



# Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary

Internal Audit Charter 2020/21

## Introduction

1.1 This charter describes the purpose, authority, responsibilities and objectives of Internal Audit. It establishes Internal Audit's position within the entities of the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary and the nature of the Head of Internal Audit's functional reporting relationships with the board and the Joint Audit Committee. For the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary the role of the Head of Internal Audit is fulfilled by the [Group](#) Audit Manager of the Cumbria Shared Internal Audit Service.

1.2 The charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements. Final approval of the audit charter rests with the board having been subject to review by the Joint Audit Committee.

1.3 The Cumbria Shared Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise

- a Definition of Internal Auditing,
- a Code of Ethics and the Standards by which Internal Audit work must be conducted
- the mission of Internal Audit
- core Principles for the Professional Practice of Internal Auditing and
- the standards by which internal audit work must be conducted.

Any instances of non-conformance with the PSIAS must be reported to the board and the Joint Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statements and may impact on the external auditor's value for money conclusion.

1.4 An audit charter is one of the key requirements of the PSIAS. As such, failure to approve an internal audit charter may be considered to be a significant deviation from the requirements of the Standards.

1.5 The charter must be presented to senior management, reviewed by the Joint Audit Committee and must be approved by the Police and Crime Commissioner and the Chief Constable, as the body charged with governance.

- 1.6 The Public Sector Internal Audit Standards use the terms 'board' and 'senior management' and require that the audit charter defines these terms for the purpose of the internal audit activity.

For the purposes of this charter the 'board' refers to the Police and Crime Commissioner and / or the Chief Constable. The Joint Audit Committee for the Cumbria OPCC and Cumbria Constabulary is an independent Committee fulfilling an assurance role in support of the overall arrangements for governance. The terms of reference of the Committee, in accordance with the recommendations of the CIPFA publication "Audit Committees Practical Guidance for Police and Local Authorities" incorporate review of the Internal Audit Charter. 'senior management' refers to the Police and Crime Commissioner, Chief Executive and Joint Chief Finance Officer for the OPCC and for Cumbria Constabulary the Chief Officer Group.

## The Role, Mission and Core Principles of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Commissioner and Chief Constable's operations. Internal Audit helps the Commissioner and Chief Constable to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Arrangements for internal audit are secured by the Joint Chief Finance Officer on behalf of the Commissioner and Chief Constable through the Cumbria shared Internal Audit Service.
- 2.2 The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 2.3 The Cumbria Shared Internal Audit Service ("Internal Audit") provides an Internal Audit function for Cumbria County Council (the host authority), and Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner
- 2.4 The services provided by Internal Audit are designed to assist the Commissioner and Chief Constable to continually improve the effectiveness of their respective risk management, control and governance framework and processes and to allow an independent, annual opinion to be provided on the adequacy of these arrangements.

## 2.5 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based Internal Audit reviews focusing on risk management, internal control and governance
- Review of arrangements for preventing, detecting and dealing with fraud and corruption
- Review of overall arrangements for risk management and corporate governance
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high
- Provision of advice on risk and control related matters
- Consultancy services which may include hot assurance on projects or service and system development (provided the assignment contributes to improved governance, risk management internal control and where relevant value for money, and does not impact on the level of core assurance work)
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation
- Advice on strengthening controls following such an incident

## 2.6 The Core Principles, taken as a whole, articulate internal audit effectiveness. The Principles as set out in the PSIAS are:

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

## Purpose, Authority, Responsibility and Objectives

### Purpose

3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act

as invaluable eyes and ears for Senior Management, the Board and Audit Committees inside their organisations, giving an unbiased and objective view on what's happening in the organisation.

3.2 Internal Audit's core purpose is to provide Senior Management, the Joint Audit Committee and the board with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.

3.3 By undertaking an annual risk assessment and using this to prepare the annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Commissioner and Chief Constable. This then allows Internal Audit to give an overall opinion on the Commissioner and Chief Constable's systems of risk management, internal control and governance.

3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Commissioner and Chief Constable's Annual Governance Statements which accompany the annual statement of accounts. The Governance Statement provides assurance that an effective internal control framework is in place.

3.5 Internal Audit supports the Joint Section 151 Officer to discharge his responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable. This Statement places on the Joint Chief Finance Officer, the responsibility for ensuring that the Commissioner and Chief Constable have put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

3.6 Internal Audit supports the Chief Executive and Chief Constable in providing high level assurances relating to the OPCC and Constabulary's Governance arrangements.

