



Agenda Item 05

**JOINT AUDIT COMMITTEE
30 March 2017**

**INTERNAL AUDIT STRATEGY AND
INTERNAL AUDIT WORK PROGRAMME FOR 2017/18**

1. PURPOSE OF REPORT

1.1 The purpose of this document is to provide the Joint Audit Committee with:

- An understanding of Internal Audit's risk-based approach to developing its Strategy and Plan
- The proposed Internal Audit Work Plan for 2017/18.

2. BACKGROUND

2.1 The overall objective of internal audit is to provide an opinion on the overall adequacy and effectiveness of the organisation's control systems. To do this, audit work during the year needs to be planned to cover the significant risks facing the Police and Crime Commissioner and West Midlands Police Force. Internal Audit Professional Standards require this strategy/plan to be considered by the Joint Audit Committee. The proposed Strategy for 2017/18 is provided at Appendix A.

2.2 Following extensive discussions with senior officers, a new draft plan has been prepared for 2017/18 and is also attached at Appendix B for endorsement by the Committee.

2.3 An Audit Charter is a requirement of the Public Sector Internal Audit Standards and sets out the purpose, authority and responsibility of internal audit. It has to be formally agreed and approved by the organisation and periodically reviewed. The Charter establishes the internal audit activity's position within the organisation, including the nature of the service's functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities.

2.4 In accordance with best practice the existing Audit Charter considered by the Audit Committee in September 2016, has been reviewed in line with the proposed Internal Audit Strategy for 2017/18 to ensure it remains appropriate. Only minor changes have been made to reflect the Core Principles for the Professional Practice of Internal Audit that support the Internal Audit Mission, changes in post titles and to remove the changing role of external audit in placing reliance on Internal Audit work. The changes are show in the document attached at Appendix C.

3 RECOMMENDATIONS

- 3.1 The Committee approves the proposed strategy and supporting annual work programme for 2017/18
- 3.2 The Committee approves the minor changes made within the Internal Audit Charter.

<p>CONTACT OFFICER</p>

<p>Name: Lynn Joyce Title: Internal Audit Manager</p>

<p>BACKGROUND DOCUMENTS</p>

<p>None</p>

Internal Audit Strategy

This document sets out the Internal Audit Strategy 2017/2018 for the Police and Crime Commissioner and West Midlands Police Force. These services are provided by the Internal Audit Service. This document complements the Audit Charter.

Services

All organisations face risks in every aspect of their work: policy making, decision taking, action and implementation, regulation and spending. The different types of risk are varied and commonly include financial risks, IT risks, physical risks to people and damage to the organisations reputation. The key to an organisations success is to manage these risks effectively.

The management of risks is the responsibility of every manager – the role of the internal Audit Service is to support managers by providing the following services.

Assurance

We develop and then deliver a programme of internal audits to provide independent assurance to senior management and the Joint Audit Committee members that significant risks are being addressed. To do this, we will evaluate the quality of risk management processes, systems of financial, management and operational control and governance processes and report this directly and independently to senior management.

In accordance with regulatory requirements most individual assurance assignments are undertaken using the risk-based audit approach. We give an opinion on how much assurance systems give that significant risks are addressed. We will use four categories of opinion in 2017/18: Substantial, Reasonable, Limited and Minimal assurance.

A report, incorporating an agreed action plan, will be issued for every audit, the results of which are also reported to the Joint Audit Committee. To assist managers in addressing areas for improvement, recommendations will be made, which are classified as: High, Medium and Low.

Advice

The organisation¹ will continue to face major changes in systems, processes and procedures over the coming years and we are able to support the organisation and provide advice, where required, on the control implications of these changes. The role of the internal audit service is to act as a critical friend and challenge the design of processes to reduce the risk of failure. It is more constructive for us to advise on design of processes during the currency of a change project rather than identify problems after the event when often it is too late to make a difference. Our knowledge enables us to challenge current practice and champion best practice, so that the organisation as a whole achieves the objectives set in the Police and Crime Plan.

Irregularities

It is the responsibility of every manager to have systems in place to prevent and detect irregularities. The service liaises with the Professional Standards Department in respect of the investigation into allegations of fraud and corruption. Whilst irregularities will predominantly be

¹ Organisation throughout refers to the Police and Crime Commissioner and West Midlands Police Force

undertaken by the Professional Standards Department, the relevant senior manager/ member of Executive Team, in consultation with the Internal Audit Manager, should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration. This service helps foster the anti-fraud approach of the organisation.

Counter Fraud

The service also undertakes specific counter fraud work, which involves checking large numbers of transactions, for example, travel claims, credit card expenditure, fuel card usage, to identify errors and potential frauds. This is time-consuming work and thus the number of exercises that can be undertaken each year is very limited.

The service also leads on the organisations participation in the National Fraud Initiative, which is an exercise based upon the exchange and comparison of information with other authorities and agencies. It identifies possible fraudulent activity across a range of areas, including payroll, pensions and creditor payments.

Context

The Accounts and Audit Regulations 2015 require organisations 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.

