

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Assistant Director, Audit & Risk Management

Date of Meeting: 26th January 2021

Subject: Birmingham Audit - Half Year Update Report 2020/21

Wards Affected: All

1. PURPOSE OF REPORT

- 1.1 The attached report provides Members with information on outputs and performance measures in relation to the provision of the internal audit service during the first half of 2020/21. Together with an update on the Internal Audit Total Impact Review and proposed Public Sector Internal Audit Standards compliance requirements.

2. RECOMMENDATIONS

- 2.1 Members note the:
- level of audit work undertaken, and assurances provided;
 - implications of COVID-19 and the potential limitation in audit opinion at the end of the financial year; and
 - findings from the Internal Audit Total Audit Impact Review.
- 2.2 Members approve the proposed approach to the Public Sector Internal Audit Standards compliance review, i.e. a Core Cities peer review, together with the Terms of Reference.

3. BACKGROUND

- 3.1 COVID-19 has had a significant impact on the ability of the Internal Audit to progress the Audit Plan in the first few months of the current financial year. Several Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.

- 3.2 As at the end of September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. It is unlikely that we will be able to deliver the full programme of audit reviews that have been set out. However, we are continuing to strive to deliver all reviews that have been allocated a 'must do' priority.
- 3.3 We have continued to seek to add value and support the Council's response to the pandemic and in maintaining critical services to the citizens of Birmingham.
- 3.4 An Internal Audit Total Impact Review has been undertaken to help in developing the effectiveness of the Internal Audit Service and maximising insight and added value.
- 3.5 The Public Sector Internal Audit Standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. An external assessment, to measure compliance against these standards, is due during 2021. A Core Cities Peer Review approach is recommended.
- 4. LEGAL AND RESOURCE IMPLICATIONS**
- 4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.
- 5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES**
- 5.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.
- 5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.
- 6. COMPLIANCE ISSUES**
- 6.1 City Council policies, plans, and strategies have been complied with.

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Birmingham Audit Half Year Report 2020/21

26th January 2021

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**Appendix D: Public Sector Internal Audit Standards Peer Review
Terms of Reference**

1. Background / Annual Opinion

- 1.1 The 2020/21 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 COVID-19 had a significant impact on the ability of the team to progress the Audit Plan in the first few months of the current financial year. A number of Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.
- 1.3 The Council continues to go through significant change and pursue an ambitious agenda. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. The audit plan is prepared using a risk-based methodology and is continually updated throughout the year, this helps to ensure that we concentrate on the most significant areas. The plan is prepared and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). In addition to audit reviews, the model used to formulate the end of year opinion, places reliance on assurance provided from other parties and processes. The opinion for 2020/21 will be based on the following sources of assurance:



- 1.4 The 2020/21 audit plan was approved by the Audit Committee at its June 2020 meeting. This report provides a summary of the progress made in delivering the agreed plan.

2. Added Value Services

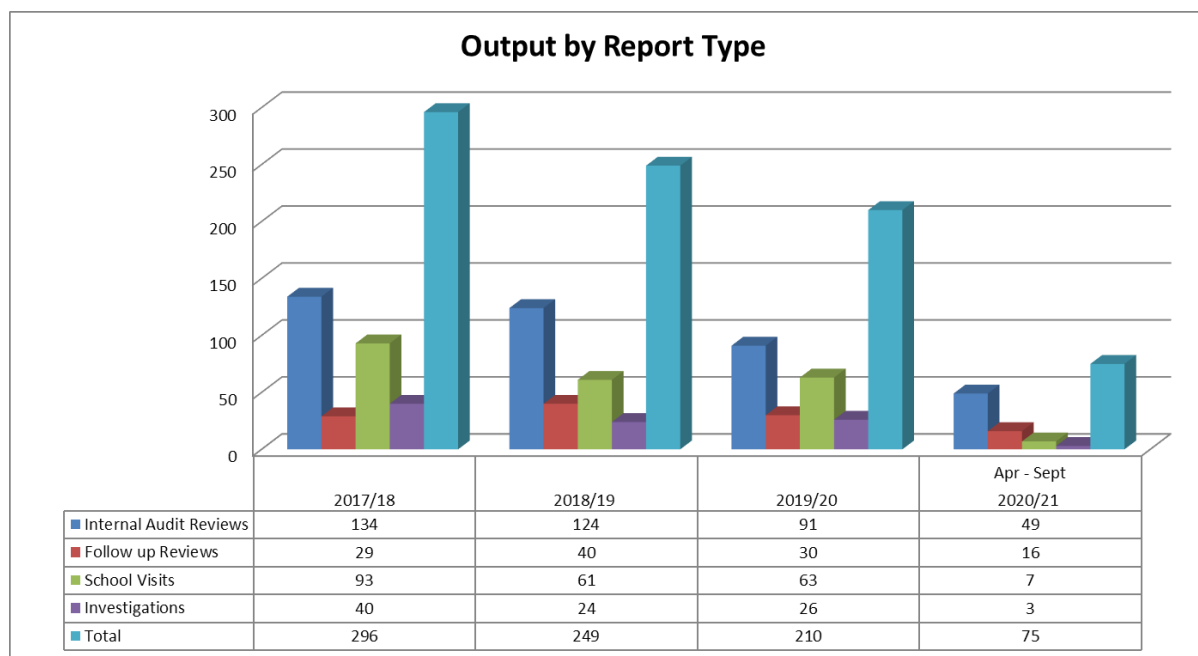
- 2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives. This is particularly true in the current uncertain times where everyone needs to provide support and help the Council in providing critical services to the citizens of Birmingham. Examples of how we have done this during the first half of 2020/21 include:

- Seconding audit resources to support the COVID-19 Track and Trace team.
- Providing advice and guidance on emergency / revised operating procedures.
- Providing resources to support the COVID-19 Test Drop and Collect initiative.
- Undertaking pre and post due diligence checks on COVID-19 support grant payments; investigating any anomalies that are identified.

3. Performance

3.1 Outputs

3.1.1 During the first half of 2020/21 we issued 75 final reports. A comparison to the last 3 years (full years) is given in the chart below:

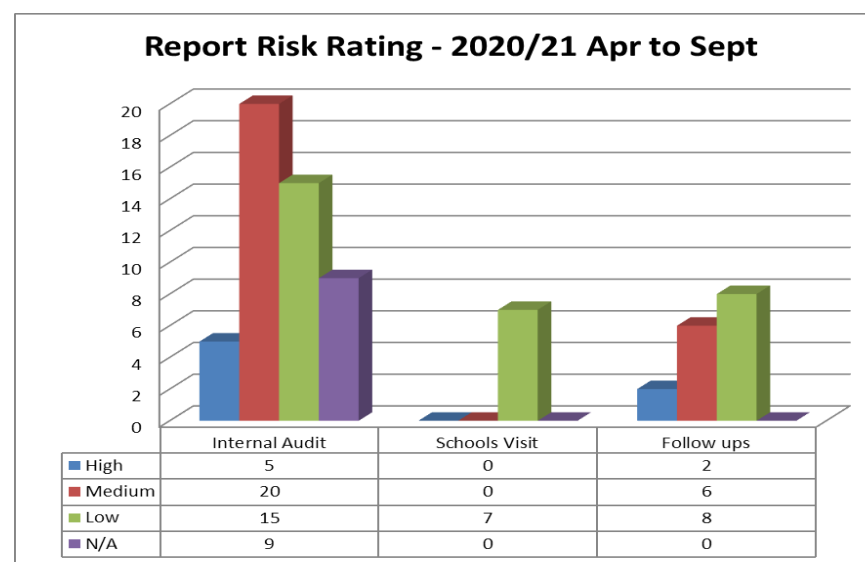
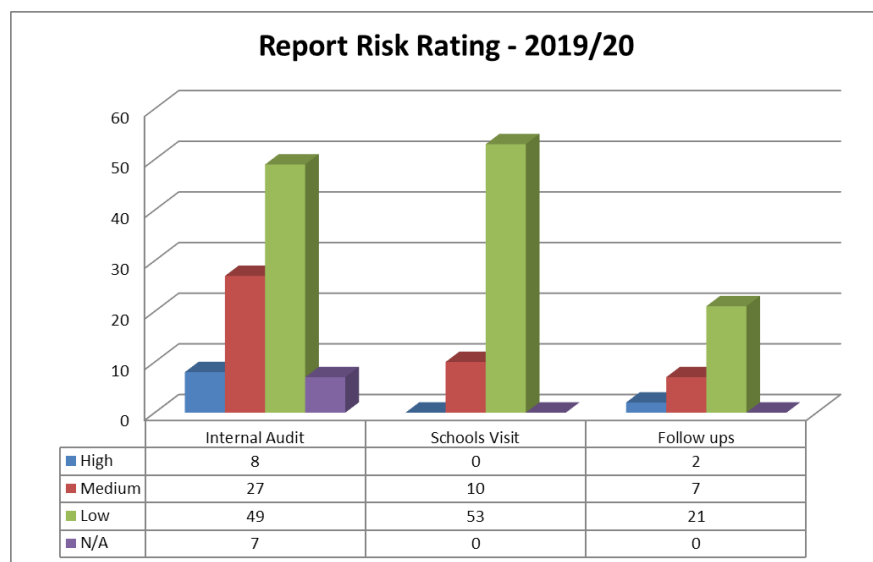


3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members can request copies of reports and receive further information. A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priority outcomes, core objective of good governance, the Corporate Risk Register, financial and business controls assurances is detailed in Appendix A.

