

GMCA Audit Committee

Date: 19th March 2025

Subject: Internal Audit Charter

Report of: Sarah Horseman, Deputy Director, Audit and Assurance

Purpose of Report

This report presents the Internal Audit Charter which includes the changes required by the new Global Internal Audit Standards which are coming into effect on 1 April 2025.

The charter contains the internal audit mandate which specifies the authority, role, and responsibilities of the internal audit function and empowers the internal audit function to provide the Audit Committee and senior management with objective assurance, advice, insight, and foresight.

Recommendations:

Audit Committee is requested to Approve the Internal Audit Charter and Mandate

Contact Officers

Sarah Horseman sarah.horseman@greatermanchester-ca.gov.uk

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

N/A

Legal Considerations

Paragraph 5 references the legislation that establishes the need for an Internal Audit function.

Financial Consequences – Revenue

N/A

Financial Consequences – Capital

N/A

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

N/A

Does this report relate to a major strategic decision, as set out in the GMCA Constitution: No

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

GMCA Internal Audit Charter

March 2025

1. Introduction

This Internal Audit charter describes the Internal Audit Mandate and 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.

The charter defines the, mission, purpose, mandate, 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.

The charter will be subject to periodic review by the Deputy Director, Audit and Assurance and presented to senior management and the Audit Committee for approval.

2. Definitions

Internal Auditing: "Internal auditing strengthens the organisation's ability to create, protect and sustain value by providing the board and management with independent, risk-based and objective assurance, insight and foresight". Global Internal Audit Standards 2024.

Board: GMCA Audit Committee

Senior Management: Members of the Group Leadership Team and the senior management team of GMCA (SLT)

Chief Audit Executive: Deputy Director, Audit and Assurance

3. Purpose

The purpose of the internal audit function is to strengthen GMCA's ability to create, protect, deliver and sustain value by providing Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function supports and enhances GMCA's:

- Successful achievement of its corporate objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

GMCA's internal audit function is most effective when:

- Internal auditing is performed in conformance with the Institute of Internal Audit's Global Internal Audit Standards, CIPFA Code of Governance for Internal Audit and CIPFA Application Note: GIAS in the UK Public Sector, which are all set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board, which in the case of GMCA is the Audit Committee .
- Internal auditors have appropriate skills and competence; are free from undue influence; are committed to making objective assessments and are able to demonstrate professional scepticism and professional courage.

4. Global Internal Audit Standards

GMCA's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements (as they become available). In addition, the service will be provided in line with the CIPFA Code for the Governance of Internal Audit and the CIPFA Application Note: Internal Audit in the UK Public Sector.

The chief audit executive will report regularly to Audit Committee and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program (see Section 10).

5. Internal Audit Mandate

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".

The internal audit function's mandate is therefore provided by legislation. Through its constitution GMCA (specifically the GMCA Treasurer) has a responsibility to ensure there is an appropriate internal audit activity in place.

GMCA Audit Committee authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of GMCA and other specialised services from within or outside GMCA to complete internal audit services.
- Be granted free and confidential access to the Chair of Audit Committee and reports to Audit Committee meetings as set out in its terms of reference.
- The chief audit executive shall have right of access to the Group Chief Executive.

6. Positioning

Internal Audit sits within the Finance, Audit and Commercial Directorate in GMCA.

The chief audit executive reports administratively to the Group Chief Finance Officer but has a direct reporting line to the GMCA Managing Director and to the Audit Committee.

7. Independence and Objectivity

7.1. Independence

Global Internal Audit Standards define independence as “the freedom from conditions that impair the internal audit function’s ability to carry out its responsibilities in an unbiased manner”. This independence is achieved through organisational positioning, establishing appropriate reporting lines, appointment and appraisal of the chief audit executive and consideration of any impairments that may arise because of other duties assigned to the chief audit executive.

The positioning of the chief audit executive as described in Section 6 above provides the authority and is of sufficient status to bring matters directly to senior management and escalate matters to the Audit Committee without interference and supports the internal auditors’ ability to maintain objectivity.

7.2. Impairments to independence

The chief audit executive has responsibilities in addition to internal audit. This is in relation to Risk Management.

There is a dedicated risk management resource who is responsible for the delivery of the risk management framework. The wider internal audit team do not have any responsibility for the development or implementation of the framework. The chief audit executive does not own risks outside of the Internal Audit function, neither do they make decisions relating to risk, their responsibility is solely in relation to the design and implementation of the framework in place to identify and manage risks across the GMCA Group and GMCA.

The Audit Committee and management accept that these arrangements present an impairment to the independence of the chief audit executive. When assurance over these activities is required, internal audit will undertake the engagement without involvement from the chief audit executive, with the Head of Internal Audit reporting directly to the Audit Committee. In addition, periodic, external assurance of these activities will be required.

The chief audit executive will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit function.

7.3. Objectivity

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not compromise their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for GMCA or other group organisations.
- Initiating or approving transactions external to the internal audit function.