The Regulations require accounting systems to include measures to ensure that risk is appropriately managed. The requirement for an internal audit function is also contained in the Regulations which requires the organisation 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.”

The Police and Crime Commissioner and Chief Constable has delegated responsibilities for internal audit to the Internal Audit Manager.

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.”

The key word in the definition is assurance. The role of audit is to provide reasonable assurance to the organisation (Managers, Heads of Services, Executive Team, PCC and the Joint Audit Committee) that the organisation maintains an effective control environment that enables it to manage its significant risks. We help the organisation achieve its objectives by providing assurance that effective and efficient operations are maintained.

The assurance work culminates in an annual opinion on the adequacy of the organisations control environment which feeds into the Annual Governance Statement.

Vision, purpose and values

The mission of the Internal Audit Service, as set out in the Audit Charter, is *“to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

To deliver on our mission we will:-

- demonstrate integrity and promote appropriate ethics and values within the organisation;
- provide independent and objective risk based assurance;
- be proactive and forward thinking;
- continually improve the quality of our services and promote organisational improvements through our work.
- continue to demonstrate competence and due professional care and develop internal audit staff to ensure we are fully equipped to respond to the organisations demands;
- add value by aligning our work with the strategies and objectives of the organisation focusing our resources on the most significant risks;
- communicate effectively and work with managers to improve controls and performance generally; and
- be appropriately positioned and adequately resourced and consider, where necessary and appropriate to do so, obtaining competent advice and assistance if there is a lack of knowledge, skills or other competencies needed to perform all or part of an engagement.

Our customers will continue to be affected by a variety of local and national issues, including:-

- The increasing use of technology to deliver services;
- Agile working arrangements;
- Changes in legislation, policing requirements and operational practices;
- The introduction of new ways of working; and
- Pressure to reduce the costs of operating with reduced resources while improving quality/effectiveness.

These, and other developments, will mean increased pressure on the Internal Audit Service to review existing systems and provide advice on new systems within limited resources.

Our approach for 2017/18

The plan covers one year, with the focus being primarily on the high risk areas, change programmes and key corporate processes. Audits of this nature are a more effective use of limited resources and are key to providing the appropriate assurance to the organisation that its overall governance arrangements remain effective.

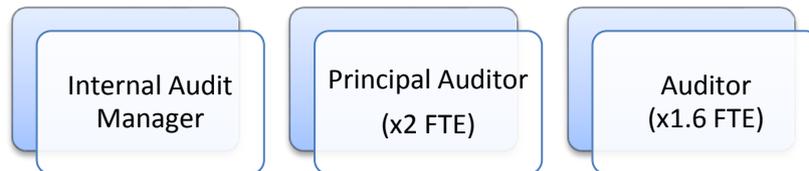
We have sought to align our work with the organisations risk base this year, by consulting extensively with senior management to identify areas for review where management require assurance that systems of control are adequate and operating effectively. The consultation process for devising the Audit Plan included the following:

- Individual meetings with the Deputy Chief Constable, Assistant Chief Constables, Directors, Assistant Directors, a selection of Chief Superintendents of the Force, Force Risk Manager and the Police and Crime Commissioner’s (PCC) Chief Executive and Chief Finance Officer and External Audit.
- Attendance at the Local Policing Governance Board to seek views from Commanders of Policing Units.
- Review of the Police and Crime Plan, Force Risk Registers and the PCC’s Risk Register.

- Review of other sources of information including national and local strategies and policies, organisational changes and consideration of collaborative arrangements in place.

In addition, the Internal Audit Manager has access to various professional networks which highlight wider issues affecting internal audit, which have also been considered when determining the programme of work.

The financial budget for the Internal Audit Service is £258,390, which provides five members of staff (4.6 FTEs). The team consists of:



When taking account of any avoidable days, e.g. Annual leave, bank holidays, training etc, this provides a total of 840 audit days.

The number of potential audit areas exceeds the days available this year, and a number of topics cannot therefore be accommodated within the resources available. This is not unusual across most audit services and therefore the Work Plan has to be prioritised to identify those audits with the highest priority. The Work Plan has been prioritised based on the following criteria:

- Links with the objectives in the Police and Crime Plan/Risk register;
- Links to the Force risk register;
- Previous known issues that highlighted potential control weaknesses (from HMIC, Internal Audit, external audit, reports to Strategic Police and Crime Board etc.);
- Gaps in assurance framework;
- Time since last review.

Based on this criteria, the audits have been scored and prioritised as high, medium and low and we will focus resource of those areas with the highest score. Available resources are sufficient to cover all of those areas considered high priority and the majority of those audits falling into the medium category.

To minimise duplication and make the best use of limited resources we aim to rely on work undertaken by other assurance providers rather than undertake our own detailed checks. For example, if the Information Management function undertakes compliance checks on information management policies, we will evaluate their approach and if it is sound then future audit work on the topics covered can be limited. The Internal Audit Service therefore builds upon the work on other assurance providers.