3.1.3 Audit, school visit and follow up reports are generally given a risk rating to assist in the identification of the level of corporate significance. The key to the ratings given is:

1. Low - Nonmaterial issues.
2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance.
3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputational risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

3.1.4 From the 72 reports issued (49 Internal Audit, 7 School Visits, and 16 Follow up reviews) issued, 7 were given a high risk rating, 26 had a medium rating, 30 had a low rating, and 9 (relating to advice and guidance or monitoring improvement progress) were not assigned a rating. An analysis of the report risk ratings, together with a comparison to 2019/20 is given in the charts below. A summary of the significant findings from our work is detailed in Appendix B.



3.1.5 In addition to a risk rating, audit and school reports are given an opinion rating on the effectiveness of the control environment. The audit opinion ratings are:

Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

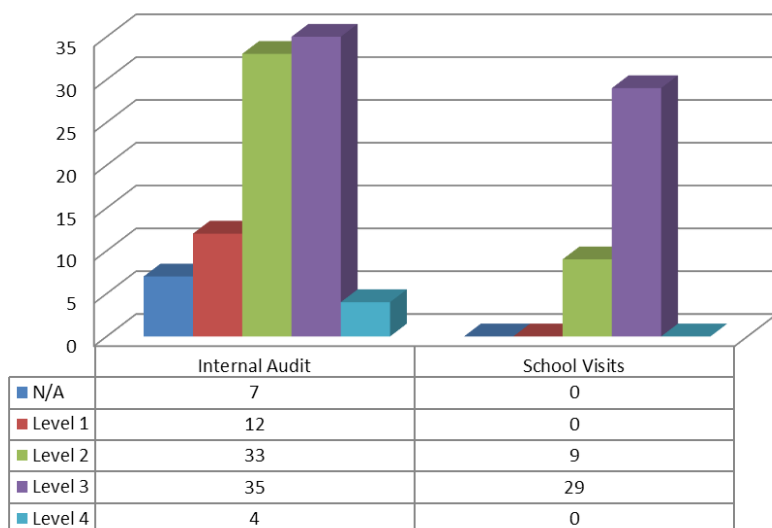
Level 2 - Specific control weaknesses were noted. However, generally the controls evaluated are adequate, appropriate and effective to ensure that risks are being managed and objectives achieved.

Level 3 - Specific control weaknesses of a significant nature were noted, or the number of minor weaknesses noted was considerable. The ability to manage the relevant risks and achieve objectives is compromised.

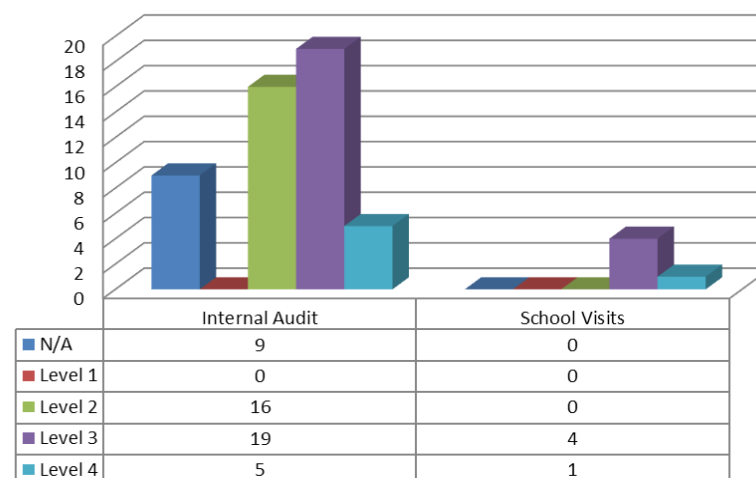
Level 4 - Controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met.

3.1.6 An analysis of the opinion ratings (excluding follow ups), together with a comparison with 2019/20 is given in the charts below. To date 53% of reports issued (including schools) this year have contained a negative assurance (Level 3 or 4) this is comparable to the whole of last year (i.e. 52%).

Report Assurance Opinions - 2019/20



**Report Assurance Opinions - 2020/21
Apr to Sept**



3.2 Plan Completion

3.2.1 The approved 2020/21 plan contains 4,664 productive days. The table below details completion as at 30th September 2020 and provides a comparison to 2019/20.

	2019/20				2020/21			
	Planned Days	%	Actuals	%	Planned Days	%	Half Year Actuals (Apr – Sept)	% (Apr – Sept)
Number of audit days in approved plan @ 1st April.	4691	100%	4316	100%	4664	100%	1687	100%
Main financial systems	725	15%	719	17%	705	15%	258	15%
Business controls assurance	1770	38%	1343	31%	1780	38%	725	43%
Investigations	830	18%	900	21%	830	18%	313	19%
Schools (Non-Visits)	60	1%	108	2%	30	1%	13	1%
Schools (Visits)	720	15%	544	13%	720	15%	103	6%
Follow up work	175	4%	264	6%	175	4%	71	4%
Ad-hoc work	286	6%	268	6%	299	6%	100	6%
Planning & reporting	120	3%	164	4%	120	3%	104	6%
City initiatives	5	0%	6	0%	5	0%	0	0%

3.2.2 COVID-19 restrictions have had a significant impact on a global basis. The Council has had to respond to the pandemic, continuing to maintain critical services to the citizens of Birmingham. This inevitably has had, and will continue to have, an adverse impact on the delivery of the audit plan. As at 30th September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. Ultimately there will be some restriction and limitation to the scope of the annual opinion that I am able to deliver at the end of the financial year. In order to minimise this limitation, the plan agreed in June was prioritised on a Must / Should / Could basis:

- Must – minimum work required to support the annual opinion (i.e. financial, governance, risk management).
- Should – would significantly add to the opinion, systems and processes may have changed as a result of COVID-19.
- Could – would add to the opinion and the management of risks and issues.

We are continuing to work to this prioritisation.

3.3 Corporate Fraud Team

3.3.1 The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud, or other irregularity, has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future.

3.3.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2018/19	2019/20	2020/21 (Apr – Sept)
Number of outstanding investigations at the beginning of the year	28	14	30
Number of fraud referrals received during the year	109	105	50
Number of cases concluded during the year	123	89	42
Number of investigations outstanding	14	30	38

3.3.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned.

3.3.4 Within the CFT there is a sub-team specifically established to tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2018/19	2019/20	2020/21 (Apr – Sept)
Properties Recovered	64	59	9
Applications Cancelled	212	667*	348
Housing Benefit Overpayment	£858,202	£473,794	£171,773
Council Tax Change	£559,534	£429,144	£220,393

* increase achieved through the near real time matching of applications with other Council held data. This has been key in helping to ensure that scarce social housing is correctly allocated.

4. Grant Certification

- 4.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grants that have been awarded to the Council.

Grant Certificates Issued
Troubled Families
Scambuster
Local Transport Capital Grant
Collaborative Fund Grant: Teaching School Core Grant Funding
Greater Birmingham and Solihull Local Enterprise Partnership

- 4.2 I have also been formally appointed as the First Level Controller for several European Grants. The First Level Controller is a formally appointed independent role that is required to provide a guarantee that the expenditure incurred under the programme is eligible and correctly accounted for.

European Grants – First Level Controller
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
TRIS – Transition Regions towards Industrial Symbiosis
BETTER

5. Total Impact Review

- 5.1 It is imperative that the Internal Audit functions provides an effective service, that responds to the assurance needs of the organisation, demonstrates insight, and adds value. In order to help us in maximising insight and added value we have undertaken, with support from an external partner, an Internal Audit Total Impact Review has been completed. The review captured independent feedback from across key stakeholders, to identify the current impact and value of the Internal Audit service, and areas for development. The independent report is attached, Appendix C. The findings from the review are currently being considered and a road map developed. This roadmap, together with implementation progress, will be reported to Audit Committee.

6. Public Sector Internal Audit Standards

- 6.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. The requirements of an effective system of Internal Audit are laid out within the Public Sector Internal Audit Standards (PSIAS). The PSIAS became effective from 1st April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.
- 6.2 In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to demonstrate compliance with the standard. External assessments are required to be undertaken on a five year cycle. Our next external assessment is due for completion during 2021.
- 6.3 Following market research and discussion with Core City colleagues it is proposed that our next PSIAS review be undertaken on a Core Cities peer review basis. A terms of reference for the peer review is attached in Appendix D. Members of the Audit Committee are asked to approve this approach.

Appendix A

Reports Issued During the First Half of 2020/21

Audit Reviews (49 Reports):

Key to linkages to the Council's priority outcomes, core objective of good governance, Corporate Risk Register, Financial Assurance and Business Control Assurance:

Outcomes

1. Birmingham is an entrepreneurial city to learn, work and invest in.
2. Birmingham is an aspirational city to grow up in.
3. Birmingham is a fulfilling city to age well in.
4. Birmingham is a great city to live in.
5. Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.
6. Birmingham is a city that takes a leading role in tackling climate change.