- Directing the activities of any GMCA employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

8. Ethics and Professionalism

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the GMCA and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture.
- Report behavior that is inconsistent with the Standards in Public Live and/or GMCA's values and behaviours and ethical expectations, as described in applicable policies and procedures.

9. Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organisation, including all GMCA's activities, assets, and personnel. This is described as the audit universe. The scope of internal audit activities also encompasses but is not limited to objective

examinations of evidence to provide independent assurance and advisory services to Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for GMCA.

9.1. Assurance services

Assurance engagements undertaken by Internal Audit are those that evaluate whether:

- Risks relating to the achievement of the GMCA Group and / or GMCA's corporate objectives are appropriately identified and managed.
- The actions of officers, directors, management, employees, and contractors or other relevant parties comply with GMCA's policies, procedures, and applicable laws, regulations, and governance standards.
- Operations and programmes are being carried out effectively and efficiently and the results of operations and programmes are consistent with agreed objectives and outcomes.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that are applicable to or could significantly impact GMCA.
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

9.2. Advisory services

The Internal Audit function may also be commissioned to undertake advisory engagements, driven by risk-based planning. These may typically be on those areas of the organisation there are new systems, structures or activities, or where areas undergoing significant change where the system of risk management or control framework has not yet been established. They can be undertaken before, during or after changes are undertaken, examples being: advice on the design of controls in new systems/processes; critical friend roles or lessons learned reviews.

Advisory work adds to Internal Audit's knowledge base and can contribute to the overall Internal Audit opinion and/or assurance rating.

In relation to advisory services, the CAE must:

- consider the effect on the opinion work before accepting engagements over and above any already agreed as part of the Internal Audit plan. Approval will be sought from 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 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 advisory work contributes to the overall annual opinion.

The standard of work that is delivered in advisory services will be the same as that in assurance work. The mandatory requirements of the Global Internal Audit Standards relate to standard of performance in both assurance and consultancy activities.

9.3. Whistleblowing, fraud and corruption

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.

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

Internal Audit may also receive whistleblowing reports, in line with the GMCA Whistleblowing Policy. Internal Audit may then be required to undertake fact finding investigations into reports received which may then initiate referral to the appropriate organisational policy and procedure.

10. Other Sources of Assurance

10.1. Lines of defence

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.
- External– 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.

The chief audit executive 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.

10.2. External Audit

The work of External Audit is factored into the Internal Audit work plan, and Internal Audit and External Audit meet formally and informally to share key audit findings and/or areas of potential focus.

Whilst GMCA’s 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.

11. Communication with Audit Committee and Senior Management

The chief audit executive will report the following key items to GMCA Audit Committee

- The internal audit mandate and charter on at least an annual basis
- The Internal Audit Plan – This will be a rolling, risk-based plan prepared in conjunction with management that will take into consideration organisational priorities and objectives, risks, previous assurance activity and any other sources of assurance. Regular reports on progress of delivery of the plan will be presented to the Audit Committee along with details of any significant changes to the plan, which would require approval by Audit Committee
- The results of internal audit work, through sharing of the key conclusions, findings and actions from internal audit engagements
- Trends and emerging issues that could impact GMCA Group and/or GMCA's identified from the cumulative results of internal audit and assurance activity or other external sector or environmental factors.
- Management's responses to risks that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond GMCA's risk appetite.
- Progress on the implementation of actions agreed as a result of internal audit work
- An annual report from the chief audit executive that provides details of the work undertaken during the period and an overall conclusion on the effectiveness of the arrangements in place for governance, risk management and internal control. It will provide a statement of conformity with Global Internal Audit Standards.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with Global Internal Audit Standards and action plans to address any deficiencies and opportunities for improvement.

12. Quality Assurance and Improvement Programme

The chief audit executive has in place a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit function.

The QAIP includes external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, Code of Practice for the Governance of Internal Audit in UK Local Government and the Application Note: GIAS in the UK Public Sector.

It also includes performance measurement metrics to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement.

Annually, the chief audit executive will communicate with the board and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

External assessments will be conducted at least once every five years by an independent assessor or assessment team from outside GMCA. In line with the Application Note: GIAS in the UK Public Sector 10D, the independent assessor, or assessment team will have at least one person who has the characteristics outlined in the chief audit executive qualification (CMIIA or a CCAB qualification or an equivalent professional qualification which includes training on the practice of internal audit, and has suitable internal audit experience).

13. Changes to the Internal Audit Charter

This Internal Audit Charter (including the Internal Audit Mandate) will be reviewed annually and presented to Audit Committee for approval. There may be additional circumstances that require changes to the mandate and charter such as:

- A significant change in the Global Internal Audit Standards.
- A significant structural reorganisation.
- Significant changes in the chief audit executive, board, and/or senior management.

- Significant changes to the Group or organisational strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

In which case the charter will be updated and presented to Audit Committee as soon as such circumstances arise.