The breakdown of days against each of the key activities is provided below:

Breakdown of audit days

	Days	% of total resources	
Total available resources	1197		
Unavoidable non-productive; incl annual leave, bank holidays, sickness, training etc	233	19%	
Other non-productive; incl Team meetings, one to one's, admin, external assessment, performance management etc.	124	10%	
Total non - productive days	357	29%	
			As a % of productive days
Assurance; including small contingency	686	58%	82%
Advisory; incl small contingency for ad-hoc advice received	36	3%	4%
Counter Fraud	20	2%	2%
Certification	8	1%	1%
Management; incl JAC facilitation and reporting, External Audit Liaison, Audit Planning, Senior Management Liaison etc	75	6%	9%
Contingency for investigations	15	1%	2%
Total Productive days available for audit	840	71%	

A detailed list of topics forming the 2017/18 work plan is shown in Appendix B, together with an illustrative list of topics that we are not planning to audit based on the existing level of resource.

Being transparent about topics that cannot be audited is a key requirement of the Public Sector Internal Audit Standards. As the Force is progressing through a phase of transformation, the audit universe (potential auditable topics) will change. The audit universe will therefore continue to be developed and refined during future planning exercises.

There will inevitably be circumstances where the Internal Audit Manager may have to amend the work plan, e.g. when risks change or a specific project becomes a matter of priority. There may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Also, as a number of the areas in the work plan are new areas, estimating time on individual audits can be difficult. As a result, throughout the year the plan will be closely monitored and updated to ensure it remains relevant. In year changes to the plan to reflect such variances are accepted as best practice. This plan, therefore, is not set in stone. It may need revising as circumstances change. The Joint Audit Committee will be consulted on any such changes and will be provided with regular updates on progress.

2017/18 Draft Internal Audit Work Plan

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
ACC Crime	Public Protection Unit	Vulnerability Improvement Plan - Review of progress in addressing actions within the Vulnerability Improvement Plan which addresses issues arising from HMIC Inspections. This work will consider issues identified around Domestic Abuse and Missing Persons arising from 2016 PEEL Efficiency review <i>(New Risk Scanning of historic PPU documents on Force Risk Register – being developed)</i>	H	✓				
ACC Crime	Application of THRIVE	Assessing how THRIVE is used in a sample of actual cases where risk is assessed, including when a case is initially reported; and when the case is referred to investigators.	H	✓				
ACC Crime	Cybercrime	Review of how Cybercrime is managed by Force, including governance arrangements, risk management etc. Forces assessment on Cybercrime presented to the SPCB will also be considered for reasonableness.	M	✓				
ACC Crime	Victims Code compliance	Review to ensure the Statutory responsibilities regarding signposting victims to support services is being fulfilled.	M	✓				
ACC Crime	Detainees in Custody - Money, Property, Healthcare	Review of management arrangements in Custody suites - to include property management, control of monies, Primecare arrangements, meal provision etc. Sample of custody suites to be visited, including the two new custody suites opened. Also include progress in addressing actions arising from recent HMIC inspection.	H	✓				
DCC	Performance Management	Review of the performance management arrangements across the Force, including use of the new management information dashboard Mipatch. Review will include dip sampling of selected performance indicators to assess robustness of evidence to support performance data.	M	✓				

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
Estates	Fuel Card Management	Counter Fraud review of spend on Fuel cards	N/A			✓		
Estates	Fleet telematics	New monitoring equipment is now fitted into 400 vehicles with roll out to 1200 vehicles expected in Feb 17. Review to determine how the Force are using the system to monitor driving behaviours, usage of vehicles etc. to improve performance and address any issues identified from usage and to inform future procurement decisions.	H	✓				
Estates	Uniform allocation	National Uniform Managed Service (NUMS) initiative due to be implemented Q1 2017/18. Review should cover the new arrangements in place for order and receipt of uniform and invoicing arrangements etc.	M	✓				
Finance	Overtime	Follow-up of inadequate assurance audit issued in 2016/17. A new process was implemented in Jan 17. Review will assess how robust the new processes are to ensure issues identified in 2016/17 audit have been addressed. Review will also include CTU overtime.	H	✓				
Finance	Payroll Governance Board	Advisory role reviewing errors in payroll transactions, identifying resolutions and required changes to processes.	N/A		✓			
Finance	New financial systems	Advisory capacity to provide proactive advice on the design of controls within the proposed new system	N/A		✓			
Finance	Budgetary control	Review of arrangements in place for budget setting, budget monitoring, forecasting, variances monitoring, management of financial saving plans etc.	H	✓				
Finance	Contract Management	Review of robustness of contract management arrangements in place, including regular liaison, performance management, default penalties, risk management etc. Review to also consider vetting of contractors on site and contractors compliance with Modern Slavery Act, if applicable.	M	✓				

