

Internal Audit Charter 2024/25**1 Introduction**

- 1.1 This Charter sets out the purpose, authority, and responsibilities of internal audit activity at Birmingham City Council. The Charter also:
- establishes Internal Audit's position within the organisation, including reporting relationships with the 'Board';
 - covers the arrangements for appropriate resourcing;
 - defines the scope and role of Internal Audit in any fraud-related work; and
 - includes arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.
- 1.2 The Internal Audit Charter will be reviewed and reported to the Audit Committee for approval annually.

2 Definitions and Responsibilities

- 2.1 This section details how the responsibilities defined in the PSIAS apply at Birmingham City Council.
- 2.2 The Chief Audit Executive (CAE) is the senior officer managing internal audit activity in accordance with the PSIAS. Within Birmingham City Council the Principal Group Auditor is the designated CAE.
- 2.3 The PSIAS lay out the role of the Board in relation to specific standards:
- approve the Internal Audit charter (Standard 1000);
 - approve the risk based Internal Audit plan including the approval of the Internal Audit budget and resource plan (Standard 1110);
 - receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity (Standard 1110);
 - make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations (Standard 1110);
 - receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive (Standard 1320); and
 - receive communications from the Chief Audit Executive on Internal Audit's performance relative to its plan and other matters (Standard 2020)

Audit Committee fulfils the role of the Board. The Audit Committees Terms of Reference as contained within the Council's Constitution include these specified responsibilities.

- 2.4 Senior management is the Section 151 Officer (Interim Finance Director). The role of senior management in relation to specific PSIAS standards is:
- input to the risk based Internal Audit plan (Standard 2010);
 - receive periodic reports from the Chief Audit Executive on internal audit activity (Standard 2060); that includes follow up reports (Standard 2500); and
 - receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive (Standard 1320).
- 2.5 Consulting services under the PSIAS are: “Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.” In accordance with the PSIAS approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within Birmingham City Council significant is defined as any single assignment equivalent to 5% of annual planned days.

3 Purpose and Authority

- 3.1 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.
- 3.2 Internal audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 state that:
- “5. (1) 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) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
- (a) make available such documents and records; and*
- (b) supply such information and explanations;*
- as are considered necessary by those conducting the internal audit.*
- (3) In this regulation “documents and records” includes information recorded in an electronic form”*

- 3.3 In accordance with Birmingham City Council's Constitution, Part D – D1 Financial Regulations, section FC4 Financial Governance, directors have a duty in:

“(v) Providing open and unfettered access to internal and external auditors.

“(vi) Implementing agreed internal audit recommendations within agreed timescales.”

4 Independence and Objectivity

- 4.1 Internal Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Internal Audit will not have any operational responsibilities. Where Internal Audit is part of a programme or project, this will be in the capacity of a 'critical friend' with no responsibility for operational decisions or ownership of actions.
- 4.2 Individual auditors are bound by the Council's Employment Code of Conduct and relevant professional standards. All Internal Audit employees must also conform to the Code of Ethics (Appendix 1).
- 4.3 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by Internal Audit lies with management. Management can either accept the advice and implement recommendations or reject them. Any advice, guidance or recommendations made by Internal Audit will not prejudice the right to review the relevant policies, procedures, controls, and operations at a later date.
- 4.4 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the CAE and reported to the Section 151 officer and/or Audit Committee as appropriate.
- 4.5 The CAE reports to the Interim Finance Director. In addition, the CAE is able to report without fear or favor in their own name to the Chief Executive, Cabinet, Corporate Leadership Team, Audit Committee and to Scrutiny and other Committees.
- 4.6 The CAE will confirm to the Audit Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

5 Resourcing

- 5.1 The risk based audit plan lays out the planned internal audit resources for the year with the objective of giving an evidence-based opinion.

- 5.2 Internal Audit will be delivered to professional standards by appropriately qualified and skilled staff. Internal Audit has achieved the ISO27001:2013 Information Security Standard, which is subject to regular external review.
- 5.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.
- 5.4 If the CAE considers the level of audit resources in any way limits the scope of internal audit or the ability of Internal Audit to deliver a service consistent with its statutory and related requirements, the CAE will advise the section 151 officer and Audit Committee.
- 5.5 The risk based audit plan will include a contingency allocation to enable Internal Audit to plan and complete work over the course of the year in direct correlation with the changing risks and priorities of the organisation thereby maintaining an agility and flexibility within the plan.
- 5.6 Internal Audit will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit Data Warehouse and data analysis will be used to support audit assurance work, provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, carry out exception reporting and to identify samples and review data quality.
- 5.7 Internal Audit will work with private sector partners as necessary to ensure it has the right skills and resources to deliver a quality driven professional service to the Council.
- 5.8 Internal Audit will work in partnership with other inspection bodies to ensure that the Council obtains the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.

