

INTERNAL AUDIT CHARTER

1. INTRODUCTION

1.1 The work of West Midlands's Combined Authority's Internal Audit providers is externally governed by the UK Public Sector Internal Audit Standards (PSIAS). The PSIAS incorporates a definition of internal auditing, a Mission, and Core Principles for internal auditors working in the public sector alongside a range of operating Standards. Adherence of the PSIAS is mandatory for all internal auditors working in the UK public sector.

1.2 Internal Audit is defined in the PSIAS 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.

1.3 The PSIAS requires an Internal Audit Charter to be approved by the 'Board' in order to define the purpose, authority and responsibility of the Internal Audit team. It establishes reporting lines within the organisation, authorises access to records, personnel and physical property relevant to the performance of audit work and defines the scope of Internal Audit activities.

1.4 The Mission of Internal audit as defined by PSIAS is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

1.5 The Core Principles for the Professional Practice of Internal Auditing are:

Source: The Public Sector Internal Audit Standards

- 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-focussed
- Promotes organisational improvement

2. AUTHORITY & STANDARDS

2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment) (England) 2015, which states 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 auditing standards or guidance”.

These Standards are mandatory and have been adopted by the West Midlands Combined Authority's internal auditors.

- 2.2 Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Director of Law and Governance, the 'board' as the Audit, Risk and Assurance Committee and 'senior management' as the Senior Leadership Team.

3. PURPOSE

- 3.1 The main purpose of Internal Audit is to provide an independent and objective assurance service to management on WMCA's internal control, governance and risk management environment. The aim is to add value and improve opportunities to achieve organisational objectives by identifying operational improvements and reducing risk exposure through both assurance and consulting services.
- 3.2 The primary focus of internal audit is to produce and deliver a risk based annual internal audit plan to assist the organisation in accomplishing its objectives. Internal Audit will promote and support the improvement and efficiency in business practices by bringing a systematic and disciplined approach to evaluate internal control, risk management and governance processes.
- 3.3 Internal Audit forms part of the overarching Law and Governance department and operates independently of all operational services within the organisation. To provide greater independence, WMCA has commissioned City of Wolverhampton Council to deliver its Internal Audit plan.

4. SCOPE & OBJECTIVES

- 4.1 The scope of work of internal audit is to determine whether the WMCA's risk management, control, and governance processes are adequate and effective in order to ensure that:
- Key risks are identified and managed;
 - Key financial, managerial, and operating information is accurate, reliable and timely;
 - Employees actions comply with policies, standards, procedures, and applicable laws and regulations;
 - Resources are acquired economically, used efficiently, and are adequately protected;
 - Programs, plans, and objectives are achieved
 - Quality and continuous improvement is fostered within the organisation's control environment; and
 - Key legislative and regulatory issues impacting WMCA are identified and addressed appropriately.
- 4.2 Internal audit's remit extends to the entire control environment of West Midlands Combined Authority and not just financial controls.

- 4.3 Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

5. AUTHORITY

- 5.1 Internal Audit derives its responsibility from the 'Board' to provide a free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and to have direct access to the Chair of the Audit, Risk and Assurance Committee and the 'Board' as appropriate.
- 5.2 To enable the service to discharge its duties fully, Internal Audit are authorised to:
- Have unrestricted access to all functions, records, property and personnel;
 - Have unlimited access to members of the Audit, Risk and Assurance Committee and WMCA's Senior Leadership Team.
- 5.3 To maintain independence and objectivity, Internal Audit must;
- Refrain from performing or holding responsibility for any operational duties;
 - Be restricted from initiating or approving financial transactions;
 - Demonstrate an impartial and unbiased attitude to all audits undertaken;
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 - Demonstrate an impartial and unbiased attitude to all audits undertaken;
 - Refrain from assessing any business area they were previously responsible for.

6. ACCOUNTABILITY

- 6.1 Within WMCA, the Internal Audit service providers report to the Internal Audit Liaison Officer who provides oversight and assists with the prioritisation of the Internal Audit Plan in the context of the organisation's risk environment. They monitor delivery of audit recommendations and manage the assessment of whistleblowing cases received which may result in a requirement for additional reviews being commissioned.
- 6.2 The Internal Audit Liaison Officer reports to the Director of Law and Governance who also holds the role of Chief Audit Executive. They are a member of the Senior Leadership Team (SLT) and have direct access to the Chief Executive and senior management team as necessary to represent and consider the organisational assurance environment.
- 6.3 The Chief Audit Executive will report to the Audit, Risk and Assurance Committee, and to the WMCA Board as appropriate.
- 6.4 The Chief Audit Executive is also the Monitoring Officer and where appropriate works closely with the Section 151 Officer. An annual report will be produced and presented to the Audit, Risk and Assurance committee

which will include an 'opinion' from the Chief Audit Executive (Director of Law and Governance) on the adequacy and effectiveness of internal control, risk management and governance within the Combined Authority.