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
Finance	Replacement Finance and systems	Assurance over implementation process for new financial systems, including; User Acceptance Testing (UAT); Data migration, Interfaces etc.	M	✓				
Finance	Key Financial systems (following go live)	Assurance reviews of key financial systems following go-live. Systems to include, debtors, creditors, bank reconciliation, general ledger etc. (Priority to be determined based on go -live timescales/risk)	M	✓				
Finance	Payroll	Full audit of all payroll processes, including timeliness and accuracy of processing payroll variations, new starters, leavers, exception reporting, etc.	M	✓				
Finance	IR35 compliance	Review of the arrangements for managing the new IR35 tax arrangements, which places the emphasis on public sector bodies to check whether contractors are “genuine” limited companies or using the status for tax avoidance. <i>(New risk in Force risk register IR35)</i>	H	✓	✓			
Finance	Use of Consultants / agency staff	Review of management and use of consultants to ensure clear business case, effective procurement processes, performance monitoring of outcomes and financial management, controlled access to systems / Vetting. <i>(New risk in Force risk register IR35)</i>	H	✓				
HR & OD	Workforce demographics / planning	A review of workforce planning methodology and tools to support the organisation achieving its objectives in respect of workforce demographics and resilience. Review will include tools such as skills management and talent management to support progression. <i>(Risk CRR25 Workforce Resilience & CRR26 Workforce Demographics in Force risk register)</i>	H	✓				
Information Management	Access and Usage	Following an inadequate assurance given in 15/16 (Currently in draft) – Full follow-up review to establish the progress made in implementing the recommendations	H	✓				

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
Information Management	Information Management and Ownership	Review of Information Management policies and how these are embedded into the culture of the Force. Robustness of Information Security Team's compliance checks and how data breaches are investigated and reported will be included. <i>(Risk CRR20 Records Management and CRR2c Information Security in Force risk register)</i>	H	✓				
Information Management	Information Sharing Agreements	This audit was planned for 2016/17 but not commenced as Force is reviewing current arrangements, including reviewing validity of existing arrangements and current templates and tools. Review will consider robustness of new arrangements once implemented. <i>(Risk CRR2b Information Sharing with Statutory Bodies in Force risk register)</i>	H	✓				
Information Management & IT and Digital	Mobility	Review to assess asset management and monitoring of usage arrangements around mobile devices - Due to the vast increase in number of mobile devices, how well is the organisation managing mobile devices, e.g. issue, losses, stolen device management, standard set up, systems access, tracking staff moves, security policies, disposal and destruction, usage policies etc.	M	✓				
IT & Digital	IT Business continuity and disaster recovery	Review to ensure IT business continuity and disaster recovery arrangements in place are robust <i>(Risk CRR8a Inability of ICT to maintain and develop in house Intelligence systems on Force risk register)</i>	H	✓				
Operations	Intelligence Management & Tasking	Carry forward of 2016/17 audit - Review to assess tasking arrangements of the Force. The review will consider the roles of Mission Support / Force Support.	H	✓				
Operations	Body Worn Video	Review of compliance with policies to maximise outcomes from the new technology. Include storage arrangements with evidence.com.	M	✓				

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
Operations	Force Response	A review of the embeddedness of the new response functions which are now deployed from 5 bases. Review to include effectiveness, performance, deployment capability etc.	M	✓				
PCC	Cadets Scheme	Review of the new Cadets Scheme anticipated to be implemented during 2017/18 - to include appropriateness of policies and compliance with procedures (including safeguarding policies, records management, social media etc). Initial advisory work followed by formal audit after implementation.	M	✓	✓			
PCC	Active Citizens	The fund provide £800k to support community initiatives. Review will focus on the robustness of the process for allocating funds ensure the objectives are being met. This review will cover both Community projects and small grants.	M	✓				
Security	Section 22a agreements	Review of governance arrangements of S22a agreements (excluding CTU) and of compliance with the requirements set out in the agreements to ensure effective management and monitoring. Requirement also to provide assurance to other Forces in the collaboration.	M	✓				
WMP2020	IIP Performance Management	Carry forward from 2016/17 audit in planning stages to review robustness of performance management arrangements of Accenture	M	✓				
Honorary Accounts	Tally Ho	Follow-up of actions arising from 2016/17 and certification of accounts. Agreed by Joint Audit Committee at its December 2016 meeting to undertake one more audit in 17/18	L	✓				✓
	NFI	To conclude investigation of matches published Jan 2017.	L			✓		
Contingency	Contingency for assurance work	Small amount of contingency for assurance work	N/A	✓				
Contingency	Contingency for investigations	Small amount of contingency for Investigations -Includes liaison with PSD on ad-hoc investigation	N/A				✓	

Area	Subject	Description	Priority	Assurance	Advisory	Counter Fraud	Investigation	Certification
	Ad-hoc advice	Small amount of time to provide advice on request that is not already included as part of this plan	N/A		✓			
	Pool time for JAC	Small amount of time allocated for Joint Audit Committee to direct audit resources to any areas of concern identified during the year	N/A	✓				
Management	Management	Includes Audit committee planning, reporting and attendance, Audit Planning and ongoing liaison, effectiveness review, general management etc.	N/A	✓				
Follow-up	Follow-up on audit recommendations	Assurance to be provided on implementation of significant recommendations – Focus will be on significant audit recommendations	N/A	✓				

Illustration of Auditable Topics (not planned for 2017/2018)

In addition to the audit work plan above at Appendix B, the Public Sector Internal Audit Standards requires the strategy to be open about those audit areas not covered in 2017-2018. Based upon the planning discussions with senior management and subsequent communication around proposed audit areas, Internal Audit's professional judgement and the results of previous audits the following topics are not planned for 2017/18. The audit universe will continue to be developed and refined during future planning exercises and liaison meetings.