3.7 Internal Audit also supports the Monitoring Officer in discharging his / her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

## Authority

- 3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, the Commissioner and Chief Constable have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Cumbria Shared Internal Audit service.
- 3.9 This charter delegates to the Audit Manager for the Commissioner and Chief Constable, the responsibility to undertake an annual risk assessment in consultation with each organisation's management, and from this, prepare a risk based plan of audit work for review by the Joint Audit Committee and approval by the board.
- 3.10 Internal Audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 3.11 The charter establishes that the Group Audit Manager and Audit Manager of the Shared Internal Audit Service has free and unfettered access to the board and the Joint Audit Committee and has the right to request a meeting in private with the Commissioner, Chief Constable and/or Chair of the Joint Audit Committee should it become necessary. The Group Audit Manager and Audit Manager will have at least an annual meeting in private with the Joint Audit Committee.

## Responsibilities and Objectives

3.12 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance for the Commissioner and Chief Constable.

3.13 The Group Audit Manager and their staff have responsibility for the following areas:

### Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management

- Submit the annual audit plan to senior management and the Joint Audit Committee for review prior to approval by the board.
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to the Joint Audit Committee and board as appropriate.

### **Implementation**

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and to the Joint Audit Committee
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Joint Audit Committee

### **Reporting**

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses
- Quarterly progress reports will be prepared and reported formally to the Joint Audit Committee
- Internal Audit has a responsibility to report to the board any areas where there is considered that management have accepted a level of risk that may be unacceptable to the organisation
- Internal Audit has a duty to bring to the attention of the board and the Joint Audit Committee should the Group Audit Manager believe that the level of agreed resources will impact adversely on the provision of the annual audit opinion

### **Relationships with other Inspectorates**

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers

### **Non-Audit / management responsibilities**

In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:

- Internal Audit does not have any operational responsibilities
- Internal Audit does not have any part in decision making within the organisations or for authorising transactions
- Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented

3.14 The presence of Internal Audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.

3.15 Internal Audit does not have responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal Audit's role is to provide senior management, the board and the Joint Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.

3.16 It is the responsibility of the Commissioner and Chief Constable's management to maintain adequate systems of internal control and to review their systems to ensure that these controls continue to operate effectively.

3.17 The role of Internal Audit vs the Management of the organisation is summarised in the diagram at appendix A.

## Scope of Internal Audit Work

4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance across each participating organisation. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:

- The organisations risks are being appropriately identified, assessed and managed;
- Information is accurate, reliable and timely;
- Employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
- Resources are utilised efficiently and assets are secure;
- The organisations plans, priorities and objectives are being achieved;
- Legal and regulatory requirements are being met

## Position and Reporting Lines for Internal Audit

- 5.1 Internal Audit reports operationally to the Joint Chief Finance Officer (S151 Officer). Functional reporting is to the Joint Audit Committee.
- 5.2 On a day to day basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Joint Chief Finance Officer who is charged with ensuring each organisation has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Joint Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work. Where audit activity has raised significant matters with regard to weaknesses in internal control, defined as audit reports providing either only 'limited/~~no~~' or 'partial' assurance or recommendations graded 'High', indicating significant risk exposure identified arising from a fundamental weakness in the system of internal control, reports will be escalated by the Joint Chief Finance Officer to the board.
- 5.4 On an annual basis, Internal Audit will prepare and present to the board and Joint Audit Committee, an annual report containing:
- The overall opinion of the [responsible Group Audit Manager](#)
  - A summary of the work undertaken to support the opinion; and
  - A statement of conformance with the Public Sector Internal Audit Standards
- 5.5 Should significant matters arise in relation to the work of Internal Audit; these will be escalated through the management hierarchy to the Commissioner, Chief Constable and/or to the Chair of the Joint Audit Committee as appropriate.
- 5.6 Where major changes are required to the agreed audit plan or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Joint Chief Finance Officer and reported to the board and Joint Audit Committee. All changes to approved audit plans will be reported to the next meeting of the Joint Audit Committee.

## Ethics, Independence and Objectivity

### Ethics

- 6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this code has been adopted by the Shared Internal Audit Service and all staff are required to sign up to the Code on an annual basis. Auditors within the shared service are also required to comply with the code of ethics of their professional bodies.

### Governance and Independence of the Shared Internal Audit Service

- 6.3 Internal Audit is a Shared Audit Service between Cumbria County Council and the Office of the Police and Crime Commissioner (representing also Cumbria Constabulary). The host authority for the delivery of the Shared Audit Service is Cumbria County Council.
- 6.4 The governance of the provision of the Shared Internal Audit Service shall be carried out by the S151 Officer of the County Council and Joint Chief Finance Officer whose role is to:
- Ensure that the Shared Internal Audit Service meets the requirement of the proper practices for Internal Audit
  - Reach common agreement over issues such as standards, goals and objectives and reporting requirements
  - Agree on the range of audit outputs
  - Confirm the scope and remit of the audit function
  - Agree reporting and performance arrangements for Internal Audit, including performance measures, delivery of plan, cost and impact tracking

### Independence

- 6.5 Internal Audit is independent of all of the activities it is required to audit which ensures that the board and Joint Audit Committee can be assured that the annual opinion they are given is independent and objective. Whilst the Group Audit Manager reports operationally to the Joint Chief Finance Officer, there is also a functional reporting line to the board and the Joint Audit

Committee and the [Group](#) Audit Manager has direct access to the Commissioner, Chief Constable and the Chair of the Joint Audit Committee.

