

Appendix C

Chief Constable of Lancashire Constabulary and the Lancashire Police and Crime Commissioner

Internal Audit Service Charter

February 2018

1 Introduction

- 1.1 This charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Chief Constable and the Police and Crime Commissioner and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position in relation to the Chief Constable and the Police and Crime Commissioner; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2 It will be subject to periodic review by the head of internal audit and presented to the Joint Audit and Ethics Committee for approval.

2 Relevant regulations and interpretation

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').
- "Internal audit: A relevant authority 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." *Regulation 5. (1)*
Accounts and Audit Regulations 2015
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published *Public Sector Internal Audit Standards ('PSIAS')*, which encompass the *Mission of Internal Audit* and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (*the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing*). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within *PSIAS* by additional public sector interpretation and guidance. CIPFA has also published a *Local Government Advisory Note* setting out sector-specific requirements for local government within the United Kingdom.
- 2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.

- 2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales, which includes Chief Constables and Police and Crime Commissioners should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

3 Definitions

- 3.1 Both the Global Institute of Internal Auditors and *PSIAS* set out the following definition of internal auditing:

"Internal auditing is 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."

*Global Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2017*

- 3.2 The Global Institute of Internal Auditors and *PSIAS* also refer to the 'board' and 'senior management' and *PSIAS* recognise that these terms need to be interpreted in the context of the Chief Constable's and the Police and Crime Commissioner's own governance arrangements.

- 3.3 *PSIAS* defines the board as:

- 3.4 "The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2017

- 3.5 In relation to the Chief Constable and the Police and Crime Commissioner, the board is defined as the Joint Audit and Ethics Committee.

- 3.6 The Chief Constable's management team consists of the Chief Constable, the Deputy Chief Constable, two Assistant Chief Constables and a Chief Finance Officer. In turn the Police and Crime Commissioner's management team consists of the Police and Crime Commissioner, the Monitoring Officer and the Chief Finance Officer.

- 3.7 *PSIAS* also refers to the 'chief audit executive' who is deemed to be the head of internal audit.

4 Responsibilities

- 4.1 The Regulations set out that the Chief Constable and the Police and Crime Commissioner must ensure that they have a sound system of

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internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that financial and operational management is effective; and includes effective arrangements for the management of risk.

- 4.2 The financial management arrangements of the Chief Constable and the Police and Crime Commissioner conform to the governance requirements of CIPFA's Statement on 'The role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (July 2012)'. This defines 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. Core Chief Finance Officer responsibilities include 'Ensuring that the Police and Crime Commissioner and Chief Constable have put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice.'
- 4.3 The Chief Constable and the Police and Crime Commissioner have taken the decision to outsource their internal audit provision to Lancashire County Council's Internal Audit Service. However responsibility for maintaining an adequate and effective system of internal audit remains with the Chief Constable and the Police and Crime Commissioner.
- 4.4 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 4.5 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the functions, services and activities of the Office of the Police and Crime Commissioner and Lancashire Constabulary.
- 4.6 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.

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- 4.7 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Teams, which either accept and implement the advice or accept the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.
- 4.8 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- 4.9 A note of the responsibilities of the Senior Management Teams and the Joint Audit and Ethics Committee in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in the PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

5 Independence, objectivity and integrity

- 5.1 The Internal Audit Service remains independent of the other functions of the Chief Constable and the Police and Crime Commissioner and no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Senior Management Teams of the Chief Constable and the Police and Crime Commissioner and the Joint Audit and Ethics Committee, but remain a decision for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members, and specifically the Joint Audit and Ethics Committee. She has the formal opportunity prior to each committee meeting to meet with the chair of the Joint Audit and Ethics Committee.
- 5.3 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.