Area	Subject	Description	Priority
ACC Crime	Out of court disposals	Out of court disposal is a way of dealing with a crime or offence that does not require a prosecution in court. Review to provide assurance on the robustness of decision making process and authorisation ensuring policies are complied with. Consider proactive measures introduced by CJS to prevent re-offending.	M
ACC Crime	Firearms Intelligence	Review assessing how intelligence is used and managed to prompt action, ensuring appropriate timescales are complied with. Links to Threat to Life assessments.	L
ACC Crime	Academics / Organisational Learning	A review of the governance arrangements of the academic research undertaken and how tasking of work with academic partners is managed to ensure we are maximising outcomes and avoiding duplication, including commissioning and prioritisation.	L
ACC Local Policing	IOM - Sex Offender Management	A review has recently been undertaken internally of sex offender risk management, which is due to be reported imminently to Command Team with a series of recommendations. Review progress made with addressing the recommendations arising from this review.	M
ACC Local Policing	Mental Health	Review of Forces delivery against THRIVE action plan which all combined authority partners have recently signed up to.	H
ACC Local Policing	Local Business continuity	Review of business continuity arrangements at Local Policing Units	L

Area	Subject	Description	Priority
	arrangements		
Operations	Force Contact	Following a report during 2016/17 to SPC, review the progress made with improvement actions	M
Operations	SPR/ Public Order	Review of robustness of arrangements in place to mobilise appropriately trained public order officers if an event were to arise, ensuring appropriate arrangements in place for testing.	M
Security	TIDU (ROCU)	Carry forward from 2016/17 audit plan - Technical Intelligence Development Unit	L
Security	Protected Persons (Witness protection)	Review of management arrangements for witness protection services, including money management, governance arrangements, decision making and approval processes and compliance with legal framework.	M
Security	Covert Funds (including CHIS/Regional Undercover unit)	Review of selection of covert funds to provide assurance that monies are being spent as intended and ensuring proper governance arrangements are in place.	M
WMP2020	Benefits review of Mobility	Mobility – providing operational police officers with mobile, easily accessible, timely, relevant and accurate information that helps them improve the service they provide to the public and their colleagues. Benefits realisation review to establish whether the benefits set at the outset of the projects have been realised.	M
Finance	Insurance	Review to provide assurance in the robustness of arrangements in place for renewing the insurance policies and managing claims relating to the Force and PCC ensuring policies are aligned to changes in the asset profile of the organisation.	M
Finance	Treasury Management	Assurance around compliance with approved Treasury Management Strategy	L
ACC Local Policing/	Young People	Thematic review how the Force is engaging with Young People, including a review of the strategy and CYP priorities plan and how these are being delivered in a prioritised co-ordinated way to maximise outcomes.	M

Area	Subject	Description	Priority
People & OD			
People & OD	Getting People back in to work (Psychiatrics/ Occupational Health/ Wellbeing)	Review of the arrangements for getting people back to work includes officers on long term absence, restricted duties or permanent restrictions. Review to include Psychiatrics service and Occupational Health provision.	M
IT & Digital	Administration Access to IT systems and support tools	Review to provide independent assurance that system administration access at super-user level is appropriately controlled and segregation of duties are not compromised.	M
IT & Digital	IT programme and project management	As a result of demand arising from WMP2020 change agenda, review how well projects are planned and managed within IT & Digital, including compliance with established project management methodology, prioritisation processes etc.	M
IT & Digital	PCIDSS	Compliance with payment card industry data security standards, which is a set of requirements designed to ensure that ALL companies that process, store or transmit credit card information maintain a secure environment	L
Information Management	Civil Disclosure	Disclosure and Barring Service (DBS) checks are undertaken on behalf of external organisations, e.g. CAFCAS, Criminal Injury, Domestic Abuse cases etc. Review to assess the robustness of arrangements in place including timeliness, prioritisation, charging arrangements to ensure administered effectively.	L



Commissioner / Chief Constable Joint Internal Audit Charter



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1 Introduction

- 1.1 The Police and Crime Commissioner West Midlands (PCC) and the Chief Constable (CC) are both responsible for maintaining an effective Internal Audit function under the Accounts and Audit Regulations 2015. These regulations specifically require that 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 audit standards or guidance.*”
- 1.2 This Charter defines the purpose, authority and responsibility of the Internal Audit service and is consistent with the Public Sector Internal Audit Standards (2013), which are mandatory.

2 Approval of Charter

- 2.1 The Charter is periodically reviewed and approved by senior management and the relevant board. The Public Sector Internal Audit Standards (PSIAS) 2013 refer to the term “board” and in this Charter this means the “Joint Audit Committee”. The term “senior management” means the Chief Executive, the Chief Finance Officer and the Force Director of **ResourcesCommercial Services**.

3 Definition of Internal Auditing and Objectives of the Internal Audit Service

- 3.1 The definition of Internal Auditing is a mandatory part of the PSIAS (2013) and is as follows:

“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.”

