

# **DRAFT**

## **Audit Charter**

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An audit charter is a mandatory requirement of the Public Sector Internal Audit Standards and the associated Local Government Application Note (PSIAS) and sets out the purpose, responsibilities and authority of the audit service for the Warwickshire / West Mercia Police and Crime Commissioners and Chief Constables<sup>1</sup>.

This document was approved by the Joint Audit Committee on 20 March 2017 and applies until amended.

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### Context

The PCCs and Chief Constables have a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 require PCCs and Chief Constables to have a sound system of internal control which:

- facilitates the effective exercise of their functions and the achievement of its aims and objectives
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

Furthermore, the CIPFA/SOLACE/APACE governance framework “Delivering Good Governance in Local Government – Guidance Note for Police” outlines the need for risk management to be embedded into the culture of the organisation, with all parties recognising that risk management is part of their jobs.

The requirement for an internal audit function is also contained in the Regulations which require the PCCs and Chief Constables to:

“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.

Guidance on internal audit is also contained in the Financial Management Code of Practice issued by the Home Office. This recommends that PCCs and Chief Constables have a shared internal audit service, and a joint audit committee, covering both bodies.

Internal audit services for the Organisation are provided by the internal audit service of Warwickshire County Council.

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<sup>1</sup> The term Organisation is used throughout this document to refer to the four policing bodies.

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## Definitions

The role of the “Board” and “Senior Management” outlined in the PSIAS are fulfilled by the Joint Audit Committee and the Alliance Governance Group respectively. The PSIAS use the term Chief Audit Executive for the Head of Internal Audit role – this role is fulfilled by the Chief Risk and Assurance Manager of Warwickshire County Council.

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## Purpose

The Organisation has to comply with the PSIAS which defines internal audit 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.”

The key word in the definition is assurance; the role of audit is primarily to provide reasonable assurance to the Organisation (including managers, Chief Constables, PCCs and the Joint Audit Committee) and ultimately the taxpayers that the Organisation maintains an effective control environment that enables it to manage its significant business risks. Internal Audit does this **by providing risk-based and objective assurance, advice and insight**.

The IIA standards, on which PSIAS are based, define the mission of an effective internal audit function as:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

Achievement of the mission is supported by a range of standards and guidance including: the Core Principles, the Definition of internal audit and a Code of Ethics.

For an audit function to be considered effective all of the following Core Principles must be present and operating effectively:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

The PSIAS includes a mandatory Code of Ethics (based on international IIA standards) covering integrity, objectivity, confidentiality and competency. All auditors

in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life – the Nolan principles.

The Service also assists the Treasurer to the PCCs and the Director of Finance in discharging their responsibilities under Section 151 of the Local Government Act 1972 which requires that the PCCs and Chief Constables:

“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”.

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## Scope and Responsibility

The Service is responsible for providing assurance in accordance with all relevant professional standards and guidance across the Organisation's entire control environment and across all activities, including:

- services provided on behalf of other organisations, and
- services provided by other organisations.

In addition to providing a core assurance work the Service also provides the following work:

### Consultancy/Advisory work

The Service also undertakes consultancy and advisory work designed to add value and offer insights that will improve the effectiveness of risk management, control and governance processes at the request of the Joint Audit Committee, the section 151 officers or other senior manager subject to the availability of skills and resources.

Due to its detailed knowledge of systems and processes the Service is well placed to provide advice and support to managers on the implications of changes to policy or processes. As such, the Service must be informed and consulted about plans for major or complex changes to systems. The Service will advise / comment on proposed changes when invited to do so and the controls to be incorporated in new and revised systems but the final decision on whether to accept the audit advice rests with the senior management of the OPCC and Alliance. The provision of such advice does not prejudice the Service's right to evaluate the established systems and controls at a later date.

### Fraud

All managers are responsible for the prevention and detection of fraud, corruption and other irregularities. However, the Service assists with these responsibilities. Internal auditors when conducting audit assignments are alert to opportunities, such as control weaknesses that could allow fraud. If the Service discovers evidence of a fraud or other irregularity the relevant line manager will be informed.