Assurance Type

7. Good Governance.
8. Corporate Risk Register.
9. Financial Assurance.
10. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Birmingham Adult Education Service	High	Level 4		✓	✓					✓		✓	
Supplier Financial Risk - Embedding the Methodology	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	✓
Contract Extensions	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
High Value Payment Report	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
Direct Payments - Progress of Completing Reviews Overdue by 12 Months	High	Level 3				✓						✓	✓
Heartlands Day Centre	Medium	Level 4			✓					✓		✓	✓
Corporate Payroll - IR35 Compliance	Medium	Level 3		✓	✓	✓	✓	✓		✓		✓	
CityServe Contracts Review	Medium	Level 3			✓					✓		✓	
Direct Payments - Impact and Outcomes	Medium	Level 3			✓	✓						✓	✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Revaluation of Assets	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Major Capital Projects - Compliance with the Financial Control Standard	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Non-Treasury Investments	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Ethic 2020 - Gifts & Hospitality	Medium	Level 3		✓	✓	✓	✓	✓	✓	✓			
Enablement	Medium	Level 3				✓							✓
Safeguarding Adults	Medium	Level 3				✓				✓			✓
IT Emerging Issues - User Account Management and Provisioning	Medium	Level 3		✓	✓	✓	✓	✓	✓				✓
Financial Savings Plan	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
Civic Cleaning	Medium	Level 3					✓						✓
Information Governance - Information Asset Register	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Hospital Discharges	Medium	Level 2				✓	✓						✓
Web Services	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Council Tax - Recovery & Enforcement	Medium	Level 2					✓					✓	
NDR - Recovery and Enforcement	Medium	Level 2		✓								✓	
Anti-Virus – Malware	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
School Themed Work - Income Control	Low	Level 3		✓	✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Non-Invoiced Income - Pause Cafes	Low	Level 3		✓								✓	
Birmingham Municipal Housing Trust - Procurement	Low	Level 3			✓		✓			✓			✓
School Visits Follow up City wide	Low	Level 3		✓	✓					✓	✓	✓	✓
Treasury Management	Low	Level 3		✓	✓	✓	✓	✓	✓			✓	
Rent Collection & Charges - Income Collection & Sundry Debts	Low	Level 2		✓			✓					✓	
Payroll Allowances	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Payment Card Industry (PCI) Compliance - Planning Applications	Low	Level 2		✓								✓	
Ability to pay suppliers compliance	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Information Assurance Maturity	Low	Level 2		✓	✓	✓	✓	✓	✓				✓
SAP	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Non-Invoiced Income - Register Office	Low	Level 2				✓						✓	
Public Health - Supporting Clinical Commissioning Groups	Low	Level 2					✓					✓	
Council Tax - Exemptions and Discounts	Low	Level 2					✓					✓	
Neighbourhoods Directorate Risk Management Arrangements	Low	Level 2					✓				✓		
BCT Client Annual Review	N/A	N/A					✓			✓			✓
BCT Client Focussed Governance	N/A	N/A					✓			✓			✓
BCT Client Service Delivery Performance Framework	N/A	N/A					✓			✓			✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Home to School Transport 3rd Progress Review	N/A	N/A		✓	✓					✓			✓
Early Years Health and Well being	N/A	N/A		✓	✓					✓		✓	✓
Residential Care Services - Progress Review	N/A	N/A				✓				✓			✓
Funeral and Property Protection Progress Review	N/A	N/A				✓				✓			✓
Kings Norton - Second Progress Review	N/A	N/A		✓	✓					✓	✓	✓	✓
Finance Team Processes Review	N/A	N/A		✓	✓	✓	✓	✓	✓	✓		✓	

Follow up Reviews (16 Reports):

Title	Risk Rating Council	RAG
Adult Education IT Systems Replacement Follow up	High	
General Data Protection Regulation - Procurement and Contract Management – Follow up	High	
Strategic Management of Non HRA Property Follow up	Medium	
Northgate Housing Data Quality Follow up	Medium	
Use of Shared Drives Follow up	Medium	
Information Governance - Access to Information Follow up	Medium	
Interim Executive Board Follow up	Medium	

Title	Risk Rating Council	RAG
Company Assets and Relationship Management Follow up	Medium	
Information Governance - Tenant Management Organisations (TMO's) Follow up	Low	
Council Tax - Student Discount 2nd Follow up	Low	
Payroll Overtime Follow up	Low	
Information Governance - Environmental Health 2nd Follow up	Low	
Third Party Governance - Information Security Follow up	Low	
Information Governance - Transparency Code Follow up	Low	
Accounts Receivable - Adults Aged Debts Follow up	Low	
IT Governance - Housing Repairs Follow up	Low	

Investigations (3 Reports)

School Visits (7 Reports, including 2 school follow up reports)

Summary of Significant Findings

Red High Risk Reports

During the first half of 2020/21 we issued 7 red reports (including 2 follow up reports), where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Birmingham Adult Education Service

Council Risk Rating: High

Assurance: Level 4

RAG:



Our review identified significant deficiencies within the financial control environment during the period from October 2017 to August 2019. This situation potentially means that significant financial and reputational risks could arise for the Council.

It is recognised that the issues identified, have been inherited by the Education and Skills Directorate and that the actions subsequently taken by Assistant Director – Skills and Employability since April 2019, which has included the appointment of a new Head of Service have resulted in more stringent measures being introduced to control expenditure and ensure the long-term financial viability of the service; and thereby addressing the wide range of issues arising from the previous management arrangements.

We are encouraged to note that the Directorate has been very pro-active in taking action to strengthen operational controls. The issues identified and highlighted help to ensure strong governance arrangements and that key lessons are learnt for the future.

Supplier Financial Risk - Embedding the Methodology

Council Risk Rating: High

Assurance: Level 4

RAG:



In undertaking this review, we discussed the Supply Chain Risk Methodology (SCRM) with officers across the Council and sought examples from directorates of where the SCRM had been used. Only limited evidence of its use was identified. Whilst, the methodology only needs to be applied to contracts that are deemed critical and therefore, management need to make this judgement, given the nature of services provided by the Council, it is likely that there are critical contracts where the SCRM should have been applied.

Adults Social Care use a different methodology which includes the use of credit alerts from Experian; from our discussions with management this risk management approach appeared effective.

Contract Extensions**Council Risk Rating: High****Assurance: Level 4****RAG:**

Our audit identified a high incidence of non-compliance with the Council's Standing Orders relating to contract extensions. The rules are also unclear, particularly as there are inconsistencies between Standing Orders and Operation of Procurement Governance Arrangements (OPGA).

High Value Payment**Council Risk Rating: High****Assurance: Level 4****RAG:**

On 1st June 2020 we were notified that a high value payment error had occurred. The details from a non-purchase order invoice had been incorrectly scanned and paid. We concluded that the overpayment was an error and not an attempt to divert funds. The initial error was followed by a series of further errors and breakdown of controls. The overpaid funds have been recovered from the vendor.

Direct Payments - Progress of Completing Reviews Overdue by 12 Months**Council Risk Rating: High****Assurance: Level 3****RAG:**

Timely actions are not being taken to progress the review of Direct Payments (DP) and packages of care. As at the beginning of July there were a total of 434 cases which had not been reviewed for over 12 months. The oldest of these cases had a last reported review date of the end November 2010. The ineffective completion of reviews presents a number of risks to the directorate, including, provision of an inappropriate package of care to the citizen, inconsistent service provision, and an increase in complaints and Ombudsman enquiries.

Adult Education IT Systems Replacement**Council Risk Rating: High****Follow up****RAG:**

The recommendations contained in our original report were not implemented by the previous Head of Service (BAES), who has since left the Council. Whilst the project has delivered business benefits it has been at a cost. Key elements of the planned improvements are yet to materialise e.g. performance reporting dashboards and the curriculum learning package. The recent departure of the Interim IT Manager brought some support difficulties to the service due to this lack of documentation and knowledge transfer. The new Head of Service has a structured plan to address and resolve the issues identified.

A number of recommendations have still not been implemented following our original audit. The high-risk rating therefore remains, and significant work is still required to ensure the Council is compliant with GDPR.

The following documents had not been updated to reflect GDPR requirements:

- The Council's standard terms and conditions associated with purchase orders (held on the website);
- Selection Questionnaire (SQ) used to procure contractors;
- Procurement Toolkit;
- Contract Management Toolkit.

School Visits

The school audit visit programme was suspended in March 2020 due to the coronavirus pandemic and first lock down and was not resumed until October following consultation with the Education & Skills Directorate and schools. The approach to each visit will be agreed with the school involved and will include the opportunity for remote auditing and on-site work where appropriate.

During October we recommenced our 'real time follow up' reviews for schools that had received a Level 3 Assurance/High risk rating in the last academic year. This includes two short management assurance discussions followed by a validation review. Early indications are that the more intensive 'real time follow up' process is having a positive impact.

The delay in the start of the audit visits for this financial year will result in fewer school audits and will impact on the extent of the overall assurance we can provide for 2020/21 financial year. However, schools are still required to complete their annual 'Schools Financial Value Standard' submission to the Local Authority and this will continue to support the Section 151 officer's annual assurance statement. We continue to work with the Education & Skills Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools. Visits are selected through a risk-based plan and our work programme is constantly reviewed to meet key priorities and issues.

The outcomes from the audit completed continued to reflect the general trends from the previous year. Overall, we continue to find schools visited have effective systems of control in place, and staff and Governors are complying with key processes. However, there are still areas for development which would improve strategic and operational delivery - notably Financial Governance, Budget Planning, Financial Management and Purchasing. There are known financial challenges across the maintained school sector resulting mainly from reduced funding and increased staffing costs and we have therefore identified a continued increase in schools relying on previous years' carry forward surplus balances to achieve balanced budgets along with predicted deficits in future years for a majority of the schools visited.

Birmingham City Council

Internal Audit effectiveness review Final Report

Private and Confidential

July 2020



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1

Executive summary

1.1 Executive Summary

Background

Internal audit is provided 100% in house by Birmingham Audit (BA). BA are a well-established function that is deemed PSIAS compliant and delivers a large audit plan of over 4,500 days a year. The function has started to consider a number of initiatives that will further enhance its operating model but these need to be considered in the wider context of the Council's overall risk, assurance and audit framework. These initiatives also need to be developed based on a solid understanding of areas of strength and areas for improvement as considered by key stakeholders.