- 3.2 The mission of the service is “*to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*”

In order to achieve this mission, Internal Audit must:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Be objective and free from undue influence (independent).
- Align with the strategies, objectives, and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.

- Provide risk-based assurance.
- Be insightful, proactive, and future-focused.
- Promote organisational improvement.

3.3 The Internal Audit service evaluates the adequacy and effectiveness of controls in responding to risks within the PCC and CC's governance and operation systems regarding the:

- achievement of the organisations' strategic objectives;
- adequacy of risk management, identification, assessment and mitigation;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes
- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

3.4 In addition, the other objectives of the function are to:

- support the Section 151 officers (PCC, CFO and FCFO) in discharging their statutory duties for ensuring proper administration of the PCCWM / CC's financial affairs;
- provide appropriate input to the Annual Governance Statements or other assurance processes of the PCC and CC;
- support management to understand their exposure to risks and advise on risk management principles / methods;
- supporting the Joint Audit Committee in fulfilling its governance responsibilities;
- promote a counter fraud culture across the Office of the PCC and Force, through the development and effective implementation of the Anti-Fraud, Bribery and Corruption Policy and;
- undertake consultancy type reviews as requested by senior management of the PCC and Force.

3.5 Internal Audit will incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

4 Scope of Internal Audit

4.1 The Internal Audit service' role applies to all functions and services for which the PCCWM and CC is responsible. Internal Audit has unrestricted coverage of both organisation's activities and unrestricted access to all records and assets which is necessary for it to effectively fulfil its responsibilities, however and wherever these are held. This includes information which is held or managed by third parties on the PCCWM and CC's behalf.

4.2 The Internal Audit Manager has direct access, as appropriate to:

- All levels of management, including the PCCWM, the CC, the Chief Executive, the Chief Financial Officer (CFO) and the Force Chief Financial Officer (FCFO);
 - The Chair of the Joint Audit Committee and its members;
 - Employees of both organisations;
 - Agents of both organisations.
- 4.3 The Internal Audit Manager can report directly to the Joint Audit Committee and officers at any level.
- 4.4 The Internal Audit service is required (by the PSIAS) to be sufficiently independent of the activities it audits such that it can make impartial and effective professional judgements and recommendations. Independence is achieved through a combination of:
- the organisational status of the service;
 - the objectivity of Internal Auditors and ensuring no conflicts of interest;
 - reporting in own name;
 - the freedom to report directly to the Joint Audit Committee and ;
 - being free from direct responsibility for the development, implementation or operation of systems and procedures.
- 4.5 Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Internal Audit Manager will disclose details of the impairment to the CFO and /or the Chair of the Joint Audit Committee depending upon the nature of the impairment.
- 4.6 Internal Audit activity evaluates and contributes to the improvement of governance, risk management and control processes using a systematic and disciplined approach. Internal Audit assesses and makes appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
 - ensuring effective organisational performance management and accountability;
 - communicating risk and control information to appropriate areas of the organisation; and
 - co-ordinating the activities of and communicating information among the Audit and Governance Committee, External and Internal Audit and management.
- 4.7 Internal Audit activity reviews the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities. It also assesses whether the information technology governance within the organisation supports the organisation's strategies and objectives.
- 4.8 Internal Audit activity also evaluates the potential for the occurrence of fraud

and how the organisations manage fraud risk.

5 INTERNAL AUDIT STAFFING

- 5.1 The Internal Audit Manager will be professionally qualified (CMIIA, CCAB or equivalent) and will be suitably experienced.
- 5.2 The responsibility regarding the appointment and removal of the Chief Internal Auditor is with the CFO. The CFO Officer will review the performance appraisal of the Internal Audit Manager and feedback will also be sought from the Chair of the Joint Audit Committee.
- 5.3 The Internal Audit Manager ensures that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plans.
- 5.4 Internal Audit will be appropriately staffed in terms of number, grade, qualification levels and experience to enable the Audit plan to be delivered effectively. This will be achieved through the recruitment of staff suitably skilled and experienced for the post appointed to and through the performance appraisal and development programme.
- 5.5 Internal Auditors will possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Internal Auditors will enhance their knowledge, skills and other competencies through continuing professional development. The Internal Audit Manager will obtain competent advice and assistance if there is a lack the knowledge, skills or other competencies needed to perform all or part of an engagement.
- 5.6 Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by both organisations, but will not all have the expertise of a person whose primary responsibility is detecting and investigating fraud. The responsibility for the investigation of fraud is set out in the Anti-Fraud, Bribery and Corruption Policy.
- 5.7 Internal Auditors will have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work.
- 5.8 The Internal Audit Manager will decline a consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills or other competencies needed to perform all or part of the engagement.
- 5.9 Staff will apply the care and skill expected of a reasonably prudent and competent Internal Auditor.
- 5.10 The Internal Audit Manager ensures that resources are sufficient by matching the staffing levels to the requirements of the approved plans.

5.11 The Internal Audit service is not responsible for services outside of the delivery of Internal Audit. Where staff transfer internally to Internal Audit, the Internal Audit Manager will ensure they do not audit activities they were previously responsible for, for at least 18 months. This includes transfers after periods of secondment whilst undertaking professional training.

