are provided (Annex 1) to form the annual opinion. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Those charged with responsibility for management are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor so that they can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. Internal audit will not carry out investigations unless commissioned to do so and where this is the case, the Chief Internal Auditor will ensure that investigators are fully trained in carrying out their responsibilities.

Internal audit also facilitate the OPCC and Hampshire Constabulary participation in the National Fraud Initiative (NFI) in which specified data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

The Chief Internal Auditor will meet regularly with the external auditors to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The external auditors will have the opportunity to rely on the work of internal audit where appropriate.

Reporting

Internal Audit assignment reports

A report will be issued for each internal audit review undertaken and will include the objectives of the review, a clear opinion and executive summary, together with action

plans outlining issues arising and actions proposed by management to address them. These reports will be distributed in line with the reporting protocols agreed with senior management. All such reports will also be considered by the Joint Audit Committee under confidential session with any observations or recommendations passed on to senior management or the Board for consideration as appropriate.

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver annual internal audit opinions and reports that can be used by the organisations to inform their governance statements.

The annual internal audit reports and opinions will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual reports will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the OPCC and Hampshire Constabulary, it is imperative that senior management are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan and any changes to it;
- reviewing the outcomes of all audit assignments and approving the proposed management actions;
- reviewing the Chief Internal Auditor's annual report and opinion;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

For practical purposes this engagement will be achieved through the liaison group comprising the Chief Executive and Chief Finance Officer for the OPCC; the Deputy Chief Constable and Chief Finance Officer for Hampshire Constabulary; and the Chief Internal Auditor and Internal Audit Manager.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan and any changes to it;
- approving the internal audit budget and resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;

- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

In accordance with their agreed terms of reference, the Joint Audit Committee will support the Board in fulfilling their role, by providing independent advice and making recommendations on these issues as appropriate, prior to approval.

Reporting to third parties

In line with the agreed internal audit protocols for collaborations between Hampshire and other Forces, final reports arising from review of collaborative arrangements where Hampshire is the lead, will be copied to the Chief Internal Auditor of the partner organisations.

Quality assurance

The internal audit team will work to the Public Sector Internal Audit Standards to maintain consistency in service provision. This requirement will be enforced through appropriate supervision, and supervisory/management review of all audit working papers, action plans and audit reports.

An annual satisfaction survey will be conducted with key stakeholders to assess the value of the service and to seek suggestions for improvement.

In addition, in line with the Standards:

- an annual self assessment will be completed by internal audit against the Standards;
- an external assessment of internal audit will also be conducted at least once every five years by an external, qualified, independent assessor or assessment team;
- there will be ongoing review of the performance of internal audit by senior management, JAC and the Board.

Ownership of documentation

Internal audit files and working papers, which address compliance with the Standards are the property of the OPCC and Hampshire Constabulary.

Internal audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of a fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once these time frames have elapsed.

Indemnity and Insurance

Internal Audit's professional indemnity cover is provided through a third party insurer and is sufficient to meet all eventualities in respect of external contract arrangements up to the sum of £5 million. Southern Internal Audit Partnership will indemnify the OPCC and Hampshire Constabulary against claims and costs arising from its negligence or wilful breach of any obligation under this agreement provided that its maximum liability shall not exceed £5 million.

Fees

The fees for internal audit work will be agreed in advance of each financial year to reflect the number and mix of days required and movements in cost base.

If specific assignments are requested in addition to the annual plan, fees will be agreed in advance based on the staff mix required.

Payment

Internal audit will invoice quarterly in arrears with all sums due on presentation.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and following review by the JAC, will be presented to Senior Management and the Board for approval.

Annex 1**Assurance Services**

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.
- **Third party assurance:** the availability of objective assurance from other assurance providers will be considered in determining audit needs. Where internal audit needs to work with the internal auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party, as well as billing arrangements, will be clearly defined, agreed and documented prior to the commencement of work. Internal audit will also ensure awareness of and seek to place reliance on the work of other review bodies such as HMIC and HMRC etc.