Summary of work performed

We carried out an independent review of the effectiveness of internal audit using PwC's Total Impact of Internal Audit (TIIA) framework; more details of which can be found in Appendix 1. TIIA was used to capture and measure the holistic contribution of Internal Audit and key areas for development. Our findings are based on the views expressed by internal audit and stakeholders supplemented by a desktop review of key documents. A summary of scores under the framework can be found within Section 2.

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for BA. Stakeholders all recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

Our key findings and recommendations are:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their current strengths (data, fraud and partnership working with Adult Social Care) will need to be supplemented to enable the step change required to meet their TIIA aspirations. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.

- Stakeholders valued their collaborative approach to the development of the audit plan, which contained sufficient contingency and flexibility to adapt to changing priorities.
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- BA have relatively limited involvement in some of the Council's key challenges and initiatives; involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of controls.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. BA should consider how it can more effectively engage Members; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

On the next page we have included a summary of findings and a high level assessment of BA's contribution against each attribute in the TIIA framework.

1.2 Executive summary – TIIA results

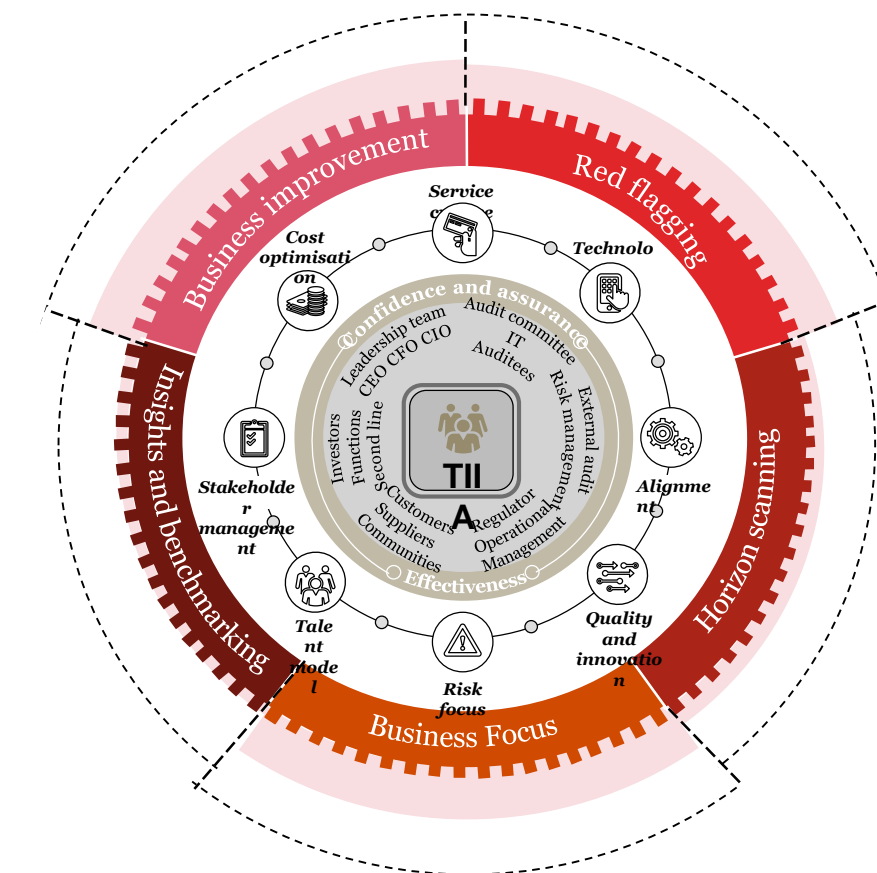
Below is a summary of our findings against each TIIA attribute. The diagram shows BA's current contribution as assessed by the stakeholders interviewed and the dotted line shows the aspiration for the function. In Section 2 we have provided a more detailed summary of the areas of good practice and areas for improvement.

Business improvement

- ✓ Business improvement was generally seen as a relative strength of BA with the increasing use of technology to identify and quantify findings.
- !! Reports didn't always tell the story of the audit and findings and recommendations needed to be more insightful to help bring about noticeable improvement.
- !! Stakeholders commented that there needs to be an assessment as to whether BA has the right skills, culture and ways of working to achieve the aspiration to be 'best in class' in this area.

Insights and Benchmarking

- ✓ The projects where BA have used benchmarking have been really well received by the directorates.
- !! Stakeholders felt this is an area where BA could add value to the organisation, but it is not something routinely considered in the scope of each audit review.



Red Flagging

- ✓ BA does a good job of flagging issues, although escalation processes and presentation could potentially hamper how quickly they are flagged.
- !! BA were seen as quite traditional, focusing on tactical rather than strategic issues with a large proportion of their plan focused on low risk or well controlled areas. Involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of control improvement.

Horizon Scanning

- ✓ BA use a number of forums to keep up to date with trends within internal audit and with other Councils.
- !! BA's work has not been forward looking or focused on predicting future areas of risk, where this has occurred it is usually directorate rather than BA led.

Business focus

- ✓ BA does a good job of consulting with directorates when pulling together the internal audit plan and there is sufficient contingency/flexibility in the plan to adapt to changing priorities.
- ✓ The COVID 19 support provided by BA was valued by the Council particularly in relation to the validation of small business grants and new PPE suppliers
- !! Stakeholders were not able to see a clear link from the Council's greatest priorities and business risks through to internal audit activity although it was noted that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.

2

TIIA results

2. Summary of TIIA review

Summary of methodology

PwC's Total Impact of Internal Audit (TIIA) framework was used to direct and measure the holistic contribution of the Birmingham Audit (BA) team to the organisation. Details of the framework can be found in Appendix 1 but, in summary, our review was focussed on the outcomes and value-add of BA rather than on the inputs of a function that have been used historically in the sector to assess internal audit functions.

The key to an audit function's *Impact* is its *Contribution* which is recognised and categorised in the framework into the following five attributes:

- **Business improvement:** Making recommendations that are practical and deliver business improvement.
- **Insights and benchmarking:** Telling the business something that they did not already know and would not have easily identified without internal audit involvement.
- **Red flagging:** Telling the business something that they should be worried about and should act upon.
- **Horizon scanning:** Predicting future areas of risk, concern and non-compliance.
- **Business focus:** Ensuring internal audit's activities are focussed on areas that are most important to the organisational strategy.

Each attribute has a set of criteria which we have used to review the contribution made by BA based on the existence and nature of examples from their work and feedback received from interviews with stakeholders.

Summary of the work performed for the TIIA review

We used our the TIIA framework and criteria throughout our review to rate contributions on a 0-3 scale; with three being assessed as 'best in class' and zero meaning the attribute is never demonstrated. The TIIA review included:

- Workshop with the Internal Audit team to determine their aspirations for the function (Target score) as well as a self-assessment of their current contribution;
- Meetings with the Audit senior management team;
- Interviews with 12 stakeholders including service users, Audit Committee (AC) members and senior management (see Appendix 2). All stakeholders were asked to provide their assessment of the contribution of BA;

- Review of audit working papers, reports and TIIA-related documents created by BA. We assessed the quality of these deliverables against the TIIA framework and validated our assessment of a sample of deliverables during stakeholder interviews;
- Consideration of other assurance activity within the Council and assessed how the work of Internal Audit contributes to the overall assurance provision in accordance with the three lines of defence model (see Appendix 3);
- Provision of feedback to the audit management team; and
- Suggestions on how to improve arrangements going forward.

Below is a summary of the results from our assessment (rating):



A more detailed summary of the TIIA methodology is included in Appendix 1.

2. Summary of TIIA review

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for Birmingham Audit (BA) and stakeholders recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

The gap between stakeholders view of BA and its own self-assessment is due to a combination of the following key findings:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their data and fraud skills were noted as key strengths and for the majority of the audits they carry out they have the right skillset.
- BA could be more effective at promoting their successes across the Council and most directors were only aware of the audits carried out in their directorate.
- The audit plan was discussed and agreed with the CLT and the Audit Committee. Directorates were given the opportunity to contribute and challenge the plan. BA are seen as being flexible and will adapt to changing priorities, but stakeholders felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks..
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- Stakeholders felt the function was more likely to get involved when something has gone wrong. They could have a valuable contribution to projects if they were involved at their outset.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual

reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings

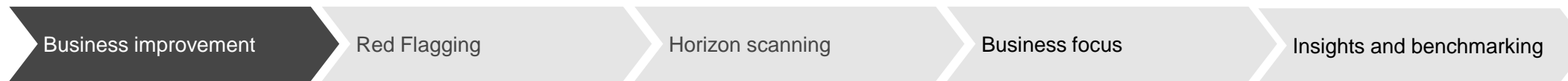
Key recommendations

Below we have provided a summary of the key recommendations:

- BA should assess whether they have got the right skills, culture and ways of working to enable the step change required to meet their TIIA aspiration and to deliver a more strategic internal audit plan. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.
- BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives, steering committees and transformation projects. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement.
- BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly. This activity could feed into their work and help to raise their profile.
- They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.. Where BA are not involved they should work with the other lines of defence to ensure key risks are adequately mitigated.
- BA should review the format of its reports, particularly where there are significant issues, to draw the readers attention to the key issues, their cause and consequence. Recommendations need to be more insightful to help bring about noticeable improvement.
- BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.1 Business improvement (1)

Making recommendations that are practical and deliver business improvement.



