

## Appendix A

### POLICE AND CRIME COMMISSIONER AND CHIEF CONSTABLE FOR NORTHUMBRIA

#### INTERNAL AUDIT CHARTER 2015/16

#### 1. Introduction

- 1.1 The Chief Internal Auditor is responsible for effectively managing the activity of the Internal Audit provider in accordance with this Charter, the definition of internal auditing, the Code of Ethics and UK Public Sector Internal Audit Standards (PSIAS).

#### 2. Definition of Internal Audit

- 2.1 The Internal Audit provider for the Police and Crime Commissioner (PCC) and Chief Constable for Northumbria has adopted the mandatory definition of internal auditing as set out in the common set of PSIAS:

*“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”*

#### 3. Code of Ethics

- 3.1 All internal auditors working for, or providing a service to, the PCC and Chief Constable must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body then they must also comply with the relevant requirements of that body.
- 3.2 The Code of Ethics is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control and governance.
- 3.3 The Code of Ethics is based upon 4 principles:
- Integrity
  - Objectivity
  - Confidentiality
  - Competency
- 3.4 The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All internal audit staff:
- Will perform their work with honesty, diligence and responsibility.
  - Will observe the law and make disclosures expected by the law and their profession.

- Will not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or the audited bodies.
- Will respect and contribute to the legitimate and ethical objectives of the audited bodies.

3.5 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All internal audit staff:

- Will not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the audited bodies.
- Will not accept anything that may impair or be presumed to impair their professional judgement.
- Will disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.

3.6 Internal auditors will respect the value and ownership of the information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. All internal audit staff:

- Will be prudent in the use and protection of information acquired in the course of their duties.
- Will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the audited bodies.

3.7 Internal auditors will apply the knowledge, skills and experience needed in the performance of their duties. All internal audit staff:

- Will engage only in those services for which they have the necessary knowledge, skills and experience.
- Will perform their work in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Will continually improve their proficiency, effectiveness and the quality of the service they deliver.

#### 4. Seven Principles of Public Life

4.1 Internal audit staff will also have regard to *Nolan's Seven Principles of Public Life* in the course of their duties, as follows:

- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

## 5. Purpose, Authority and Responsibilities

### 5.1 Purpose

5.1.1 The overall strategy of Internal Audit is to deliver a risk-based audit plan in a professional and independent manner to allow the Chief Internal Auditor to provide both the PCC and Chief Constable with an opinion on the level of assurance they can place upon their internal control, risk management and governance arrangements and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Joint Independent Audit Committee. This supports the PCC and Chief Constable's Annual Governance Statements which accompany the Annual Statements of Accounts.

5.1.2 Internal Audit is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper economic, efficient and effective use of resources.

5.1.3 The principal objective of Internal Audit is to assist all levels of management in delivering the objectives of the PCC and Chief Constable and their associated bodies, through the assessment of exposure to risk and the continuous improvement of the control environment. To this end the Internal Audit provider is required to review, appraise and report upon:

- The soundness, adequacy and application of accounting, financial and other operational controls.

- The extent of compliance with established policies, plans and procedures, statute and regulations.
- The extent to which assets and interests are properly accounted for and safeguarded from losses of all kinds including fraud, bribery, corruption, other offences, waste, extravagance, inefficient administration, poor value for money or other cause.
- The suitability and reliability of financial and other operational information.
- The economy, efficiency and effectiveness with which resources are utilised.
- Whether operations are being carried out as planned and objectives and goals are being met.
- The investigation of instances of fraud, bribery, corruption and irregularities.

## **5.2 Authority**

5.2.1 Internal Audit is an assurance function required under the provisions of the Accounts and Audit Regulations 2015. Delegated responsibility to maintain an adequate and effective internal audit of the PCC and Chief Constable's accounting records and control systems rests with the Treasurer to the PCC, in conjunction with the Chief Constable's Director of Finance, as set out in the Commissioner's Delegations to Officers.

5.2.2 The scope of Internal Audit activity allows for unrestricted coverage of each body's control environment, which includes all of its operations, resources, services and responsibilities in relation to other bodies. The only exception to this is in relation to covert assets. Assurance on the existence and deployment of covert assets will be provided to Internal Audit and onto the Joint Independent Audit Committee (JIAC) by the Assistant Chief Constable Protective Services.

5.2.3 The Chief Internal Auditor, in consultation with the Joint Chief Finance Officer will have the freedom to determine the priorities for Internal Audit activity.

5.2.4 The Chief Internal Auditor will carry out a systematic review and evaluation of all aspects of the internal control environment through consideration of the respective risk registers and consultation with senior managers and the external auditor. This enables the Chief Internal Auditor to prepare a three-year risk-based plan, covering all areas of the Police Service and to provide purpose and direction in this process. This plan will be linked to a statement of how the Internal Audit Service will be delivered and developed in accordance with this Charter and both the PCC and Chief Constable's overall objectives.

