

WEST YORKSHIRE COMBINED AUTHORITY

INTERNAL AUDIT CHARTER (DRAFT)

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Contents

1. Introduction	2
2. Statutory basis for Internal Audit	2
3. Purpose and Mission	2
4. Key Roles and Lines of Reporting.....	3
5. Authority.....	3
6. Independence and Objectivity.....	4
7. Responsibility.....	5
8. Scope of Internal Audit Activities.....	6
9. Consulting	6
10. Audit Delivery and Communicating Results	7
11. Quality Assurance and Improvement Programme	8
12. Fraud and Corruption.....	8
13. Code of Ethics.....	9

1. Introduction

- 1.1 West Yorkshire Combined Authority's Internal Audit Charter sets out the purpose, authority and responsibility of the Internal Audit department in accordance with the Public Sector Internal Audit Standards 2017 (PSIAS).
- 1.2 The Charter also covers the reporting arrangements of the Head of Internal Audit and delivery of internal audit work, identifies the key stakeholders and describes safeguards to protect objectivity and independence.
- 1.3 This Charter will be appropriately updated following any changes to the Public Sector Internal Audit Standards and reviewed by the Head of Internal Audit and presented to the Governance and Audit Committee on an annual basis.

2. Statutory basis for Internal Audit

- 2.1 The requirement for an Internal Audit function is contained in Regulation 6 of the Accounts and Audit Regulations, which requires the Combined Authority to:
“undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 2.2 The internal audit activity will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS). The PSIAS includes mandatory guidance including the Definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing.
- 2.3 The PSIAS defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objective's by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*
- 2.4 Further, the Chartered Institute of Public Finance (CIPFA) has published “The Role of the Head of Internal Audit in Public Service Organisations”. The Head of Internal Audit must also comply with these requirements in addition to those set out in the PSIAS.
- 2.5 Alongside the regulatory requirements, the code of ethics stipulates the conduct of Internal Auditors which all auditors must abide by.

3. Purpose and Mission

- 3.1 The purpose of the West Yorkshire Combined Authority's Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the Combined Authority's operations.

- 3.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.
- 3.3 The Internal Audit department helps the Combined Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- 3.4 The Standards also include ten Core Principles of Internal Audit, as follows:
- 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.

4. Key Roles and Lines of Reporting

- 4.1 For the purposes of the Standards the Head of Internal Audit is defined as the 'Chief Audit Executive' for the organisation, and will report periodically to senior management (Senior Leadership Team), Managing Director (Head of Paid Service), and Director of Corporate Services (Section 73 Officer) and the Governance & Audit Committee (the Board) regarding the Internal Audit department's conformance to the Code of Ethics and the Standards.
- 4.2 The Head of Internal Audit will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to the professional values and the Code of Ethics.

5. Authority

- 5.1 The Head of Internal Audit will report functionally to the Governance & Audit Committee and administratively (i.e. day-to-day operations) to the Director, Corporate Services (Section 73 Officer). For more detailed overview of WYCA's governance arrangements please refer to the organisation's Governance Structure diagram.
- 5.2 To establish, maintain, and ensure that the Combined Authority's Internal Audit department has sufficient authority to fulfil its duties, the Governance & Audit Committee will:
- Approve the Internal Audit Charter and risk-based Internal Audit Plan
 - Receive communications from the Head of Internal Audit on the Internal Audit department's performance relative to its plan and other matters.

- Ensure the remuneration and performance of the Head of Internal Audit is not unduly influenced.
 - Make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations.
- 5.3 The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with, the Governance & Audit Committee including in private meetings without management present.
- 5.4 The Internal Audit department remit will cover the whole organisation and:
- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information
 - Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports
 - Obtain assistance from the necessary personnel of the Combined Authority, as well as other specialised services from within or outside the Combined Authority as required.

6. Independence and Objectivity

- 6.1 The Head of Internal Audit will ensure that the Internal Audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
- 6.2 The Head of Internal Audit will ensure that Internal Audit are suitably resourced in order to achieve its overall mission and will aim to maintain a suitable mix of experienced and qualified staff.
- 6.3 Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- 6.4 Internal auditors will have no direct operational responsibility or authority over any of the activities audited.
- 6.5 Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
- Assessing specific operations for which they had responsibility within the previous year
 - Performing any operational duties for the Combined Authority or its affiliates
 - Initiating or approving transactions external to the Internal Audit department

- Directing the activities of the Combined Authority employees not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- 6.6 Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. For example, The Head of Internal Audit is the organisation's Anti-Money Laundering Officer and the Responsible Officer under the Whistleblowing Policy. The Internal Audit department also includes a counter-fraud specialist. Internal Audit counter-fraud activities are defined in Counter-Fraud Policy.
- 6.7 The Head of Internal Audit will confirm to the Governance & Audit Committee, at least annually, the organisational independence of the Internal Audit department.
- 6.8 The Head of Internal Audit will disclose to the Governance & Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

7. Responsibility

- 7.1 The Head of Internal Audit has the responsibility to:
- Submit, at least annually, to senior management and the Governance & Audit Committee a risk-based internal audit plan for review and approval
 - Communicate to senior management and the Governance & Audit Committee the impact of resource limitations on the internal audit plan
 - Review and adjust the internal audit plan, as necessary, in response to changes in the Combined Authority's business, risks, operations, programmes, systems, and controls
 - Communicate to senior management and the Governance & Audit Committee any significant interim changes to the internal audit plan
 - Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties
 - Follow up on engagement findings and corrective actions, and report periodically to senior management and the Governance & Audit Committee any corrective actions not effectively implemented
 - Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld
 - Ensure the Internal Audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter
 - Ensure trends and emerging issues that could impact the Combined Authority are considered and communicated to senior management and the Governance & Audit Committee as appropriate

- Ensure emerging trends and successful practices in internal auditing are considered
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit department
- Ensure adherence to the Combined Authority's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Governance & Audit Committee
- Ensure conformance of the Internal Audit department with the Standards.