6.6 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.

6.7 Internal auditors will report annually to the board and Joint Audit Committee to confirm that the independence of Internal Audit is being maintained.

### Resourcing, Proficiency and Due Professional Care

6.8 For Internal Audit to provide an opinion to the Commissioner and Chief Constable there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programme of work.

6.9 It is the responsibility of each organisation to ensure that it approves a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.

6.10 In line with the requirements of the Standards, in the event that the [Group](#) Audit Manager considers 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 board and the Joint Audit Committee.

6.11 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2019<sup>9</sup>, the Group Audit Manager and Audit Manager are professionally qualified and appropriately experienced.

### The Role of Internal Audit in Fraud-related work

6.12 The PSIAS require that the role of Internal Audit in any fraud-related work is defined within the audit charter.

6.13 It is a requirement of the arrangements for Anti-fraud and Corruption within the COPCC and Constabulary that Internal Audit will be made aware of any actual incidence of fraud and corruption and will undertake a review where necessary with regard to providing assurance on

any associated weaknesses within internal control. The arrangements for the Commissioner provide for internal audit to undertake any necessary investigation.

## Advice / Consultancy work

6.14 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the [Group](#) Audit Manager. Such assignments will be accepted only where it is considered the following criteria are met:

- The work requested can be accommodated within the agreed audit days and Internal Audit has the skills to deliver the work
- The assignment will contribute to strengthening the control framework and / or improve value for money
- No conflict of interest could be perceived from Internal Audit's acceptance of the assignment

6.15 In line with the PSIAS, approval will be sought from the board for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

## Management Responsibilities

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from the Commissioner and Chief Constable's senior management. In approving this charter, the board is mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing terms of reference for individual audit assignments on a timely basis
- Sponsoring each audit assignment at Chief Officer level or above
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis
- Responding to Internal Audit reports and making themselves available for audit closeout meetings to agree draft audit reports
- Implementing audit recommendations within agreed timescales

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Joint S151 Officer and ultimately to the board if necessary.

7.3 While Internal Audit is responsible for providing independent assurance to the Commissioner and Chief Constable, it is the responsibility of management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurance to senior management that they are maintaining appropriately controlled systems.

## Quality Assurance

8.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Joint Audit Committee through its regular reports.

### Internal assessments

8.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensuring the work complies with the PSIAS
- Work is planned and undertaken in accordance with the level of assessed risk
- Appropriate testing is undertaken to support the conclusions drawn

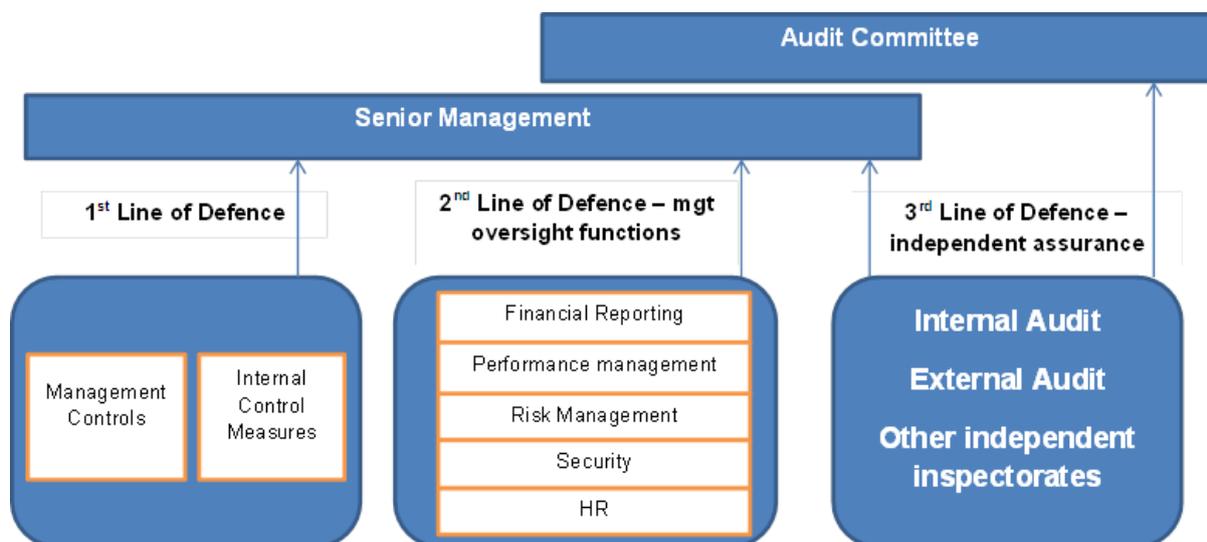
### External assessments

8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The Group Audit Manager will discuss options for the assessment with the Shared Services Board before making recommendations for approval by the respective board/Audit Committees.