6 RESPONSIBILITIES OF MANAGEMENT

6.1 All levels of management have a role to identify key risks to their service and to ensure these risks are effectively mitigated to an adequate degree in accordance with both organisations' stated risk appetites. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems.

6.2 All managers can assist the process of Internal Audit by:

- providing access at all reasonable times to premises, personnel, documents and assets that the Internal Auditors consider necessary for the purposes of their work;
- giving information and explanations that are sought by the Internal Auditors in the course of their work;
- providing input to both the audit plans and the Terms of Reference for each review, to ensure attention is focused on areas of greatest risk;
- early notification to Internal Audit of plans for change, including new operational systems and processes;
- implementing agreed actions arising from audit recommendations in a timely and effective manner;
- immediately notifying the Head of Professional Standards / Internal Audit Manager of all suspicions of fraud, theft, or other irregularity, in accordance with the Anti-Fraud, Bribery and Corruption Policy. Pending investigation and reporting, the relevant senior manager/ member of Executive Team, in consultation with the Internal Audit Manager, should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration;
- ensuring that where key systems are managed by an external organisation that contractual documentation identifies, in consultation with the Internal Audit Manager, the Internal Audit arrangements for those key systems.

6.3 When the Internal Audit Manager concludes that management has accepted a level of risk that may be unacceptable to the organisation, he/she will discuss the matter with senior management. If the Internal Audit Manager determines that the matter has not been resolved, he /she will communicate the matter to the Joint Audit Committee. It is not the responsibility of the Internal Audit Manager to resolve the risk.

7 RESPONSIBILITIES OF THE JOINT AUDIT COMMITTEE

7.1 The roles of the Joint Audit Committee in relation to Internal Audit include:

- To ensure its independence, objectivity and professionalism;
- To support the effectiveness of the internal audit process;
- To promote the effective use of internal audit within the assurance framework;
- To advise the PCC and the CC on appropriate arrangements for Internal Audit;
- To approve the Internal Audit Plan and;
- To consider progress reports and receive the annual opinion on the internal control environment.

8 AUDIT SERVICES & CONTEXT

8.1 The Internal Audit Manager is required to manage the provision of a complete audit service to both organisations. This includes:

- preparing annual plans, including resource requirements, in consultation with senior management, for review and approval by senior management and the Joint Audit Committee. These plans will be prepared using a risk based approach, aligned to the Corporate Risk Register, taking account of the risk maturity of the organisation and the Assurance Framework. They will include a risk assessment and will explain the approach to using any other sources of assurance and any work required to place reliance upon those other sources. The risk-based plans will incorporate or be linked to a strategic or high level statement of how the Internal Audit service will be delivered in accordance with this Charter and how it links to the organisational objectives and priorities. The plan will also explain how Internal Audit's resource requirements have been assessed;
- where the Internal Audit Manager believes that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, the consequences will be brought to the attention of the Joint Audit Committee;
- providing suitably skilled and experienced staff to undertake Internal Audit reviews;
- working in conjunction with the authorities' External Auditors, whereby external audit places reliance on the work of Internal Audit;
- undertaking Internal Audit reviews, including Value for Money reviews, in accordance with the approved Annual Plans and the Internal Audit Manual;
- agreeing any amendments to the Annual Plan, in response to both organisations' business needs, with senior management. Any such amendments will be reported to the Joint Audit Committee;
- considering accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations ('Consulting Services' can be defined as 'the provision of audit advice and guidance provided outside of

normal planned audit / assurance activity'). Accepted engagements will be included in the plan;

- seeking approval from the Joint Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement;
- assessing all requests for non-audit activity particularly where this activity may introduce a conflict of interest or impair independence. Where it is assessed that the non-audit activity does provide a potential conflict, the activity will not be performed unless appropriate mitigation activities are put in place to minimise the potential impact of the conflict;
- providing an audit opinion on each individual review undertaken together with an Annual Audit opinion on the adequacy of the internal control framework operating within both organisations;
- responding to requests for support, advice and guidance on implementing and/or improving control procedures for current and new systems.

8.2 The Joint Audit Committee will make appropriate enquiries of management and the Internal Audit Manager to determine whether there are inappropriate scope or resource limitations.

8.3 The Internal Audit Manager will also provide an audit opinion on each individual review undertaken for external clients together with an annual audit opinion on the adequacy of the internal control framework operating within those external organisations.

8.4 The Internal Audit service will be provided by an in-house service.

9 RISK MANAGEMENT

9.1 The Internal Audit team evaluate the effectiveness and contribute to the improvement of risk management processes through the internal auditor's assessment that:

- organisational objectives support and align with each organisation's mission;
- significant risks are identified and assessed, including the risk of fraud;
- appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organisations, enabling staff, management, the PCC and the Joint Audit Committee to carry out their responsibilities.