Description and recommendations

TIIA Rating

Summary

Business improvement was cited as a strength of the internal audit function by many stakeholders; particularly the use of technology to identify and quantify findings.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt recommendations for significant issues were not sufficiently insightful to support business improvement. Some stakeholders also commented that there could be a capability gap if the function is to achieve its aspiration to be 'best in class' in this area. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey.

Aspiration	3
IA assessment	2.5
TIIA evidence	2.3
Stakeholder assessment	1.5

Areas of good practice

- BA uses quantifiable evidence to support findings, through the use of data analytics. This was recognised as a core strength by a number of stakeholders interviewed.
- Some stakeholders commented positively on the quality of reporting, with realistic findings which reflected the situation and well thought out, practical recommendations. The tracking and chasing of actions also works well.
- Internal audit reviews look at compliance with key control objectives which include KPIs/performance measures.
- The team were recognised as very experienced, professional and easy to deal with.
- The team has a good understanding of risk and the details of many of the subject areas being reviewed. They also flag relevant and important points. It was also noted by a number of stakeholders that there has been an improvement recently in this area.
- There are a few examples where internal audit was recognised as playing a critical part in important projects both through key roles on steering committees and strategic reviews/pre-implementation reviews.
- BA has supported the insight team in establishing AI pilots across the Council to help directorates to access and understand the data held by the Council and how it can help them more efficiently deliver their services.
- Not all recommendations get implemented but Directorates acknowledged that it is not solely the fault of BA and their teams can be the barrier.

2.1 Business improvement (2)

Making recommendations that are practical and deliver business improvement.

Business improvement

Red Flagging

Horizon scanning

Business focus

Insights and benchmarking

Findings

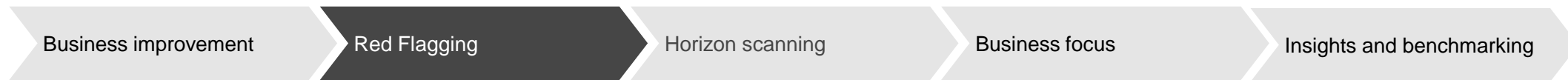
- The function are rarely visible in key improvement initiatives. Stakeholders voiced differences of opinion as to whether that was due to BA not seeking to be involved or Officers not inviting BA to take a seat at the table.
- BA reports need to be stand alone documents which tell the story of the audit clearly to all readers (directorate, CLT and the Audit Committee). It was not always evident the extent of work that had been performed (interviews, sample testing etc.) nor the implications to the Council of key findings. Also the rating scale is contained in a separate document rather than an appendix.
- The 'look and feel' of audit reports did not help facilitate the readers understanding; for example the separate sections for issues (control objectives) and recommendations was quite disjointed.
- For any significant findings these needed precise actions containing a greater level of thought/insight to help the directorate with improvement. Stakeholders commented that in some cases if all actions suggested by BA were implemented it would not result in any significant change to the service/process. Some interviewees felt there is a difference between policy risks and audit risks but that the two were sometimes confused in the approach taken by audit.
- Given the broad range of activities and risks at the Council and the relative stability of the BA team there was a perception of a potential capability gap if the function is to achieve their aspiration to be 'best in class' in this area. In technical areas it is extremely difficult for the in-house audit team to be true specialists that can go beyond what they are told. One Officer was particularly keen to explore how BA and his team could be more joined up in order to share specialist knowledge that would support BA's work in a mutually beneficial, cyclical way.
- Many users of internal audit felt that the function did not regularly seek feedback in order to improve. Instances were identified where feedback given had been acted upon but there is not a regular mechanism for getting feedback that is enforced consistently.

Recommendations

- 2.1.1 The CLT should be encouraged to facilitate and support the visible involvement of BA in key improvement initiatives. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement.
- 2.1.2 BA should review the format of its reports to draw the readers attention to the key issues, their cause and consequence:
- Each finding should be clearly set out with a title, the root cause, implication, rating and recommendations in one place not in separate sections.
 - Issues of a similar nature or with the same action and/action owner could be grouped together.
 - Details of the depth and breath of testing needs to be documented.
 - The rating scale should be included as an appendix to help contextualise the findings.
 - A distinction should be made between audit risks and policy risks; at planning and reporting stages.
- 2.1.3. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey (see recommendation 2.5.1).
- 2.1.4 The use of internal or external subject matter experts could help to provide a greater level of insight to reviews.
- 2.1.5. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- 2.1.6 BA should introduce and strictly apply a feedback mechanism to cover individual reviews and, on a more cyclical basis, broader feedback from Directorates. This feedback should be used to drive continuous improvement.

2.2 Red Flagging (1)

Telling the business something that they should be worried about and should act upon.



Description and recommendations

TIIA Rating

Summary

It was recognised by most stakeholders that BA does a good job of flagging issues when they are identified, although some felt that their escalation processes were quite cumbersome and could hamper issues being flagged quickly enough.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt that BA was not involved sufficiently in key business issues and that they should be involved more at the outset of key projects, to help identify potential pitfalls and advise on how the design of controls could be improved, rather than coming in when things have gone wrong. Both the FY2019 and FY2020 audit plans confirmed this view with only a small percentage of the plans devoted to high risk areas and a large proportion of reports rated as low with no material issues.

Aspiration	3
IA assessment	2.5
TIIA evidence	2.0
Stakeholder assessment	1.4

Areas of good practice

- When things go wrong most stakeholders felt that BA does flag the issues; through the CLT meetings, monthly reports to the Audit Committee and escalation processes which are in place for 'Red Flag' issues.
- BA is seen by many stakeholders as a key ally during times of organisation disruption and/or crisis as demonstrated by their fraud advice and support during Covid 19.
- There are some areas where BA has reviewed business readiness for new regulatory requirements and business change like IR35.
- Internal Audit are working with the CLT to improve the risk register and align their plan to some key risks, this was noted as a recent improvement that has made a difference.

2.2 Red Flagging (2)

Telling the business something that they should be worried about and should act upon.

Business improvement

Red Flagging

Horizon scanning

Business focus

Insights and benchmarking

Findings

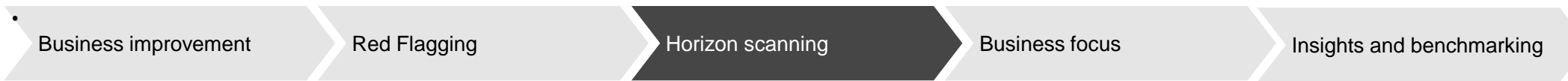
- Although BA have been involved at the outset of some projects, this was not standard across the Council and most stakeholders thought BA are more likely to get involved when something has gone wrong. Stakeholders felt BA could have a valuable contribution to projects if they were involved at their outset.
- Some stakeholders felt that BA could be slow to flag issues and are hampered by their escalation processes. BA could adopt a more flexible approach to Red Flagging depending on the style of the Directorate. A number of interviewees references examples of lengthy delays between starting a review and final reports being issued.
- The 2020/21 internal audit plan included only 255 out of 4656 days (5%) on what could be seen as the highest risk areas and of the 121 audits carried out in 2019/20, 70 were rated as low with no material issues. The Council has been reluctant in the past to reduce the level of effort devoted to key financial system which account for 705 days (15%) of the plan, even though there are very few findings in these areas. There has also been push back from some directorates on their involvement in key risk areas.
- The Head of Internal Audit is an Assistant Director and although she has direct access to the CEO and the CFO, stakeholders commented that her position in the organisation can make it more difficult to be heard and to receive directly information regarding strategic priorities.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings. Reference was made to historically receiving regular bulletins of completed reviews which would allow Members to request further information but that this had ceased.

Recommendations

- 2.2.1 BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives. They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.
- 2.2.2 BA should review their escalation processes to ensure they are fit for purpose and do not cause delays in the flagging of key issues, they should consider adopting a more informal/ flexible approach to Red Flagging depending on the style of the Directorate.
- 2.2.3 BA need to highlight more clearly the split of their work between high and low risk areas to Cabinet, the CLT and the Audit Committee to ensure the Council as a whole is satisfied that their work is focused on the key priorities for the Council (see recommendation 2.4.1)
- 2.2.4 The Council should consider how the internal audit function is positioned within the Council and whether there are opportunities to raise its profile.
- 2.2.5 BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.3 Horizon Scanning (1)

Predicting future areas of risk, concern and non-compliance.



Description and recommendations

Summary

Historically the main focus of BA's work has not been forward looking or focused on predicting future areas of risk, concern and non compliance.

There are a few examples of audits which are more forward focused but this is usually directorate-led rather than driven by BA. Most stakeholders felt that the Council was generally less mature in this area.

TIIA Rating

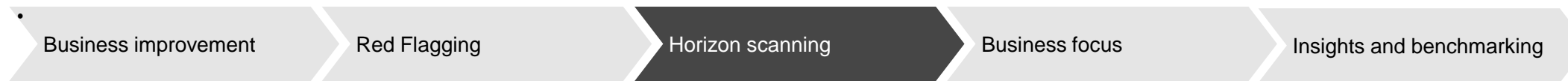
Aspiration	2.0
IA assessment	1.5
TIIA Evidence	1.0
Stakeholder assessment	1.1

Areas of good practice

- BA use a number of forums to keep up to date with new regulatory requirements and to understand what other functions are including in their audit plans. These include attendance at events organised by CIPFA, participation in special interest groups, Core Cities discussions, webinars and a number of fraud events.
- There is contingency in the internal audit plan to enable BA to be flexible to any new areas of risk or concern as demonstrated by their support during Covid 19.
- Stakeholders generally felt that there has been a change in style over recent months with BA improving the effectiveness of the function. The input BA had to create the new strategic risk register has helped to raise their profile and lift their work out of some operational areas into more strategic priorities.
- Subject/functional leads have been established and regular meetings take place with key contact officers. This approach was working particularly well within Adult Social Care.