## Review of Audit Charter

9.1 The charter will be reviewed annually and submitted to Senior Management and the Joint Audit Committee for review prior to approval by the board alongside the annual audit plan.

## Internal Audit – The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example the risk management policies and strategies that determines how risks within the organisation will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implements and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Commissioner and Chief Constable with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by their respective organisations.

## Internal Audit Performance Measures

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Annual Measures to be reported in the Annual Report			
Output Measures			
Compliance with Public Sector Internal Audit Standards	Quality Assurance and Improvement Programme & checklist for assessing conformance with the PSIAS	100%. On-going and annual review to demonstrate conformance with the definition of Internal auditing, code of ethics and standards.	The internal audit service is required to comply with the PSIAS.
Preparation of audit plan	Preparation of risk based audit plan to meet client timetables	100%. Measured annually	Annual agreed audit plan is required to enable delivery for the client.
People Measures			
CPD / Training	Average number of days for skills training per auditor	6 days per person.  Reported annually.	CPD is a requirement of the PSIAS. An appropriately skilled workforce will ensure that staff within Internal Audit are continuously improving and adding value to the service provided to clients.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Monthly management measures to be reported to Audit Committees Quarterly			
Output Measures			
Planned audits completed	% of planned audit reviews (or approved amendments to the plan) completed in respect of the financial year.	95% (annual per shared service agreement, 95% target reflects need for audit plans to be dynamic and respond to emerging risks). This indicator will be monitored and reported quarterly to ensure the plan is on track to be delivered.	To enable an annual opinion to be provided on the overall systems of risk management, governance and internal control.
Audit scopes agreed	% of audit scopes agreed with management and issued before commencement of the audit fieldwork	100%  Measured monthly  Reported quarterly	To ensure the audit is targeted to key risks, has management buy in and adds value.
Draft reports issued by agreed deadline	% of draft internal audit reports issued by the agreed deadline or formally approved revised deadline agreed by Audit Manager and client.	80% (target is a reflection that this is a new way of working and deadlines may be impacted by several factors including client availability)  Measured monthly  Reported quarterly	Timely reports add impact and provide on-going assurance as the year progresses.
Timeliness of final reports	% of final internal audit reports issued for Chief Officer comments within 5 working days of management response or closeout.	90% (target recognises that there may on occasion be delays in finalising reports, e.g. where further work is required to resolve matters identified at closeout meeting)  Measured monthly.  Reported quarterly	Timely reports add impact.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Recommendations agreed	% of recommendations accepted by management	95% quarterly benchmark (the benchmark reflects that it is management's responsibility to assess their risks and take final decision on whether risk may be accepted)	Measures the quality and effectiveness of internal audit recommendations
Follow up	% of high priority audit recommendations implemented by target date	100% Quarterly	Indicates that Internal Audit are adding value to the organisation.
Follow up	% of high and medium priority audit recommendations implemented by target date	100% Quarterly	Indicates both that, Internal Audit are adding value to the organisation, and that the organisation is implementing recommendation on a timely basis to improve governance and internal arrangements.
Assignment completion	% individual reviews completed to required standard within target days or prior approved extension by Audit Manager	75% (target reflects that this is a new way of working for the audit service and systems for monitoring time spent on assignments may need to be further developed)  Measured monthly.  Reported quarterly.	To ensure that all audit plans across the shared service can be delivered.
Quality Assurance checks completed	% QA checks completed	100%.  Measured monthly	To ensure compliance with the Public Sector Internal Audit Standards.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
		Reported quarterly	Provides on going feedback to the audit team and identifies areas of good practice and areas for improvement
Customer Measures			
Post audit customer satisfaction survey feedback	% of customer satisfaction surveys scoring the service as 'good'	80% (target reflects the need for internal audit to strive to deliver a customer focused service, but that due to the nature of internal audit roles and responsibilities, may not always elicit positive feedback)  Measured monthly.  Reported quarterly	Gauge customer satisfaction and continuously improve the audit service.
People Measures			
Efficiency	% chargeable time	80% (target takes account of non-chargeable activities such as staff holidays, service development projects and team meetings).  Measured monthly.  Reported quarterly	Measure of productivity.