9.2 Internal Audit will evaluate risk exposures relating to the organisation's governance and operations systems regarding the:

- achievement of the organisations' strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;

- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

9.3 During consulting engagements, Internal Auditors will address risk consistent with the engagement's objectives and will be alert to the existence of other significant risks. Internal Auditors will incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

9.4 When assisting management in establishing or improving risk management processes, Internal Auditors do not assume any management responsibility by actually managing risks.

10 AUDIT REPORTING FRAMEWORK

10.1 Internal Audit activity is undertaken to assist management fulfil their objectives of delivering services and contributing to overall strategic objectives. Outputs from Internal Audit work range from informal advice to formal written reports. The Internal Audit process allows auditee management to have the opportunity to agree the factual accuracy of report content and to discuss the action plan.

10.2 Final reports are issued to auditee management which include the engagement's objectives and scope, applicable conclusions and identify agreed actions showing responsibilities and implementation dates.

10.3 Final reports also include an opinion regarding the level of assurance that can be given for the control environment of the system or unit being audited.

10.4 Final reports issued to parties outside the organisation include limitations on distribution and use of the results.

10.5 In addition to meetings about individual pieces of work, regular liaison meetings are held with each member of the Executive Team or their nominee to discuss at a summary level, any issues or themes arising and to agree the timing and content of planned work.

10.6 Outstanding recommendations are followed up every quarter and the results of this follow up process, including whether senior management has accepted the risk of not taking action, are reported to the Joint Audit Committee.

10.7 Internal Audit reports to the Joint Audit Committee in accordance with the reporting timetable agreed with the Committee. This includes quarterly progress reports and an annual audit report which incorporates the following:

- an Annual Audit Opinion;
- a summary of the work that supports the opinion;

- a statement on conformance with the UK Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 10.8 The Annual Audit Opinion and report will be used to inform the Annual Governance Statement.
- 10.9 In addition, the Internal Audit Manager will provide a report annually to senior management and the Joint Audit Committee outlining the contents and any updates to the Internal Audit Charter, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

11 QUALITY OF SERVICE

- 11.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. These include specific reference to the Code of Ethics which Internal Auditors in UK public sector organisations must conform to. This Code of Ethics includes the following principles: Integrity, Objectivity, Confidentiality and Competency. Breaches of the Code of Ethics will be evaluated and administered according to the Institute of Internal Auditors' Disciplinary Procedures. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of the Code of Ethics. If individual Internal Auditors have membership of a professional body then he or she must also comply with the relevant requirements of that organisation.
- 11.2 Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest. They must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*. Adherence to expected standards will be subject to management overview through actions 10.3 and 10.4 below.
- 11.3 Internal review of work standards is undertaken through a system of management review involving senior audit staff and the Internal Audit Manager. This incorporates review of all audit documentation and reports prior to release to the relevant auditee manager. Appropriate evidence of review is documented and retained. The Internal Audit Manager is responsible for reviewing and approving the final audit report before it is issued and for deciding to whom and how it will be disseminated. If these duties are delegated, the Internal Audit Manager retains overall responsibility.
- 11.4 If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organisation, the Internal Audit Manager will:
- assess the potential risk to the organisation;
 - consult with senior management and / or legal counsel as appropriate; and
 - control dissemination by restricting the use of the results.

- 11.5 The Internal Audit Manager is responsible for communicating the final results of consulting engagements to clients. During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they will be communicated to senior management and the Joint Audit Committee.
- 11.6 Quality questionnaires are issued to auditees at the end of each audit review. Completed questionnaires are recorded and monitored against Internal Audit's Performance Indicator for Customer Satisfaction. Regular liaison meetings are also held with senior management across both organisations to discuss quality issues.
- 11.7 A suite of performance indicators and targets has been developed to monitor the quality of the service provided. These indicators are subject to review by the Joint Audit Committee.
- 11.8 A Quality Assurance and Improvement Programme has been developed by the Internal Audit Manager, which includes both internal and external assessments and covers all aspects of the Internal Audit activity. Internal Auditors can report that their engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*", only if the results of the quality assurance and improvement programme support the statement.
- 11.9 Periodic self-assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. Any areas of non-compliance are reported to the Joint Audit Committee.
- 11.10 External review of the work of Internal Audit takes place through the following mechanisms:
- **Regular contact is maintained with the organisations' External Auditors and information will be shared as appropriate who keep the performance of Internal Audit under continuous review to enable reliance to be placed to inform its work as part of the statutory external audit of the accounts. External Audit will comment on how the work of internal audit contributes to an effective internal control environment.**
 - the use of benchmarking to compare performance with other Police Services across the country;
 - external assessment of Internal Audit will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Internal Audit Manager will agree the scope of external assessments with an appropriate sponsor, e.g. the CFO or Chair of the Joint Audit and Governance Committee as well as with the external assessor or assessment team. The external assessment may be in the form of a full external assessment, or a self-assessment with independent external validation.

11.11 The results of the Quality Assurance and Improvement Programme are reported by the Internal Audit Manager to senior management and the Joint Audit Committee in the annual report.

12 STRUCTURE AND LOCATION

12.1 The Internal Audit Service is within the Office of the Police and Crime Commissioner and is located at Lloyd House, Birmingham. Operationally and administratively, Internal Audit reports to the Chief Finance Officer.