- 6.5 The City of Wolverhampton Council's audit team are contracted by the Combined Authority to provide a professional independent internal audit service.
- 6.6 All activities undertaken by Internal Audit are done with a responsibility for the safekeeping and confidentiality of all information or other items retained or provided as part of the audit assignment and in particular, in respect of any individual member of staff.

7. INTERNAL AUDIT'S RESPONSIBILITY

- 7.1 Internal Audit has responsibility to:
- Provide a cost effective and value added full internal audit service;
 - Develop a flexible annual audit plan using a risk-based methodology;
 - Implement the annual Internal Audit Plan
 - Provide regular updates on the work of Internal Audit to the Audit, Risk and Assurance Committee and senior officers;
 - Assist, as needed, in the investigation of suspected fraudulent activities within the organization; and
 - Review delivery of key (predominantly those categorised as red or amber) audit recommendations;
 - Provide regular updates on the work of Internal Audit to the Audit, Risk and Assurance committee and senior officers;
 - Assist, as needed, in the investigation of suspected fraudulent activities within the organisation; and
 - Work with the Internal Audit Liaison officer, Chief Audit Executive, External Audit and other review bodies to share knowledge and minimise duplication.
- 7.2 Internal audit must be appropriately staffed in terms of numbers, qualification levels and experience. Internal auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence. The Head of Audit at City of Wolverhampton Council is responsible for ensuring that the resources of internal audit provided to WMCA are sufficient to meet its responsibilities and achieve its objectives.

8. MANAGEMENT'S RESPONSIBILITY

- 8.1 Internal Audit is a review and support activity but does not relieve management of its responsibility for identifying, evaluating and managing risk and ensuring effective management controls are in place on an ongoing basis. Internal Audit will make recommendations for the improvement of internal control, but it is management's responsibility to finance and implement cost effective and appropriate actions to address any weaknesses identified.

- 8.2 Managers are required to support Internal Audit in the delivery of the Internal Audit Plan, ensuring their availability and access to requests for information is provided in a timely manner. Delays in receipt of requests from Auditors will be escalated to the Chief Audit Executive, Section 151 officer and to the Chair of Audit, Risk and Assurance Committee as deemed appropriate to assist in the resolution of any impact to delivery of the internal audit plan.
- 8.3 Managers may be required to attend Audit, Risk and Assurance Committee at the request of committee members to respond to the findings of any audit or to provide a progress update on delivery of audit recommendations following completion of an audit within their area of responsibility.

9. ORGANISATIONAL INDEPENDENCE

- 9.1 Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 9.2 Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, any independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits for the remainder of that financial year and for the following financial year after their involvement.

10. BEST PRACTICE & QUALITY ASSURANCE

- 10.1 It is a requirement of the PSIAS that an external assessment of the Internal Audit function is carried out every five years. Internal Audit will also annually confirm its own compliance against the Public Sector Internal Audit Standards. Results of these reviews will be presented to the Audit, Risk and Assurance Committee.
- 10.2 At the end of each audit, a “satisfaction questionnaire” will be issued to and completed by the main auditee(s) to ensure satisfactory audit practices have been followed. Responses to this questionnaire will be included in the final report of each audit assignment for consideration by the Audit, Risk and Assurance Committee.
- 10.3 The Audit, Risk and Assurance Committee will be regularly informed of the performance of Internal Audit by means of Key Performance Indicators. These will include:
- Number of recommendations accepted by management
 - Number of recommendations implemented by management
 - Audits completed in year
 - Auditee satisfaction surveys

11. FRAUD

- 11.1 Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to the risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.
- 11.2 The Combined Authority's Anti-Fraud and Corruption Policy and Procedure requires that all suspected irregularities are reported to the Monitoring Officer and Internal Audit who will inform the Section 151 Officer and advise on, and instigate such action as considered necessary for investigating the alleged irregularity.

12. REVIEW OF INTERNAL AUDIT CHARTER

- 12.1 This charter will be reviewed annually by the Internal Audit Liaison officer in conjunction with the Chief Audit Executive and the Head of Audit at the City of Wolverhampton Council. The Audit, Risk and Assurance Committee will be requested to endorse any changes. The next review is scheduled for September 2022.