6 Reporting lines and relationships

- 6.1 The head of internal audit reports functionally to the Joint Audit and Ethics Committee and has direct access to the Senior Management Teams of the Chief Constable and the Police and Crime Commissioner.
- 6.2 The head of internal audit has, in addition, regular access to the chair of the Joint Audit and Ethics Committee which meets at least four times each year, and the head of internal audit or her delegate reports to each meeting of that committee under its terms of reference. The Joint Audit and Ethics Committee is responsible for approving the annual audit plan.
- 6.3 The head of internal audit and the Internal Audit Service as a whole, adhere to the requirements of CIPFA's Statement on the Role of the head of Internal Audit.
- 6.4 The Internal Audit Service and the external auditor of the Chief Constable and the Police and Crime Commissioner operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to more effective performance of both and avoiding duplication of work.

7 Access to information

- 7.1 The Internal Audit Service has the right of unrestricted and direct access to the records (however held), assets, premises and officers of Lancashire Constabulary and the Office of the Police and Crime Commissioner for Lancashire. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.
- 7.2 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Chief Constable's or the Police and Crime Commissioner's legitimate and ethical objectives.

8 Internal audit resources

- 8.1 The Chief Finance Officers of the Chief Constable and the Police and Crime Commissioner are responsible for ensuring that internal audit resources are sufficient to meet their responsibilities and achieve their objectives. If the head of internal audit or the Joint Audit and Ethics Committee considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of the Internal Audit Service to deliver a service consistent with

its statutory and related requirements, they will advise the Chief Constable and the Police and Crime Commissioner accordingly.

- 8.2 The Police and Crime Commissioner determines through its budget the number of audit days in the annual audit plan. The Internal Audit Service's resources are therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the Chief Constable, the Police and Crime Commissioner and the Joint Audit and Ethics Committee.

9 Competency

- 9.1 The head of internal audit and audit managers are required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies or full professional membership of the Chartered Institute of Internal Auditors. It is expected that senior auditors will either hold, or be close to and actively working towards, full professional qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.
- 9.2 The county council's performance and development review scheme is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

10 Quality assurance and improvement

- 10.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with the *PSIAS*. This includes both internal and external assessments and is set out in a separate *Quality Assurance and Improvement Programme*.
- 10.2 The results of the quality assurance and improvement programme including any areas of non-conformance with *PSIAS* are reported annually to senior management and the Audit Committee. This report will include information regarding:
- The scope and frequency of both the internal and external assessments.
 - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
 - Conclusions of assessors.
 - Corrective action plans.

11 Non-audit work

- 11.1 *PSIAS* recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services. Such

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services apply the professional skills of internal audit and contribute to the overall assurance opinion.

- 11.2 The Chief Constable and the Police and Crime Commissioner operate a whistle-blowing policy and where appropriate investigates instances of suspected or actual fraud, corruption or impropriety.
- 11.3 Lancashire County Council's Internal Audit Service facilitates the Chief Constable's participation in the National Fraud Initiative, which matches data from the Constabulary's information systems with information held by other bodies to identify potentially fraudulent activity.
- 11.4 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 11.5 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

Appendix: responsibilities

Responsibilities in relation to the internal audit function

The Senior Management Teams of the Chief Constable and the Police and Crime Commissioner will:

- Consider the Internal Audit Charter, including the internal audit function's purpose and authority, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework;
- Consider, and contribute to the development of the risk-based internal audit plan, supporting its completion within the organisation;
- Make appropriate enquiries to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function;
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with *PSIAS*.

The Joint Audit and Ethics Committee ('the board') will:

- Consider and approve the Internal Audit Charter, including the internal audit function's purpose and authority.
- Consider and approve the risk-based internal audit plan, including the Internal Audit Service's approach to using other sources of assurance and any work required to place reliance upon those other sources.
- Approve significant interim changes to the risk-based internal audit plan.
- Make appropriate enquiries of the Senior Management Teams and the head of internal audit to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function.
- Receive reports from the head of internal audit on the Internal Audit Service's performance and audit findings, including the head of internal audit's annual report and overall opinion for the year.
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with *PSIAS*.
- Receive and consider reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.
- Consider and approve any significant consulting services not already included in the audit plan, in light of any potential impairments to the auditors' independence or objectivity.

Lancashire County Council's Audit, Risk and Governance Committee
will:

- Consider and approve the scope and form of the external assessments undertaken as part of the quality assurance and improvement programme.