

**GMCA Audit Committee**

Date: 27 April 2021

Subject: Internal Audit Charter

Report of: Sarah Horseman, Head of Audit and Assurance

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**PURPOSE OF REPORT**

The Internal Audit charter establishes the framework within which the Internal Audit Service operates to best serve the independent assurance requirements of the GMCA Audit Committee and also to meet its professional obligations under applicable professional standards.

In line with the Public Sector Internal Audit Standards, the charter is a mandatory document that must be in place and reviewed on a regular basis. It is proposed that this review is undertaken by the Head of Audit and Assurance and the charter presented to the Audit Committee annually for approval.

The only changes to the Charter in 2021/22 are to clarify Internal Audit's role in relation to its support of Risk Management activities, which has been added in section 13.

**RECOMMENDATIONS:**

That the Audit Committee approve the Internal Audit Charter.

**CONTACT OFFICERS:**

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Risk Management – see paragraph 5

Legal Considerations – N/A

Financial Consequences – N/A

Financial Consequences – N/A

Number of attachments included in the report: N/A

**BACKGROUND PAPERS:**

<b>TRACKING/PROCESS</b>		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
<b>EXEMPTION FROM CALL IN</b>		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		N/A
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

# Greater Manchester Combined Authority (GMCA) Internal Audit Charter 2021/22

## 1 Introduction

- 1.1 This charter establishes the framework within which the Internal Audit Service operates to best serve the independent assurance requirements of the GMCA Audit Committee and also to meet its professional obligations under applicable professional standards.
- 1.2 The charter defines the mission, purpose, authority and principle responsibilities of the Internal Audit Service. It establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.
- 1.3 The charter will be subject to periodic review by the Head of Audit and Assurance and presented to senior management and the Audit Committee for approval.

## 2 Mission Statement

- 2.1 Internal Audit aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## 3 Purpose

- 3.1 The Internal Audit Service provides independent assurance to the Audit Committee on the effectiveness of the governance, risk management and internal control arrangements in place within GMCA and GM Fire and Rescue Service (GMFRS). It objectively evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

## 4 Definitions

Internal Auditing: "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." – Public Sector Internal Audit Standards 2017.

Board: Greater Manchester Combined Authority

Senior Management:	Members of the Chief Executive’s Management Team (CEMT)
Chief Audit Executive:	Head of Audit and Assurance
Responsible Financial Officer:	GMCA Treasurer

## **5 Statutory Requirements**

- 5.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which state “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”.
- 5.2 This statutory role is recognised and endorsed in GMCA’s Constitution and Financial Regulations.

## **6 Professional Standards**

- 6.1 The Internal Audit Service adheres to the Public Sector Internal Audit Standards (PSIAS), published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is the relevant standard setter for internal audit in local government in the United Kingdom.
- 6.2 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
  - Code of Ethics, and
  - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
- 6.3 PSIAS also requires that Internal Auditors who work in the public sector must have regard to the Committee on Standards of Public Life Seven Principles of Public Life.

## **7 Reporting Lines**

- 7.1 The Internal Audit Service sits within the Corporate Services Directorate. The Head of Audit and Assurance reports to the GMCA Treasurer on all corporate governance, performance matters and on all matters affecting the day to day administration and operation of the service.

- 7.2 The Head of Audit and Assurance also reports to the Treasurer as GMCA's 'Responsible Financial Officer' on all matters of internal financial control, fraud and irregularity and protection of assets. In recognition of the statutory duties of the 'Responsible Financial Officer' and the views of CIPFA on that person's relationship with internal audit, a formal protocol has been adopted to form the basis for a sound and effective working relationship. The protocol is attached to this Charter at Appendix 1.

## **8 Access and Authority**

- 8.1 The Head of Audit and Assurance, or their representative, has authority to enter all of GMCA's property at any time and have access to all documents and other records that appear necessary for the purpose of an audit. Such access shall be granted on demand and need not be subject to prior notice. The Head of Audit and Assurance is entitled to such information and explanations as appear necessary. The Head of Audit and Assurance can require any employee to produce any GMCA property under his or her control. This will include access to records relating to services provided by or on behalf of other organisations and management should consult with the Head of Audit and Assurance when contracts are drafted to ensure rights of access are included.
- 8.2 The Head of Audit and Assurance has free and confidential access to the Chair of the Audit Committee and reports to Audit Committee meetings as set out in the Committee's terms of reference.
- 8.3 The Head of Audit and Assurance shall have right of access to the Chief Executive Officer.
- 8.4 Internal Auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to GMCA's legitimate and ethical objectives.

