



WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

Internal Audit: Terms of Reference - December 2006

1 INTRODUCTION

The Passenger Transport Authority utilises the internal audit section established within the Passenger Transport Executive to provide an internal audit function and contribute to the operation of the overall control framework for the Authority. Due to this arrangement, reporting requirements are that both the Executive's Audit Committee and the Authority's Audit & Governance Committee consider work performed and, as a result, any issues raised by internal audit.

The Internal Audit Terms of Reference describe the purpose, authority, scope and principal responsibilities of the Authority's Internal Audit Section.

2 PURPOSE

Internal audit is an independent and objective appraisal function established by the Authority for reviewing the system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the, proper, economic, efficient and effective use of resources.

To provide independent assurance to those charged with governance of the Authority on the management of risk.

To provide challenge and additional assurance to management on the management of risk and internal control within their areas of responsibility.

3 OBJECTIVES

The main areas of Internal Audit responsibility are to :-

1. Review, appraise and report on:

The soundness, adequacy and application of internal controls

The reliability of systems for ensuring that expenditure is properly authorised/incurred and income is properly brought into account.

The extent to which assets and interests are accounted for and



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safeguarded from loss

The suitability and reliability of financial information and other management data

2. To assist in the review and reporting on the effectiveness of the Authority's corporate governance arrangements including risk management.
3. To contribute to the production of the Authority's Statement on Internal Control required under Regulation 4 of the Accounts and Audit Regulations.
4. Advise on internal control implications of new systems where either key systems are being operated or provided by other organisations on behalf of the Authority. The Internal Audit Manager will decide, in consultation with all parties, whether Internal Audit conduct work to derive the required opinions on the reliability of systems and controls or should rely on the opinion provided by other auditors.

4 AUTHORITY

There is a statutory requirement under the Accounts & Audit (Amendment) (England) Regulations 2006 for an internal audit function. Regulation 6 states that a "relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". There is also provision under the Regulations for an annual review of internal audit by the Authority as part of the overall consideration of internal control.

Internal Audit is also governed by policies, procedures, rules and regulations established by the Passenger Transport Authority. These include financial regulations, codes of conduct and anti-fraud and corruption strategies.

Where key services are to be provided to the Authority by other organisations or through a partnership, in order for internal audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in all contracts and agreements concerned.



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5 STANDARDS

Internal audit adopts standards established by CIPFA (The Chartered Institute of Public Finance and Accountancy) in undertaking its work. The Internal Audit Section will follow guidance provided in CIPFA's Code of Practice for Internal Audit in Local Government in the UK (2006) as 'proper practice' in the provision of the Internal Audit Service to the Authority.

6 SCOPE OF WORK

Audit assurance work will cover the management of all operational, compliance and financial risks in all locations within the Authority. Assurance will be prioritised according to the application of risk assessment methodology, the judgement of the Internal Audit Manager and in consultation with the Audit & Governance Committee.

Internal Audit may also carry out other reviews or assignments where requested by management, which fall outside the approved audit plan.

The scope of Internal Audit allows for unrestricted access to all records and assets deemed necessary in the course of the audit. Internal auditors have the authority to:

- access all Metro premises
- access all assets, records, documents, correspondence and control systems
- receive any information and explanation considered necessary concerning any matter under consideration
- require any employee of the Authority to account for cash, stores or any Authority asset under his/her control
- access records belonging to third parties, such as contractors when required
- have unrestricted direct access to the Clerk to the Authority, the Audit & Governance Committee and Standards Committee



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This right of access is included in the Authority's Financial Regulation (12.1.4).

7 RESPONSIBILITIES

Internal Audit is independent of line management, which retains responsibility for the management of all risks in all systems and activities.

Internal Audit will operate within a framework that allows segregation from line operations. Every effort will be made to preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest and do not undertake any non-audit or operational duties.

Internal Audit is independent and coverage is directed by risk assessments and the requirements of the Audit & Governance Committee. This means that coverage of the Authority's control environment is not restricted. The Internal Audit Manager will liaise with the Audit Commission to ensure complementary audit coverage and to avoid duplication of effort.

Internal Audit has freedom to report in its own name and without fear or favour to all officers and members, particularly those charged with governance.

Planned audit work and any changes to the plans are presented to the Audit & Governance Committee for approval.

Each internal audit report contains an opinion on the adequacy of controls in the area that has been audited.

Audit reports are presented to the line management responsible and upon agreement to the Audit Committee. If a recommendation is not accepted by management, then this must be stated in the final audit report.

Every audit recommendation is subject to follow-up, the status of outstanding recommendations is considered by the Audit Committee and formally reported to the PTE & PTA.

The Internal Audit Manager will manage the provision of the Internal Audit service to the Authority by:-

Preparing a rolling three year strategic audit plan for approval by the Audit & Governance Committee.



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Translating the Strategic Plan into annual plans for agreement by the Audit & Governance Committee.

Ensuring audit work is supervised, recorded and reported.

Preparing an annual report on the work of internal audit for submission to the Audit & Governance Committee, giving an overall opinion on the reliability of the system of internal control.

All audits will be subject of formal reports. Reports will be issued to the Clerk to the Authority, Chief Financial Officer, Deputy Chief Financial Officer, Monitoring Officer and the Audit Commission. The Internal Audit Manager will make periodic reports to the Audit & Governance Committee summarising internal audit reports issued and identifying any key issues resulting from these reviews.

8 RESOURCES

The Internal Audit Manager is responsible for ensuring that resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Clerk to the Authority, the Director Corporate Services, the Section 151 Officer and the Audit & Governance Committee.

9 FRAUD AND CORRUPTION

Managing the risk of fraud and corruption 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 however will be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring.

Where fraud or corruption is identified then procedures identified in the Fraud & Corruption Response Plan should be followed.

The Internal Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the internal control environment.