

## **Internal Audit Charter**

**This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for West of England Combined Authority.**

### **1 Internal Audit's Purpose and Mission**

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the West of England Combined Authority (WECA) on its control environment.
- 1.2 Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.

### **2 Internal Audit's Statutory Role**

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) 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”.
- 2.2 Section 151 of the Local Government Act 1972 requires the Authority to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council’s financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.
- 2.3 The Audit Committee responsibilities are recorded in its’ own Terms of Reference, and are also subject to regular review.

### **3 Standards for Professional Practice of Internal Auditing**

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Service Director – One West (representing Audit West) will report periodically to the WECA S151 Officer and the WECA Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

### **4 Management's Responsibilities for Internal Control**

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

### **5 Audit West's Responsibility & Objectives**

- 5.1 Audit West is responsible for carrying out an appraisal of all the WECA's activities, financial or otherwise, in line with this Internal Audit Charter. Audit West will provide an annual opinion to the WECA Audit Committee, and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Audit West will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Audit West will be governed and will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete an annual fully evidenced internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings and any required actions will be reported to the WECA Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 One of the key service objectives of Audit West will be to produce a risk based Annual Audit Assurance Plan for approval by the WECA Audit Committee. The Audit Plan will remain flexible to take account of the WECA's changing environment and risk profile.
- 5.4 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.
- 5.5 Audit West will directly employ staff and contract as necessary to provide a service to the WECA.

## **6 The Scope of Internal Audit**

- 6.1 Audit West's work is not limited to the WECA's financial systems and records, but extends to all activities of the WECA. This enables Audit West to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management.
- 6.2 This will include: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding the WECA's assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.
- 6.3 Where appropriate, there may be instances whereby Internal Audit works in partnership to meet objectives and deliver services. In these instances, Internal Audit will decide whether to conduct the work required itself or can place reliance on the work carried out by other Auditors or sources of assurance. If Internal Audit were to carry out the work, then access rights need to be established to all systems and documents. Management should ensure these are established as part of the partnership arrangements.

## **7 Audit West's Reporting lines**

- 7.1 Audit West is employed via a contractual agreement from Bath & North East Somerset Council so have no conflicts with regard to management reporting lines. They shall have direct access and the right of report to the WECA Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor, Chair of the Audit Committee and Chair of the WECA's Scrutiny Committee, where appropriate.
- 7.2 The WECA has an Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Service Director – One West (representing Audit) West reports regularly to the WECA Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

## **8 Internal Audit Independence**

- 8.1 A critical element of the performance of the Internal Audit function is independence from the activities it audits. This independence enables Audit West to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence the Service Director – One West (representing Audit West) shall have direct access and the right of report to the Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor and the Chair of the Audit Committee.

- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.
- 8.4 Before Audit West agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of Audit West's prime function then the work would be declined.
- 8.5 Where the Service Director – One West (representing Audit West) 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.
- 8.6 The Service Director – One West (representing Audit West) will confirm to the WECA Audit Committee at least annually of the independence of the internal audit activity.

## **9 Internal Audit Fraud related work**

- 9.1 Audit West does not have responsibility for the prevention and detection of fraud. However, Audit West staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Audit West work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Audit West to be alerted to possible fraud and irregularities will be through the awareness of the Officers and Members of the WECA, the Counter Fraud Strategy and associated policies (Money Laundering Policy; Anti-Bribery Policy and Whistleblowing Policy).
- 9.3 Audit West may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

## **10 Audit West's Right of Access**

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the WECA must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition the WECA's Financial Regulations state that the Internal Auditors shall have authority to:

- Enter at any reasonable times, any operational or administrative WECA premises or land and have access to all WECA property.
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the WECA, or non-official funds operated by WECA staff,
- Require and receive such explanations as are necessary concerning any matter under examination,
- Require any employee of the WECA to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the WECA by an employee or contractor, and any goods purchased on behalf of the WECA,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect WECA resources, property and assets from loss / waste.

The Authority's Internal Auditors shall have direct access and the right of report to the WECA Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor, Chair of the Audit Committee and Chair of the WECA's Scrutiny Committee, where appropriate.

## **11 Relationship with External Audit & other assurance providers**

11.1 The relationship between Audit West and the WECA's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the WECA's financial statements, whilst Audit West is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advising Management accordingly.

11.2 Audit West will co-operate and co-ordinate with External Audit and other review agents to:

- Ensure that duplication of work is minimised
- Consider joint delivery where appropriate
- Determine the level of assurance that can be obtained from their work
- Review the reliance that can be placed on that assurance as part of Audit West's opinion on the control environment
- To enable access to all Audit West records as appropriate.

- 11.3 As part of its drive to secure efficiencies, Audit West will use all sources of assurance available to it to inform its opinion.

## **12 Quality Assurance and Improvement Plan**

- 12.1 The Service Director – One West (representing Audit West) has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the Audit West’s conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.
- 12.2 An annual internal assessment will be carried out using a methodology developed to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of the internal assessment including any action plans will be reported as necessary to the WECA Audit Committee.
- 12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.
- 12.4 The Service Director – One West (representing Audit West) will inform the WECA Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action plans will be reported in the relevant annual report to the WECA Audit Committee.
- 12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council’s Annual Governance Statement.