## **9 Independence and Objectivity**

- 9.1 The PSIAS define independence as "freedom from conditions that threaten the ability of the Internal Audit Service to carry out its responsibilities in an unbiased manner". To assist Internal Audit to carry out the role and constructively challenge senior managers of GMCA, the Head of Audit and Assurance holds a sufficiently senior position.
- 9.2 The Internal Audit Service remains independent of other functions of GMCA, and with the exception of its support to management in relation to counter fraud and risk management work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

- 9.3 The Internal Audit Service’s work programme and priorities are determined in consultation with senior management and the Board, but remain a decision for the Head of Audit and Assurance. The Head of Audit and Assurance has direct access to and freedom to report in their own name and without fear or favour.
- 9.4 The independence of the Head of Audit and Assurance is further safeguarded by ensuring that their remuneration and performance assessment are not inappropriately influenced by those subject to audit.
- 9.5 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate.
- 9.6 Internal Audit team members who have transferred into the department will not be asked to review any aspects of their previous work within 12 months of them having left that area.
- 9.7 The Head of Audit and Assurance makes an annual declaration that the internal audit function is operationally independent.

## **10 Internal Audit Responsibilities**

- 10.1 The scope for internal audit is “the control environment comprising risk management, control and governance”. The scope of internal audit therefore includes all of GMCA and GMFRS operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of internal audit work. In order to prioritise the allocation of internal audit coverage a risk-based approach is used.
- 10.2 Internal Audit responsibilities include the following:
- Examining and evaluating the adequacy of GMCA's system of internal control;
  - Reviewing the procedures in place for ensuring that projects are properly managed and that decision making processes are robust;
  - Reviewing the integrity and reliability of financial and operating information and the means to identify, measure, classify and report such information;
  - Reviewing the systems established by management to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations and reports and determining whether GMCA is compliant;
  - Reviewing the extent to which GMCA’s assets and interests are accounted for and safeguarded against loss of all kinds arising from fraud and other offences. Where appropriate verifying the existence of assets;
  - Appraising the economy, efficiency and effectiveness with which resources are employed;

- Reviewing operations, projects or programmes to ascertain whether results are consistent with established objectives and whether the operations, projects or programmes are being carried out as planned;
- Reviewing the extent to which risks to GMCA's key objectives and fraud and corruption risks are assessed and appropriately mitigated and managed; and
- Providing assurance to other parties in relation to grant funding certifications.

10.3 Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Directorate, and for responding to Internal Audit requests and reports within agreed timescales.

## **11 Consultancy Services**

11.1 The Internal Audit Service provide independent and objective advice to help management improve their risk management, governance and internal control arrangements. This is primarily achieved by the planned programme of assurance assignments. Consultancy work driven by risk-based planning may typically be on those areas of the organisation's business where risk and control are not in existence or not well established. This could relate to new systems or areas undergoing significant change where there is no system of risk management or control framework to assure. Consultancy work adds to Internal Audit's knowledge base and can contribute to the overall Internal Audit opinion and/or assurance rating.

11.2 In relation to consultancy services, the Head of Audit and Assurance must:

- consider the effect on the opinion work before accepting consultancy services over and above any already agreed as part of the Internal Audit plan. Approval will be sought from the Audit Committee for any significant additional consultancy services not already included in the Internal Audit Plan if it is deemed that taking on the work could impact the delivery of the agreed Internal Audit Plan or annual opinion.
- decline the consulting engagement or obtain competent advice and assistance if the Internal Auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- consider if consultancy work contributes to the overall annual opinion.

11.3 The standard of work that is delivered in consultancy services will be the same as that in assurance work. The mandatory requirements of the PSIAS relate to standard of performance in both assurance and consultancy activities.

## **12 Fraud and Corruption**

12.1 The responsibility for the prevention and detection of fraud and corruption lies with management. Audit procedures alone cannot guarantee that fraud or corruption will be detected. Internal Audit will however be alert in all of their work to risks and exposures that could allow fraud or corruption.

- 12.2 The role of Internal Audit with regard to fraud investigation is detailed in GMCA's Anti-Fraud and Corruption Policy Statement. Any suspected fraud or irregularities will be reported to the Head of Audit and Assurance so that investigation work can be carried out and the adequacy of relevant controls considered.

### **13 Risk Management**

Internal Audit are responsible for the development and roll out of the Risk Management Framework within GMCA. Whilst Internal Audit may facilitate the ongoing 'maintenance' of risk registers within GMCA it is clearly established within the Risk Management Framework that management and Officers own the risks both within Directorates and at a Strategic Risk level. Internal Audit do not own risks, neither do they make decisions relating to risk.

Management accept that these arrangements present an impairment to the independence of Internal Audit in relation to the assessment of risk management arrangements. Periodic, independent external assurance of risk management arrangements will be required.