8. Scope of Internal Audit Activities

- 8.1 The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Governance & Audit Committee, Senior Leadership Team, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Combined Authority.
- 8.2 Internal audit assessments include evaluating whether:
- Risks relating to the achievement of the Combined Authority's strategic objectives are appropriately identified and managed
 - The actions of the Combined Authority's officers, directors, employees, and contractors are in compliance with the Combined Authority's policies, procedures, and applicable laws, regulations, and governance standards
 - The results of operations or programs are consistent with established goals and objectives.
 - Operations or programs are being carried out effectively and efficiently
 - Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Combined Authority
 - Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity
 - Resources and assets are acquired economically, used efficiently, and protected adequately.
- 8.3 The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

9. Consulting

- 9.1 Internal Audit work includes the provision of assurance on the accuracy of grant claims, undertakes assurance and advisory work in respect of regulatory compliance and may facilitate the production of relevant policy documentation. In addition, the service may provide, at the request of management, a consultancy service which evaluates policies, procedures, systems and operations put in place by management.

- 9.2 The Head of Internal Audit must consider the effect the request may have on compromising the delivery of the plan and whether the work will contribute to the overall opinion before accepting consultancy work.

10. Audit Delivery and Communicating Results

- 10.1 For each audit engagement, a scoping document will be prepared, discussed and agreed with relevant managers. The scoping document should establish the objectives, scope and timing for the audit assignment and its resources and reporting requirements. Audit work is undertaken using a risk-based audit approach, which will consider the probability of significant errors, fraud and non-compliance.
- 10.2 Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. This evidence supports their conclusions, professional judgments and recommendations and therefore must be factual and accurate.
- 10.3 The results of all audit engagements are reported, including the objective, scope, all material facts, conclusions, recommendations, action plans, any limitations and where appropriate contain the internal auditors' opinion.
- 10.4 Contents of draft reports are discussed with managers for factual accuracies. It is important to bring significant issues to the attention of management during the course of engagement to allow for immediate action. Managers are required to give responses to each recommendation, detailing the responsible officer for each action and the target date for completion.
- 10.5 Where there is disagreement over the actions to be taken, this is recorded in the action plan. Where these risks are deemed to be high, they are reported to the relevant Director and the Governance and Audit Committee.
- 10.6 Annually the Head of Internal Audit will prepare the Annual Audit Opinion. This opinion is used to inform the Annual Governance Statement. This report must conclude on the overall adequacy and effectiveness of the Combined Authority's framework of governance, risk management and control giving an overall opinion, summary of the work undertaken to support this opinion (including any reliance placed on work by other assurance providers), a statement on the conformance with the PSIAS, the results of the QAIP and any external assessors improvement recommendations, disclosure of any impairments or limitations. If a qualified opinion is given, the reasons for this must be specified.
- 10.7 Internal Audit tracks progress made on agreed recommendations (actions). It is the responsibility of the manager to implement and provide relevant evidence of the agreed actions to Internal Audit. Progress with implementation of recommendations is reported to the Governance and Audit Committee and if necessary managers will be asked to provide an explanation in cases where overdue recommendations have not been implemented. If the matter is still unresolved the Governance and Audit

Committee will be informed. The findings and follow up reviews inform future audit planning.

11. Quality Assurance and Improvement Programme

- 11.1 The Internal Audit department will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This will include an evaluation of the Internal Audit department's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 11.2 Staff performance reviews are undertaken for individual auditors and service objectives agreed.
- 11.3 Yearly performance indicators are agreed as part of the business planning process and are updated in line with Combined Authority reporting requirements.
- 11.4 Feedback will be sought following completion of each audit engagement.
- 11.5 Annual certification confirming compliance with the Code of Ethics contained within the Audit Charter; and
- 11.6 External assessment conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Combined Authority. The most recent external assessment was performed in March 2019.
- 11.7 The Head of Internal Audit will communicate to Senior Management and the Governance & Audit committee annually on the internal audit department's quality assurance and improvement programme, including results of internal and external assessments.

12. Fraud and Corruption

- 12.1 The Combined Authority has counter fraud policies that contribute towards its sound corporate governance arrangements. Managing the risk of fraud and corruption is vital to the success of the Combined Authority in achieving its corporate objectives and to safeguard its reputation.
- 12.2 Whilst Internal Audit is not solely responsible for the prevention or detection of fraud and corruption, it will, however, remain alert to risk and exposures both internal and external to the organisation. Close involvement with the national anti-fraud agencies and participation in the National Fraud Initiative will assist this process. Any evidence or suspicion of an irregularity regarding combined authority funds, property or any other asset or interest should be reported immediately using the Whistleblowing Policy.

13. Code of Ethics

- 13.1 Internal Audit will operate within the definition of Internal Auditing and the Institute of Internal Auditors Code of Ethics to maintain high levels of integrity, objectivity, confidentiality, and competence and ensure it underpins the internal audit service provided to the organisation.
- 13.2 In addition, Internal auditors will also be required to comply with the relevant requirements of their own professional bodies and to the Committee on Standards of Public Life's Seven Principles of Public Life [The Seven Principles of Public Life - GOV.UK \(www.gov.uk\)](http://www.gov.uk)