2.3 Horizon Scanning (2)

Predicting future areas of risk, concern and non-compliance.



Findings

- The current audit plan is viewed as more of a formulaic/cyclical plan than forward looking. There are examples of audits which are more forward focused but this is usually directorate-led rather than BA driven. Most stakeholders felt that the Council was generally less mature in this area.
- A number of interviewees felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks.
- There is no reference or debate about sector trends or internal audit trends in BA's discussions with stakeholders and although BA are linked into a number of forums these do not seem to have contributed to new areas of focus for the annual plan.
- BA do not, as a matter of course, sit on committees focussing on transformation or steering committees to hear what is happening on a real-time basis and influence plans as they emerge.

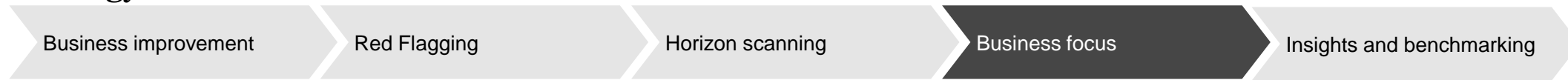
Recommendations

If the Council's aspiration for this attribute is to be closer to best practice the introduction of new processes would be beneficial:

- 2.3.1 The balance of the audit plan would need to change and both BA and the directorates need to work more closely together to identify areas of future risk which can be considered for inclusion in the plan.
- 2.3.2 BA, working with CLT and AC, should consider introducing a more extensive quarterly process to the audit planning cycle. An annual plan would be still be appropriate but more contingency and a greater expectation of flexing the plan would be beneficial.
- 2.3.3 The CLT could facilitate BA's involvement on key steering committees and transformation projects. BA will also need to secure a seat at the table in the post Covid-19 lessons learned work and use that to influence their future work programme.
- 2.3.4 BA should consider widening their network internally and linking up with organisations from other sectors.
- 2.3.5 BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly.

2.4 Business Focus (1)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.



Description and recommendations

TIIA Rating

Summary

Business Focus was the highest rated attribute by many stakeholders.

The internal audit plan was developed in consultation with the CLT and stakeholders valued the flexibility in the plan to adapt to changing priorities. This was seen in relation to COVID 19 where internal audit devoted considerable support to the Council particularly in relation to the validation checks for the small business grant scheme and new PPE suppliers.

Stakeholders would like BA to be more strategic in their approach and the work they deliver but recognised that it is hard for the function to be as strategic as they might wish as frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities, and there has historically been inconsistent support from the whole CLT and varying levels of engagement from Directors.

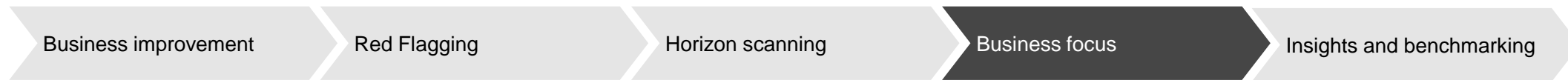
Aspiration	3.0
BA assessment	1.5
TIIA Evidence	2.3
Stakeholder assessment	1.7

Areas of good practice

- The internal audit plan was discussed and agreed with the CLT and the Audit Committee and Stakeholders valued the opportunity they were given to input and challenge the plan.
- Stakeholders noted that BA were very responsive and quick to change priorities if needed. Their response to the Covid 19 challenges and support with developing the strategic risk register were recognised by a number of stakeholders, one commented – “the team are very switched on and can turn things around quickly”.
- BA have regular liaison meeting with audit contact officers to discuss progress on planned jobs, emerging risk and any issues encountered.
- The stability of staff and continuity of staff working with the same teams within the directorates was valued by some stakeholders.
- The partnership way of working with Adult Social Care (ASC) works well. In addition to the liaison meetings with contact officers BA:
 - maintain awareness of changes to legislation.
 - held monthly meetings with the ASC Project Lead for the implementation of Eclipse.
 - developed a quarterly Emerging Issues report for ASC which includes highlighted findings from completed audits. This report is provided to the chair of the ASC risk Board for discussion, acceptance and distribution to ASC management.

2.4 Business Focus (2)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.



Findings

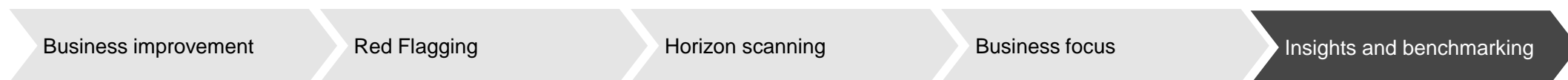
- Currently the working style of BA is viewed as quite traditional and their activities more focused on tactical issues rather than strategic areas. Stakeholders commented that there was limited coverage of more significant areas which could have a greater impact. There was surprise noted amongst some interviewees that BA had not been more central to some of the Council's major historic or current challenges (such as Commonwealth Games capital projects, waste dispute) or some of its major partnerships (such as LEP activity).
- The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity so BA are not currently leveraging the work of other LODs so may be undertaking work on risks that are well managed or may not be focussing enough effort on risks that are not being adequately managed or mitigated within the Council.
- BA came across as passionate about the work they have done and its impact in the TIIA workshop, but many stakeholders commented that this enthusiasm is not coming across strongly enough in the CLT, the Audit Committee or within the interactions with each Directorate.
- BA's relationships with each directorate varied considerably; this was reflected in the range of scores for 'Business Focus'. The successful partnership they have developed with ASC was not replicated across the other directorates.
- The function don't get regular feedback and the metrics reported to Audit Committee are focused on audits completed and volume of recommendations.

Recommendations

- 2.4.1 See findings 2.2.3 and 2.3.1 for recommendations on redressing the balance between historic and tactical work to forward-looking and strategic work.
- 2.4.2 Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.
- 2.4.3 Where BA are not involved in transformational activities/steering committees they should work with the other lines of defence to ensure key risks are adequately mitigated.
- 2.4.4 Use the positive outputs from the TIIA project to promote what they have achieved and use the TIIA methodology to regularly test and report on the value of their contributions, using the current scores as a benchmark.
- 2.4.5 Use their promoters to help raise their profile with the less engaged directorates. A number of directors commented that they would be supportive of this approach
- 2.4.6 Set up regular meetings with each directorate to obtain feedback on key projects, discussion on 'contribution' and 'impact' for the previous period, update on changes to significant risks and to discuss the audit plan for the next period.

2.5 Insights and Benchmarking (1)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.



Description and recommendations

TIIA Rating

Summary

Insights and benchmarking was seen by most stakeholders and BA as the weakest of the five TIIA attributes.

It was an area where stakeholders felt BA could add real value to the organisation and where BA have used benchmarking these projects have been really valued by the directorates (which is why the TIIA evidence rating is above the other ratings) but that it was not being done consistently enough.

Aspiration	2.0
IA assessment	1.0
TIIA evidence	1.5
Stakeholder assessment	0.8

Areas of good practice

- The team use technology to provide a greater level of insight to their findings, stakeholders commented that the use of data analytics and the data warehouse is good and recognised as being much better than average for an in-house function in the sector.
- In relation to fraud, BA have developed a schedule of routine data extraction reports to proactively detect potential error or anomalies (e.g. benefit fund and duplicate payments) and internal audit contribute to thought leadership across a number of directorates.
- All reports are rated using the same scale to provide more context and impact analysis.
- There were two examples noted from our meetings where using benchmarking and was valued:
 - BA benchmarked current processes against the Information Assurance Maturity Model Assessment Framework (a good practice guide published by National Cyber Security Centre (NCSC)). This identified significant weaknesses in the Council's current processes and lead to an improvement programme to address significant weaknesses.
 - The audit of Enablement Services for the Adult Social Care director was cited as a particularly valued piece of benchmarking. The audit was undertaken to assist management in identifying the current service delivery working patterns to assess whether they met the needs of the business and support the delivery of an efficient value for money service.

2.5 Insights and Benchmarking (2)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.

Business improvement

Red Flagging

Horizon scanning

Business focus

Insights and benchmarking

Findings

- BA are good at spotting issues but they can be more focused on the detail and do not necessarily see the 'real big picture'. Stakeholders commented that they typically playback what they have been told rather than provide robust and insightful findings.
- Stakeholders valued the function's data warehouse skills but commented that this is also a single point of failure and should be shared and accessed more broadly.
- The team don't use external 'Subject Matter Experts' or specialists to supplement the skills within the team when needed (such as GDPR, Cyber, Health and Safety, Supply Chain Risk, Emerging Technology). This is increasingly common in the sector given the complexity of emerging risks.
- Although some stakeholders valued the consistency of staff others felt that BA would benefit from more churn within the function which would bring fresh thinking, new insight and new skills. There was a concern that the team was too indoctrinated in 'the Birmingham way' or the way that individual Directorates did things.
- Some interviewees articulated that they did not know if BA had a methodology and, if they did, were not aware of it or how that drives the audit approach for individual reviews which could vary significantly.

