Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire

Internal Audit Charter

July 2014

1 The Internal Audit Charter

1.1 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire.

1.2 The internal audit service is provided by Baker Tilly Risk Advisory Services LLP (Baker Tilly). Your key internal audit contacts are as follows:

	Head of Internal Audit	**Client Manager**
Name	Mark Jones	Suzanne Lane
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1.3 The Charter has been prepared in order to support an effective internal audit service and to meet the requirements of Professional Internal Auditing Standards and Baker Tilly's Internal Audit Manual.

1.4 From 1 April 2013, internal auditors in the public sector are required to work to the *Public Sector Internal Audit Standards (PSIAS)*, which are based on the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and which also adopt the institute's definition of internal auditing and code of ethics.

1.5 In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help the Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire to achieve their objectives. The opinion may also be used by the Police and Crime Commissioner (PCC) and the Chief Constable, to support their Annual Governance Statements. This is achieved through a risk-based plan of work, agreed with management and approved by the Joint Independent Audit Committee.

1.6 The requirements for internal audit, and for independent joint audit committees, for both PCCs and Chief Constables, are set out within the Financial Management Code of Practice published by the Home Office. To support this, Baker Tilly deliver a joint audit plan to the PCC and Chief Constable which maps each assurance assignment to the PCC, the Chief Constable, or reflects where an assurance may be of particular benefit to both.

2 Role and Definition of Internal Audit

> "Internal Audit 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 introducing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, control, and governance processes."
>
> *Public Sector Internal Audit Standards*

2.1 Internal Audit is a key part of the assurance cycle for the Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire and, if used appropriately, can assist in informing and updating the risk profiles of the organisations. Internal Audit provides management with assurance on whether the organisation's risk management, control and governance processes are adequate and operating effectively.

2.2 As public sector organisations, both the PCC and Chief Constable are required to have an internal audit service in place which conforms to the Public Sector Internal Audit Standards.

3 Independence and Ethics

3.1 To provide for the independence of Internal Audit, its personnel report direct to the Head of Internal Audit. The independence of the Head of Internal Audit is assured by him reporting to the Chief Finance Officer of the Office of the Police and Crime Commissioner and Chief Finance Officer for Lincolnshire Police, with further reporting lines to the Police and Crime Commissioner, Chief Constable and Chair of Joint Independent Audit Committee.

3.2 The Head of Internal Audit has unrestricted access to the Chair of Joint Independent Audit Committee, to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

4 Responsibilities

4.1 The Head of Internal Audit has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Joint Independent Audit Committee for review and approval each year before work commences on delivery of that plan.
- Implement the audit plan as approved, including any additional tasks requested by management and the Joint Independent Audit Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a Quality Assurance and Improvement Program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design and training.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Evaluate and assess significant merging or consolidating functions and new or changing services, processes, operations within the organisation.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Provide a list of significant measurement goals and results to the Joint Independent Audit Committee.
- Liaise with the external auditor for the purpose of providing optimal audit coverage to the organisation.

5 Reporting

5.1 The Head of Internal Audit shall issue progress reports to the Joint Independent Audit Committee and management summarising outcomes of audit activities, including follow up reviews. These will be presented at every Joint Independent Audit Committee.

5.2 As your internal audit provider, the assignment opinions that Baker Tilly provides the organisation during the year are part of the framework of assurances that assist the Board in preparation of an informed statement on internal control.

5.3 As the provider of the internal audit service to the Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire we are required to provide the PCC, the Chief Constable, and the Joint Independent Audit Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by Baker Tilly at the financial year end.

6 Authority

6.1 The Head of Internal Audit and internal audit staff are authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Joint Independent Audit Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall audit objectives. Resources will be agreed with the Joint Independent Audit Committee each year as part of the agreement of the annual internal audit plan.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

6.2 The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by Baker Tilly unless specifically seconded to internal audit.

7 Data Protection

7.1 Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's Terms of Business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

7.2 Personal data is not shared outside of Baker Tilly. The only exception would be where there is information on an internal audit file that external auditors have access to as part of their review of internal audit work or where the firm has a legal or ethical obligation to do so (such as providing information to support a fraud investigation based on internal audit findings.)