Normally the Professional Standards Department will lead on investigations with support where necessary from internal audit.

At the request of the Joint Audit Committee, the section 151 officers or other senior manager the Service will investigate allegations of fraud. In such cases it is the responsibility of the Organisation to determine what action to take as a result of the investigation.

In accordance with the Organisation's anti-fraud arrangements managers should immediately inform the Head of Audit if a fraud or other irregularity is suspected who will then inform the section 151 officers. Managers should also ensure that:

- any supporting documentation or other evidence is secured; and
- confidentiality is maintained so as not to prejudice any subsequent investigation.

The Service is responsible for reviewing the Organisation's response to fraudulent activity in order to ensure that appropriate action has been taken. Once an investigation is concluded, the Service will undertake a review to determine whether controls should be strengthened.

The Head of Audit will coordinate counter fraud activity with Professional Standards.

### Value for money

The Service will offer advice and insight concerning instances of over control, or inefficiency, but will not specifically examine or evaluate the extent that value for money is achieved as part of its routine reviews.

At the request of the Joint Audit Committee, section 151 officers or other senior manager, the Service will also:

- undertake or participate in specific value for money / service reviews;
- facilitate the introduction of best practices across the Organisation.

The scope of a value for money / service review will not normally overlap with the scope of an audit. However, the Service will take account of the timing and scope of such reviews when planning its work.

Where a review team is actively looking at options that have a material impact on risks and controls the Head of Audit must be informed at an early stage. Where requested, and subject to the agreement of the relevant manager, the Service will assist reviewers by supplying information and knowledge gained during audits where this is relevant to the scope of the review.

### Other

The Head of Audit may, at the request of the Joint Audit Committee, the section 151 officers or other senior manager, carry out investigations into issues where the Organisation's strategic, corporate or financial interests are at stake.

Any significant unplanned non-assurance work that would impact delivery of the core assurance work will require the approval of the Joint Audit Committee.

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## Independence

The Head of Audit is professionally qualified as required by PSIAS and reports functionally to the Joint Audit Committee and administratively to the section 151 officers with whom he meets regularly. The Service does not have any executive responsibilities and is independent of the activities that it audits. These arrangements enable the Service to provide impartial and unbiased professional opinions and recommendations.

Wherever possible staff responsible for providing consultancy on a particular topic will not undertake assurance work on that topic for at least 12 months. Where this is unavoidable management supervision will ensure that no conflict of interest arises and objectivity is maintained.

The Service is free to plan, undertake and report on its work, as the Head of Audit deems appropriate.

Line managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity. The Service provides advice and assistance to managers and provides assurance that their control responsibilities are being properly fulfilled. Line managers are accountable for accepting the Service's advice and implementing its recommendations.

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## Audit Committee

The Organisation is responsible for maintaining an audit committee which complies with all relevant guidance.

The committee's responsibilities include:

- formally approving the audit charter;
- formally approving (but not directing) the overall internal audit strategy and programme of audits to ensure that it meets the Organisation's overall strategic direction (paying particular attention to whether there is sufficient and appropriate coverage);
- reviewing and commenting on summaries of work done, key findings, issues of concern and progress made on implementing agreed audit recommendations; and
- receiving and reviewing the annual report from the Head of Audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage.

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## Right of access

To undertake their work the Service has unrestricted access to all the Organisation's personnel, premises, documents, records, information and assets including those of partner organisations<sup>2</sup>. The Service has authority to access all relevant computer data as part of their work, including that registered under the Data Protection Act.

The Service is authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Organisation to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

The Service has the right of access to any data required for their work that is owned by the Organisation, but is processed or held elsewhere by third parties.

The Head of Audit has the right of direct access to the Chief Executives, section 151 officers, Chair of the Audit Committee, PCCs and Chief Constables.

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## Standards

The Warwickshire internal audit service operates in accordance with the best practice standards and guidance in the PSIAS.

Individual auditors are required to comply with the standards, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by the Authority.

Internal auditors are expected to:

- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
- participate in Warwickshire County Council's staff appraisal scheme;
- comply with their employing organisation's rules about declaring interests; and
- obtain and record sufficient audit evidence to support their findings and recommendations.