Recommendations

If the Council's aspiration for this attribute is to be closer to best practice BA should look at the skills within the team and:

- 2.5.1 Consider using subject matter experts (either internal or external), particularly for high risk reviews where they don't have the best skills within the team. This will improve the quality of deliverables.
- 2.5.2 Devote more time to report writing to better articulate the root cause and impact of every finding. Peer review of reports would also help.
- 2.5.3 Work more closely with the directorate to develop robust findings which will deliver tangible improvement to the function or process.
- 2.5.4. Consider rotation of staff (particularly in directorates with less engagement) and how to bring in new resources to the function on a more regular basis.
- 2.5.5 Consider how the benefits of the data warehouse can be shared and accessed more broadly.
- 2.5.6 Include benchmarking as a regular part of each audit review (where appropriate) to provide additional insight to the review. This could be against an external standard or another organisation/s or between council directorates
- 2.5.7 Roll out a campaign to increase awareness of the function's methodology and operating protocol. This could involve a one-off element and be incorporated into induction training and refresher training for particular roles.

Appendices:

Appendix 1: TIIA methodology

Bringing it together

The Total Impact of Internal Audit

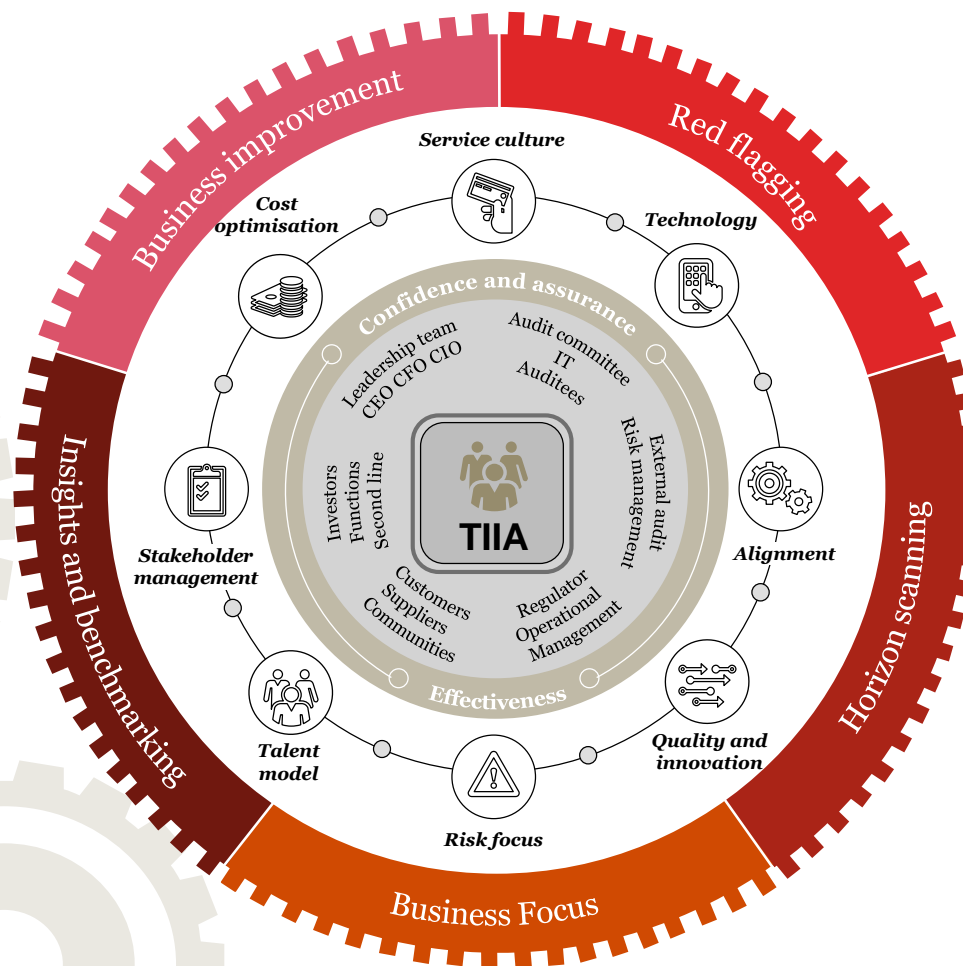
TIIA is a PwC framework for directing and measuring the holistic contribution of Internal Audit.

Typical reviews of an internal audit function focus on the measurable 'inputs' for the function such as the existence of policies, procedures, quality standards, qualifications.

We considered the existence and effectiveness of the areas set out overleaf as the 'effectiveness' element of the Total Impact of Internal Audit.

However, in accordance with our scope of work we focussed the greater part of our efforts on considering the **outputs, outcomes and value-added contribution** of the audit function. This is described in the following page on 'Contribution'. The following pages set out the five key elements used to assess the audit function's contribution.

Together the elements informed our view of the Total Impact of Internal Audit.



Delivering the IA mandate

Effectiveness

Business alignment

- Expectations are clearly articulated and communicated
- Internal audit defines and articulates its mission and value
- Metrics are developed to measure progress towards the stated mission and vision

Stakeholder management

- Stakeholders perceive IA as operationally excellent and, where appropriate, as a provider of strategic support
- An IA strategic plan exists that captures expectations, communication strategy, and timelines
- IA coordinates with business units to define expectations and share audit scopes and seeks function-specific feedback regularly

Talent model

- An appropriate mix of core internal audit and subject matter specialists (including those with business acumen)
- A continual learning and development model exists

Technology

- Data analytics/continuous auditing are deployed, allowing for alignment with business areas, providing efficiency/increased coverage in testing and early warning of risk indicators
- Data is utilised to provide deep and persuasive intelligence on business issues and observations/recommendations

Risk focus

- The audit plan is based on both a top-down, strategic approach and bottom-up approach to business risks
- The audit plan is continuously updated to respond to changes in the company and the external environment
- Appropriate time and effort are spent on assessing the key risks of the enterprise

Cost effectiveness

- Use of internal and external resources, varying staff levels and geographical locations to increase efficiency
- Productivity is actively measured and managed
- Audit methodology and processes are standardised and simplified to be cost effective

Quality and innovation

- Quality standards have been defined
- Formal quality reviews are regularly completed to identify improvement opportunities
- Innovation is embedded in the culture of internal audit and is consistently fostered and rewarded

Service culture

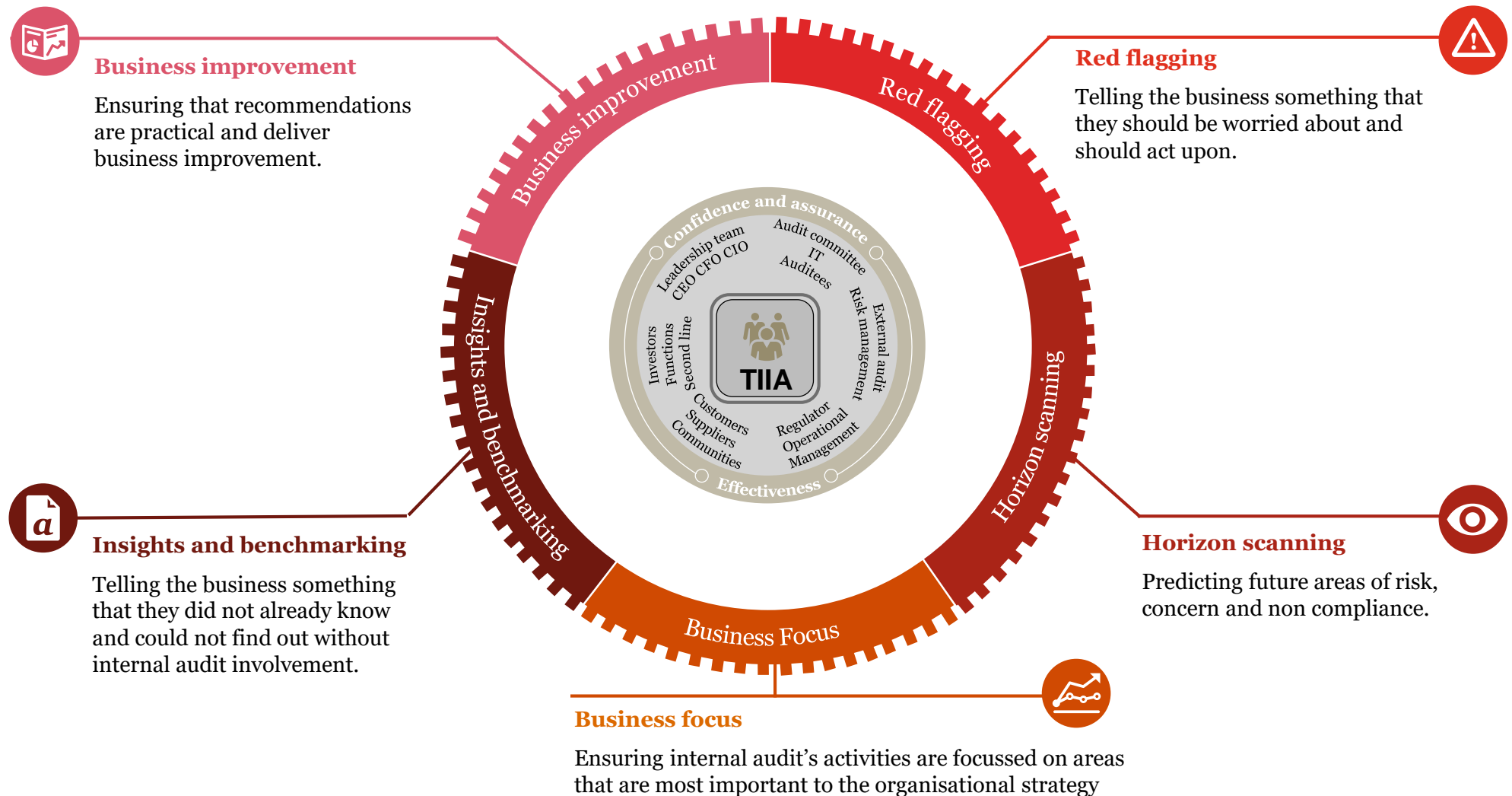
- Metrics measure customer satisfaction based on stakeholder expectation
- All services provide balance of objectivity and value