5.2.5 Subject to the restriction relating to covert assest noted in 5.2.2 above, Financial Regulations grant to Internal Audit, having been security cleared, the authority to:

- Access OPCC and the Force premises at reasonable times;

- Access all assets, records, documents, correspondence, control systems and appropriate personnel, subject to appropriate security clearance;.
- Receive any information and explanation considered necessary concerning any matter under consideration;
- Require any employee to account for cash, stores or any other OPCC or Force asset under their control; and
- Access records belonging to contractors, when required. This shall be achieved by including an appropriate clause in all contracts.

5.2.6 Where required assurances based on the work of Internal Audit may be provided to respective external bodies. This will take the form of a written assurance from the Chief Internal Auditor detailing the objectives of the internal audit activity undertaken and a conclusion on the assessment of the internal control environment.

5.2.7 The main determinant of the effectiveness of the Internal Audit Service is that it is seen to be independent. To ensure this, the Internal Audit Service will operate in a framework that allows direct reporting to the PCC, all Chief Officers and the Chair of the JIAC.

5.2.8 For the purposes of compliance with PSIAS the JIAC is designated as the “Board” and Area Commanders/Heads of Department and above are designated as “senior management”.

### **5.3 Responsibilities**

5.3.1 Internal Audit will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within them. In addition to the Annual Internal Audit Report the Chief Internal Auditor will report progress against the annual audit plan to the Joint Independent Audit Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the results of the Chief Internal Auditor’s Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

5.3.2 Internal Audit will have no responsibilities over the activities that it audits beyond the furnishing of recommendations and advice to management on associated risks and controls.

5.3.3 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered way.

- 5.3.4 Management is expected to implement all agreed audit recommendations within a reasonable timescale and each audit will be followed up to assess the extent to which this has happened.
- 5.3.5 Arrangements are in place with senior managers to inform Internal Audit of changes in organisational systems and procedures on an ongoing basis.
- 5.3.6 Every effort will be made to preserve objectivity by ensuring that all Internal Audit Service employees are free from any conflicts of interest and do not undertake any non-audit duties other than those for the exigencies of the service.

## **6 Resourcing of Internal Audit**

- 6.1 Resourcing of Internal Audit will take into the consideration the following:
- The PCC and Chief Constable's priorities;
  - The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity
  - Consultation with senior managers and the external auditor;
  - Changes in legislation;
  - The scope of planned external audit work; and
  - The implications of external inspection reports.
- 6.2 The Chief Internal Auditor assesses resource requirements and draws up the Audit Plan. The staffing structure of Internal Audit comprises a mix of professional accountant, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the service. Where the Chief Internal Auditor considers there to be insufficient resources to deliver an effective audit plan this will be drawn to the attention of the Treasurer to the PCC and the Chair of the JIAC immediately.
- 6.3 As far as practical, the Internal Audit provider will not participate in the day-to-day operation of any systems of internal control. Where this is unavoidable then the auditor in question will not perform audit work in the same area for a minimum of 12 months thereafter. Any conflicts of interest relating to a respective area must be notified in advance to the Chief Internal Auditor. The Chief Internal Auditor maintains a record of all declared interests from Internal Audit staff and regular training sessions will be carried out to remind staff of the Code of Ethics. If any impairment to objectivity or independence does occur then these will be disclosed to appropriate parties depending on the nature of the impairment; with significant breaches being reported to the JIAC.
- 6.4 At the request of the Joint Chief Finance Officer appropriate specialists from other services should be made available to participate in any audit or review requiring specialist knowledge.

- 6.5 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training delivered through both internal and external courses.

## **7. Fraud Related Work**

- 7.1 Managing the risk of fraud, bribery and corruption is the responsibility of management and Internal Audit does not have responsibility for the prevention and detection of these matters. Internal Auditors will however be alert to the risk and exposures that can allow fraud, bribery and corruption and will investigate such instances and any irregularities that are identified within the Service. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected.
- 7.2 The Chief Internal Auditor has provision in the Audit Plan to allow for the investigation of fraud, bribery and corruption and Financial Regulations, the Counter Fraud and Corruption Policy and Statement on the Prevention of Bribery require him to be notified of all suspected or detected fraud, corruption or impropriety. The Chief Internal Auditor will assess the potential impact of such cases on the internal control environment.

## **8. Consulting Services**

- 8.1 Where resources and skills allow within the Audit Plan, Internal Audit will provide independent and objective services, such as consultancy at the request of management. Consultancy work will be assessed by the Chief Internal Auditor for its impact on the internal control environment and the potential added value in terms of the PCC and Chief Constable achieving their legitimate and ethical objectives and will be subject to the Audit Protocol on Consultancy Engagements.