



## **INTERNAL AUDIT CHARTER**

### **1. INTRODUCTION**

- 1.1 The work of West Midland's Combined Authority's Internal Audit providers (City of Wolverhampton Council) 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:  
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-focused.
  - 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 Head of Governance the 'board' as the Audit, Risk and Assurance Committee and 'senior management' as the Combined Authority Management Board.

### **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 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 audit plan to assist WMCA in accomplishing these 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 and governance processes.
- 3.3 Within WMCA Internal Audit forms part of the overarching assurance and governance framework provided by the WMCA Corporate Assurance Team which includes oversight of corporate risk management, project and programme management governance and assurance, business continuity and a program of continuous business process improvement.
- 3.4 To provide greater independence, West Midland's Combined Authority has commissioned City of Wolverhampton Council to deliver a programme of Internal Audits for WMCA.

### **4. SCOPE**

- 4.1 Within these overall assurance arrangements, Internal Audit has responsibility for providing assurance through the review of the internal control, risk management and governance environment, significant processes, systems and operations. In fulfilling this responsibility, Internal Audit will:
- a. Develop an annual audit plan reflecting WMCA's significant risk, governance and internal control environment, and incorporating the rationale, timescales and resource requirements to deliver each audit.
  - b. Deliver the audit plan in accordance with the methodologies set out in the Public Sector Internal Audit Standards.
  - c. Undertake an adequate and effective internal audit of the systems of internal control as set out in the Local Government Act for the probity of financial systems.



## WEST MIDLANDS COMBINED AUTHORITY

- d. Issue a formal report at the end of each audit following discussion with the identified Audit Lead. The report will be issued to all relevant parties and be presented to the subsequent Audit and Standards Committee.
  - e. Seek feedback at the end of each audit to enable continuous quality improvements.
  - f. Monitor and report on the implementation of audit recommendations to the Audit, Risk and Assurance Committee, ensuring weaknesses have been effectively addressed within the agreed timescales.
  - g. Maintain key performance indicators for reporting to the Audit, Risk and Assurance Committee and other management performance teams upon request.
  - h. Investigate claims of alleged theft, fraud and unexplained financial losses in line with the associated policies and procedures.
  - i. Maintain effective relations with the external auditor to co-ordinate planning and share results of audit work.
  - j. Play a lead role in facilitating the Cabinet Office's bi-annual National Fraud Initiative exercise
  - k. Prepare an annual report for consideration by the Audit, Risk and Assurance Committee on the effectiveness of WMCA's control, governance and risk management environment to inform the Authority's Annual Governance Statement.
  - l. Undertake any additional work at the request of Management and the Audit, Risk and Assurance Committee to improve effectiveness.
- 4.2 In addition to the activities of Internal Audit, it should be noted that further assurance is in place through the following activities undertaken by the wider WMCA Corporate Assurance Team:
- a. Monitoring of projects to ensure projects progress successfully through WMCA Assurance Framework and are delivered on time and within budget.
  - b. Undertake independent Project and Programme assurance reviews
  - c. Facilitate and disseminate lessons learned exercises for corporate projects to identify areas of best practice and to capture opportunities for improving project management controls.
  - d. Review working arrangements across the business to identify and implement new ways of working, enabling financial and operational efficiencies.
  - e. Responsibility for risk management controls within the business including business continuity and Insurance.



## **WEST MIDLANDS** COMBINED AUTHORITY

- f. Oversight of risk management activities throughout the organization including the management of the Strategic Risk register which is owned and reviewed by the WMCA Management Board monthly.
- g. Monitoring and reporting to management teams against delivery of the organizational Annual Business Plan.

### **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 Management Board;
  - Obtain the necessary assistance of personnel responsible for services under audit.
- 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;
  - Refrain from assessing any business area they were previously responsible for.

### **6. ACCOUNTABILITY**

- 6.1 Within WMCA, the Internal Audit function reports to the WMCA Corporate Assurance Manager, who assists with the prioritisation of the WMCA Audit Plan in the context of WMCA's risk environment and also the additional reviews which have been commissioned (programme reviews and continuous improvement reviews).
- 6.2 The City of Wolverhampton Council's audit team are contracted by the Combined Authority to provide a professional independent internal audit service.
- 6.3 The Corporate Assurance Manager reports to the Head of Governance. WMCA's Head of Governance is the Chief Audit Executive. WMCA's Chief Audit Executive has direct access to the Chief Executive and senior management team as necessary to represent and consider the organisational assurance environment.
- 6.4 The Chief Audit Executive will report to the Audit, Risk and Assurance Committee, which meets quarterly and reports to the WMCA Board as appropriate.



- 6.5 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 (Head of Governance) on the adequacy and effectiveness of internal control, risk management and governance within the Combined Authority.
- 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 audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit and Standards Committee and where appropriate, senior officers;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the Corporate Assurance Manager, Chief Audit Executive and External Auditor and other review bodies to share assurance and minimise duplication.

7.2 The Combined Authority's internal audit service will be provided by the City of Wolverhampton Council. Internal audit must be appropriately staffed in terms of numbers, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence. The Head of Audit is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives.

## **8. MANAGEMENT'S RESPONSIBILITY**

- 8.1 Internal Audit is a review and support activity, which 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 suggestions for the improvement of internal control, but it is management's responsibility to finance and implement cost effective and appropriate actions to address the weaknesses identified.
- 8.2 Similarly it is management's decision and responsibility to determine whether disciplinary action or criminal or civil proceedings should be initiated following any fraud or theft investigations.



## **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, and 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.
- 9.3 Complete independence is achieved as WMCA have commissioned City of Wolverhampton Council to deliver WMCA's internal audits.
- 9.4 Similarly through the wider assurance reviews delivered by the WMCA Corporate Assurance Team, they too are independent from their review areas such as project delivery teams and operational teams. The Corporate Assurance team is part of the Governance team in the Corporate Services Directorate.

## **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 and Standards Committee.
- 10.2 At the end of each audit, a "satisfaction questionnaire" is 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:
- Delivery of Audits within set timescales
  - 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 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 Corporate Assurance Manager and Head of Governance, who will then 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**

This charter will be reviewed annually by the Head of Governance in conjunction with the Corporate Assurance Manager 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 November 2018.