### **14 Resourcing**

- 14.1 Internal Audit should be appropriately resourced in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.
- 14.2 The Head of Audit and Assurance is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit and Assurance concludes that resources were insufficient they would report this to the GMCA Treasurer and the Audit Committee. The Head of Audit and Assurance is responsible for appointing staff to the Internal Audit Service and ensuring that there is the appropriate mix of qualifications, experience and audit skills.

### **15 Reporting**

- 15.1 The Head of Audit and Assurance will issue to the Audit Committee:
- An annual Strategic Internal Audit Plan – This will be a risk-based plan prepared in conjunction with management that will take into consideration:
    - Strategic risks
    - Key operational risks
    - Previous audit opinions
    - Other sources of assurance
    - Internal Audit resources
  - For each meeting of the Audit Committee, reports on progress of the Internal Audit work, encompassing:
    - Progress on delivery of the agreed Internal Audit Plan.

- Any significant resourcing issues affecting the delivery of Internal Audit Objectives.
- Key findings from Internal Audit work performed.
- Progress on the implementation of Internal Audit recommendations.
- Progress on the delivery of any additional consulting services not included in the Internal Audit Plan.
- Proposed changes to the Internal Audit Plan for approval by the Audit Committee.
- Counter fraud and investigation activity.
- An annual report which will include:
  - A summary of the work undertaken in the period.
  - The Head of Audit and Assurance’s overall assurance opinion.
  - A statement of conformity with PSIAS.
  - The results of the quality assurance and improvement programme (QAIP).

15.2 All audit engagements will be the subject of formal Internal Audit reports. Copies of all final reports will be shared with:

- Audit Sponsor
- Key Audit Contacts
- Chief Executive Officer
- Treasurer
- Chair of the Audit Committee
- External Auditor

## **16 External Audit**

16.1 The work of External Audit is factored into the Internal Audit work plan, and Internal Audit and External Audit meet formally and informally during the year in order to share key audit findings and/or areas of potential focus. Whilst GMCA’s current External Auditors do not place any reliance on Internal Audit’s work all internal audit reports are shared with the External Auditors to provide visibility of audit conclusions and findings.

## **17 Other Sources of Assurance**

17.1 Internal Audit is one source of assurance but there are also other sources of assurance that are either routinely provided or are provided on an ad-hoc basis due to specific circumstances. The “Lines of Defence” model helps understand where and how assurance is achieved:

- First line – Day to day operational activities that establish systems, processes and controls across all activities.
- Second line – Oversight and management review. It is separate from those people who undertake those responsibilities on a day to day basis, as part of their normal duties.
- Third line – This relates to independent, objective assurance obtained through Internal Audit, which, through an approved programme of work, is able to

provide an objective opinion on the effectiveness of governance, risk management and internal control arrangements.

- Fourth line – This relates to other external sources of assurance that are independent and removed from the chain of command. Examples include the Health and Safety Executive (HSE), HMICFRS, and other external sources of assurance.

17.2 The Head of Audit and Assurance will work with management to understand sources of assurance across all lines of defence in order to ensure that an effective, integrated assurance framework is established. This will assist in the efficient and effective deployment of Internal Audit resource and reduce duplication of assurance provision.

## **18 Quality Assurance and Improvement**

18.1 The Head of Audit and Assurance operates a Quality Assurance and Improvement Programme (QAIP) that both monitors the on-going performance of Internal Audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments.

18.2 The results of the QAIP, including any areas of non-conformance with PSIAS, are reported annually to senior management and the Audit Committee.

## **APPENDIX 1: Protocol governing the Relationship between the Section 73 Officer (the Chief Financial Officer) and Internal Audit at GMCA.**

In recognition of the statutory duties of the 'Chief Financial Officer' (CFO) and the view of CIPFA on his relationship with Internal Audit, the following protocol has been adopted at GMCA to form the basis for a sound and effective working relationship:

The Head of Audit and Assurance will seek to maintain a positive and effective working relationship with GMCA's CFO (GMCA Treasurer).

Internal Audit will review the effectiveness of GMCA's system of internal controls and report on whether the controls operate effectively in practice.

The Treasurer will be asked to comment on those elements of the Internal Audit Service's programme of work that relate to the discharge of his statutory duties. In devising the Audit Plan and in carrying out internal audit work, the Head of Audit and Assurance will give full regard to the comments of the Treasurer.

The Head of Audit and Assurance will regularly monitor the performance of the Internal Audit Service against the Audit Plan and will notify the Treasurer if there are any major deviations.

The Treasurer will, on request, be provided with appropriate assurance that the audit staff are competent, well trained and effective in their work.

The Treasurer will be specifically informed by the Head of Audit and Assurance where any matter is identified that impacts on his Section 73 role.

The Treasurer will specifically make the Head of Audit and Assurance aware of any concerns that he has about internal control that might lead to the need for an internal audit investigation or review.

The Internal Audit Service will operate in accordance with the March 2017 Public Sector Internal Audit Standards.