6 Scope

- 6.1 The scope of the Internal Audit function will embrace the entire internal control system of the Council. It covers all financial and non-financial related activities of the Council at all levels of its structure. A risk based approach will be used to target Internal Audit activity.
- 6.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the organisation's objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the CAE will take account of the Council's assurance and monitoring mechanisms, including risk management, for achieving its objectives.

- 6.3 The scope of audit work extends to services provided through partnership arrangements. The CAE will decide, in consultation with all parties, whether Internal Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the CAE will agree appropriate access rights to obtain the necessary assurances.
- 6.4 Internal Audit will not undertake tasks which are likely to compromise its independence, internal control functions, or certification processes.
- 6.5 Internal Audit will participate and contribute to Council and Directorate policy development as required through attendance at relevant events and working groups.

7 Internal Audit Plan and Reporting

- 7.1 The CAE will submit the risk based internal audit plan to Audit Committee for review and approval.
- 7.2 The risk based plan will include core elements of audit work. This includes audits of the Council's key financial systems, grant certification, reactive fraud work and participation in the National Fraud Initiative (NFI).
- 7.3 Once these core elements of the plan and follow up reviews are accounted for, the remaining audit resource is directed at undertaking audit work in the most high risk areas, informed by a documented ongoing risk assessment, and the Council's risk management processes. These areas of work are determined and continually reassessed throughout the year based on the changing risk profile of the Council. Any significant deviation from the approved internal audit plan will be communicated through regular update reports.
- 7.4 For each audit assignment, internal auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocation. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes.
- 7.5 An audit output will be prepared and issued by Internal Audit following the conclusion of each internal audit engagement and will be distributed as appropriate. The audit output may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit output or provided thereafter by management of the audited area will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. All audit reports will be available to the Members of the Audit Committee.

- 7.6 Where the audit output includes a high-risk rating for the Council indicating concerns relating to the control environment and /or compliance with the control environment either overall or for a particular objective, the report will be shared with the relevant Cabinet and / or Committee Members. In addition, the work will be subject to a follow up review to ensure recommendations have been adopted and suggested controls are working well in practice.
- 7.7 The regular Internal Audit update reports to Audit Committee will:
- report on the activity of Internal Audit for the period:
 - provide a summary of significant audit findings, including reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment and follow up reviews; and
 - report on the implementation of previously agreed recommendations.
- 7.8 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP).

8 Quality Assessment

- 8.1 The CAE operates a quality assurance and improvement programme (QAIP) that covers all aspects of internal audit activity and periodically assesses conformance with PSIAS. This includes both internal and external assessments. The external assessment will be conducted at least once every five years.
- 8.2 The outcomes of all internal and external assessments, including any areas of non-conformance with PSIAS, will be included in the QAIP and reported annually to senior management and the Audit Committee.
- 8.3 Audit Committee will be invited to participate in an annual review of quality assurance processes.

9. Non audit work – counter-fraud services

- 9.1 PSIAS recognise that Internal Audit may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of Internal Audit and contribute to the overall assurance opinion.

- 9.2 Internal Audit has oversight of the council's counter fraud and corruption framework and Anti-money Laundering Policy, including receiving and risk assessing concerns (phone, email, online referral form) and where appropriate investigating instances of suspected or actual fraud, corruption or impropriety. It also facilitates participation in the National Fraud Initiative (NFI), which matches data from Council information systems with information held by other participating bodies to identify potentially fraudulent activity.
- 9.3 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility by having up to date counter fraud and corruption policies, Fraud Awareness training and awareness raising and liaison. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will be alert in all their work to risks and exposures that could allow fraud or corruption.
- 9.4 In accordance with the Birmingham City Council Constitution, Part D – D1 Financial Regulations, FC6 Delivery and Adherence to Core Strategies, Directors must:

“(i) Directors will maintain appropriate systems to enable the Chief Finance Officer to collect information on the adherence to core strategies.

The Council core strategies that support Sound Financial Management include:

- (i) Anti-Fraud & Corruption Strategy*
- (ii) Anti - Money Laundering Policy*
- (iii) Whistle-blowing Strategy*
- (iv) Risk Management Strategy*
- (v) Insurance Strategy*
- (vi) Contracts and Procurement Regulations”*

APPENDIX 1 – CODE OF ETHICS

A Code of Ethics is necessary for the profession of internal auditing as trust is placed on its objective assurance about governance, risk management and control.

The PSIAS sets out a Code of Ethics around 4 principles which Internal Audit will adhere to. The 4 principles are: **Integrity, Objectivity, Confidentiality** and **Competency**.

1. Integrity

The principle – The integrity of internal auditors establishes trust and this provides the basis for reliance on their judgement.

Rules of Conduct – Internal auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosures expected by the law and the profession;
- Shall not knowingly be a party to an illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

The principle – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct – Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement;
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

The principle – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct – Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties;
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

The principle – Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct – Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing;
- Shall continually improve their proficiency and effectiveness and quality of their services.