The Service will safeguard the information obtained in carrying out their duties. Information obtained will not be disclosed unless there is a legal or professional requirement to do so (for example under the Freedom of Information Act) or used for personal gain.

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<sup>2</sup> Regulation 5 Accounts and Audit Regulations 2015

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## Planning

Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

The Head of Audit produces a joint audit plan covering all four policing bodies which maps each assurance assignment to the relevant PCC and Chief Constable. These plans are developed in consultation with senior managers and take account of the organisation's aims, strategies, key objectives, associated risks, and risk management processes.

The Joint Audit Committee and Alliance Governance Group agrees each year's plan. These plans will normally include an element of contingency to allow internal audit to be responsive to changing conditions and requests for assistance from senior managers. It is the responsibility of the Joint Audit Committee to ensure that the budget and resources allocated to internal audit are sufficient to ensure that these plans can be delivered.

The Head of Audit is authorised to amend the plan during the year as necessary to reflect, for example, changes to systems or processes or in the risks facing the Authority subject to the Chair of the Audit Committee being consulted on any significant changes to the plan. All managers are expected to notify the Service of any issues that may potentially require a change in the plan as soon as they become aware of them.

Terms of reference are prepared for each routine assignment and usually discussed with relevant senior managers before the work is started.

Reasonable notice will usually be given to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the unit under review. However, the Service reserves the right for unannounced visits where the Head of Audit considers it necessary.

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## Reporting

All findings are reported to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the adequacy of controls in the area reviewed, make recommendations for improvement and specify the officer responsible for implementation. Opinions on individual assignments feed into the overall opinion given in the annual report. Recommendations are prioritised.

Reports will usually be agreed with the relevant manager and the final agreed report will be copied to the relevant Director. Reports identifying significant financial issues will also be copied to the Director of Finance and Treasurer.

The PCCs and Chief Constables are responsible for monitoring and reporting to the Joint Audit Committee on the extent of implementation of agreed internal audit recommendations.



The Head of Audit submits regular reports to the Joint Audit Committee summarising the results of audits. An annual report will be provided to the Joint Audit Committee and Alliance Governance Group giving an opinion on the Organisation's control environment and which feeds into the annual review of the effectiveness of the Organisation's system of internal control and the Annual Governance Statement.

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## Co-operation

The Head of Audit co-ordinates internal audit plans and activities with external auditors to ensure the most efficient use of the total resources devoted to audit and review. However, as recognised in professional standards (ISA 610) external audit and internal audit have different objectives and priorities. The Head of Audit is authorised to share information with external auditors. The Head of Audit will liaise as appropriate with those involved in risk management and other policy and assurance providers, internal and external, sharing information and co-ordinating work as far as is practicable, in line with appropriate professional standards and other confidentiality considerations.

The Service will work in partnership with relevant departments on such matters as corporate governance and risk management.

Line managers are expected to be open, frank and honest about any risks, concerns or problems that may exist and should provide more detailed information and evidence to internal audit within a reasonable time scale.

Where services are provided by or to other organisations the Head of Audit is authorised to agree the responsibility for internal audit of those services with the internal auditors of those organisations and to share relevant information. Managers setting up a shared service / partnership must consider the requirement for assurances in relation to what they are doing, including the option of internal audit work, and must include appropriate assurance obligations and audit access rights in any agreement.

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## Quality of service

The audit service takes steps to ensure that internal audit work they undertake complies with professional standards and that a high quality service is provided including the following steps:

- adopts a flexible risk driven approach;
- works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control;
- continually seeks to improve the efficiency of its services in consultation with managers from across the Authority;
- regularly reviews its procedures to ensure that they remain appropriate.

The quality assurance programme adopted by the provider includes:

- suitable guidance, support and review of all internal audit work;
- seeking feedback from line managers on the quality of internal audit work; and

- ongoing internal quality audits to monitor services provided by all internal auditors; and
- Regular internal and external assessments in accordance with the PSIAS.

The Head of Audit will investigate and respond promptly to all complaints about internal auditors or the service provided.

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