7.3 Baker Tilly has a Data Protection Policy in place that requires compliance by all of our employees. Non-compliance will be treated as gross misconduct.

8 Fraud

8.1 The Joint Independent Audit Committee, the PCC and the Chief Constable recognise that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Joint Independent Audit Committee recognises that internal audit is not responsible for identifying fraud, however it will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work.

Signature _____ Date _____

Chairman of the Joint Independent Audit Committee.

Signature _____ Date _____

Police and Crime Commissioner for Lincolnshire

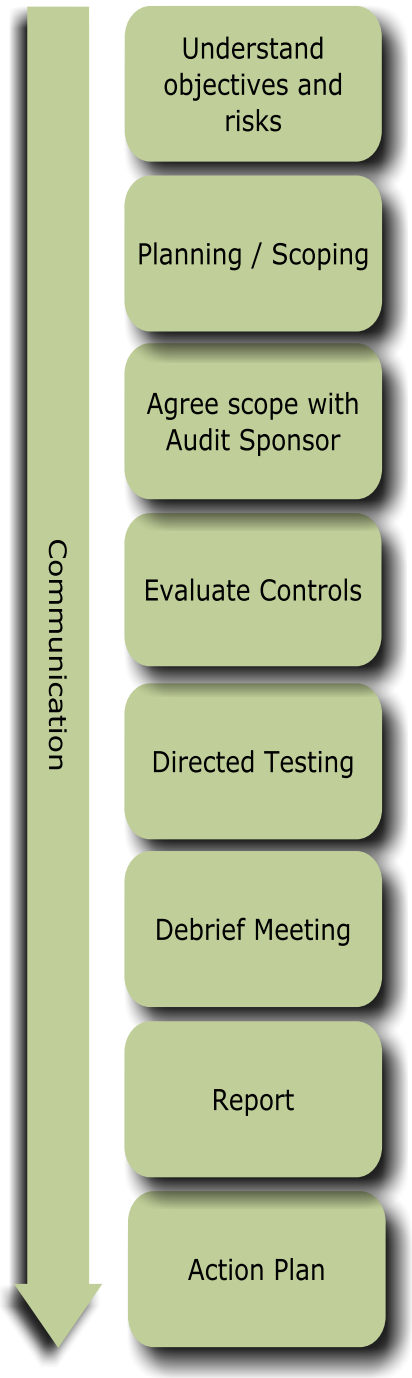
Signature _____ Date _____

Chief Constable for Lincolnshire Police

Signature _____ Date _____

Head of Internal Audit, Baker Tilly Risk Advisory Services LLP

Appendix A: Overview of the Internal Audit Process



Planning the Assignment

Each audit will be planned individually to ensure that the scope addresses the risks facing your organisation, and is therefore a useful source of assurance, providing assurance on the controls that you rely on to manage your risks and deliver your objectives. We will meet with appropriate staff to understand the area under review and will then send you an Assignment Planning Sheet for your comment and sign off, so that we can discuss and agree the scope of each review; this provides the Audit Sponsor with an opportunity to comment on the scope of each audit. We will agree the audit date at the start of the year and you will receive a planning sheet at least two weeks before the audit commences.

Undertaking the Audit

Once the scope has been agreed, our audit fieldwork is carefully planned to ensure that we thoroughly test the right controls. Should we identify any major issues during the audit, we will bring these to the attention of management straight away. We will keep you informed through the audit, and our team will be happy to answer any questions you may have. We will provide a list of information we will need when we issue the planning sheet so that you can prepare for the audit.

Reporting our Findings

Before the internal audit team leaves site, we will hold a debrief meeting to discuss our findings and recommendations with you.

Therefore, there will be no surprises when you receive the draft internal audit report, and you have an opportunity to comment on the report before it is issued for wider circulation.

Each formal assurance report will contain a clear opinion, so you know instantly if your risk management of this area is effective.

Agreeing Actions for Improvement

Every internal audit report contains an action plan which is completed by management. Once the action plan is completed the report is issued as a final report. This provides the Joint Independent Audit Committee with a clear view of management's response to each recommendation, and also enables recommendation tracking. We will undertake follow up work to provide the Joint Independent Audit Committee with an overview of progress in implementing actions that management have agreed.

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at http://www.icaew.com/en/members/regulations-standards-and-guidance.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

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