Introducing Contribution

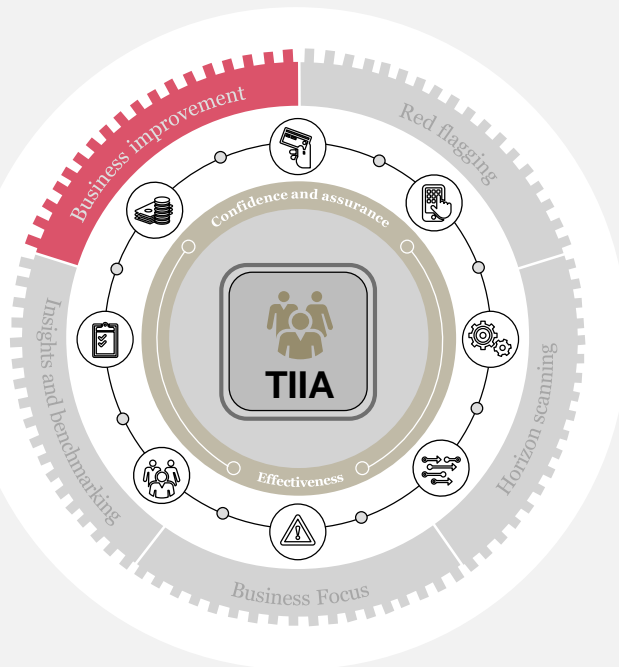
Contribution

Total Impact = Effectiveness + Contribution



Business improvement

Total impact of Internal Audit



Business improvement

Agree actions that are practical and provide support to deliver business improvement



Measures

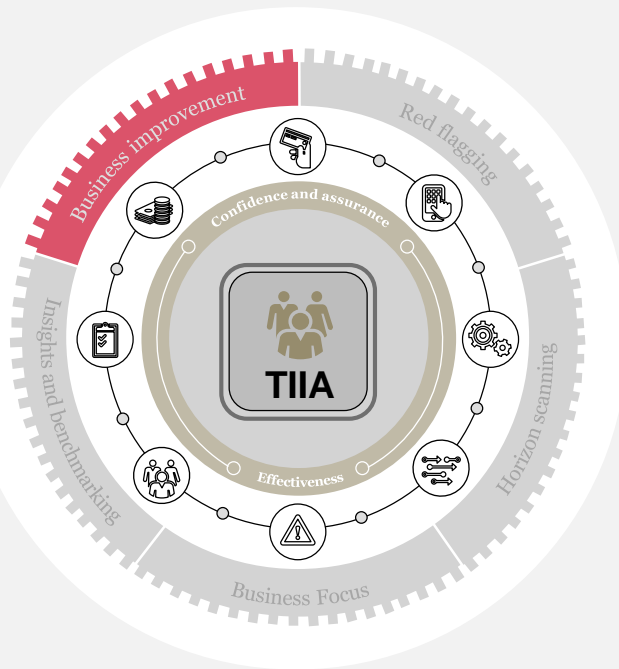
-  Protect and improve business value
-  Engage successfully
-  Impact KPIs
-  Qualify and quantify

Types of Evidence

- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Business improvement

Total impact of Internal Audit



Business improvement

Agree actions that are practical and provide support to deliver business improvement



Measures

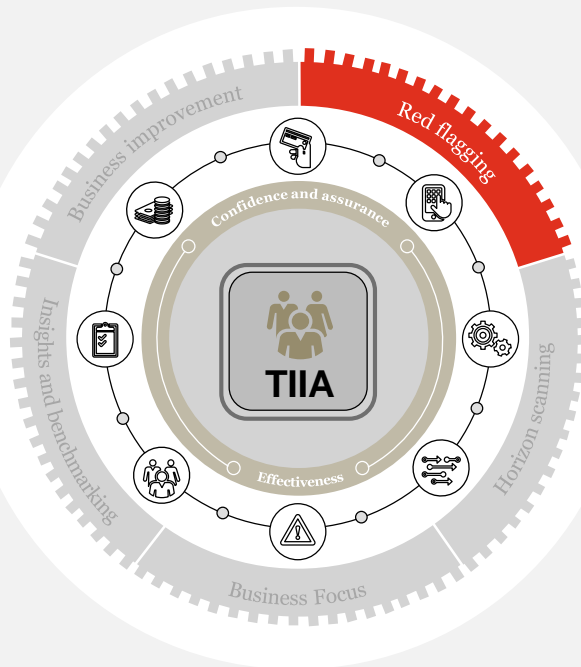
-  Protect and improve business value
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Types of Evidence

- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Red Flagging

Total impact of Internal Audit



Red flagging

Assessing the current business and telling them in a timely manner something that they should be worried about and should act upon



Measures



Detect



Validate



Support



Escalate



Learn

Types of Evidence

- Escalations
- Critical audit findings / red reports
- Data analytical outputs
- Board / AC briefings and papers
- Change initiatives
- GRC technology audit trails
- Remediation support for the implementation of critical findings

Horizon Scanning

Total impact of Internal Audit



Horizon scanning

Forward looking to predict future areas of risk, concern and non compliance



Measures



Predict



Navigate



Equip and prepare



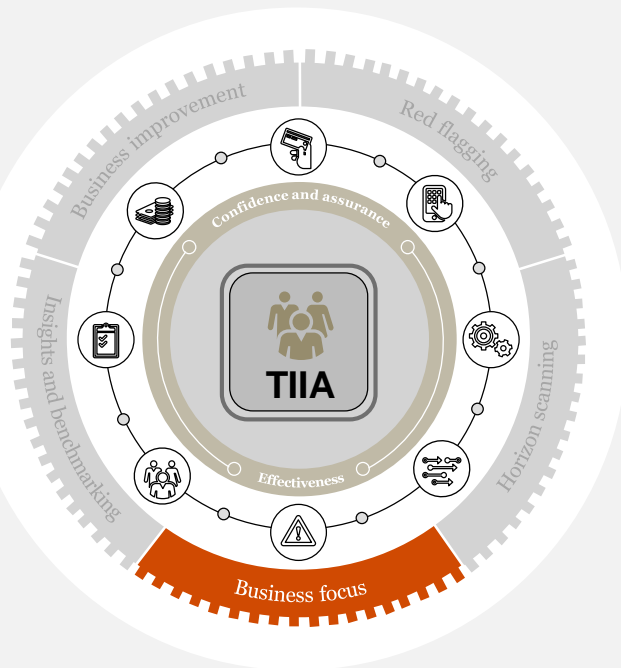
Exploit

Types of Evidence

- Producing discussion papers/white papers
- Audit planning takes account of external megatrends
- Connections with other organisations with similar characteristics
- Attendance/contributions at steering committees / transformation roles

Business focus

Total impact of Internal Audit



Business focus

Aligning Internal Audit activities to the areas that are most important to the business



Measures



Transformation



Principal risks



Coordinated Assurance (3LoD)



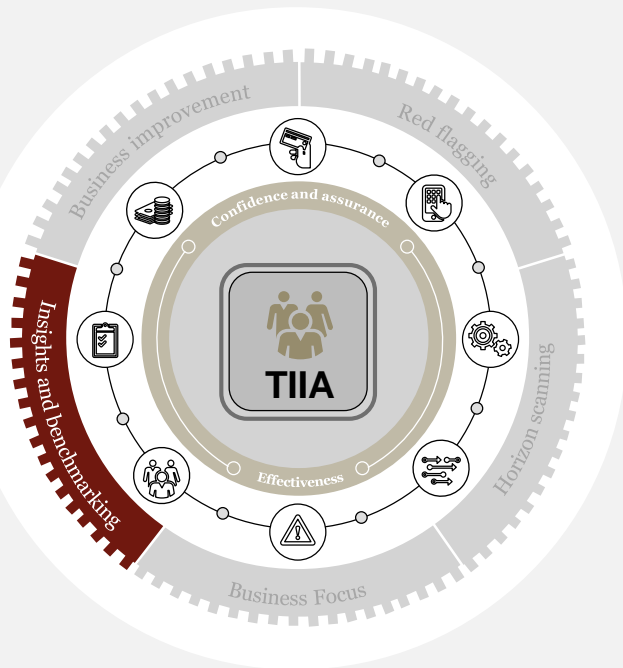
Business partner

Types of Evidence

- Alignment of activities and IA plan to Principal Risks
- Involvement in key strategic activities, such as business planning, deals etc.
- Feedback from stakeholders
- Engagement activities showing dialogue with business stakeholders
- Coordinating work with other lines of defence/ integrated assurance activities
- Transformation / steering committee roles

Insights and benchmarking

Total impact of Internal Audit



Insights and benchmarking

Telling the business something that they did not already know about the organisation and its people to create transparency

Measures



Discover



Diagnose



Illuminate



Prioritise (Macro focus not micro)

Types of Evidence

- Anecdotal evidence of use of external benchmarks
- Feedback from stakeholders
- Data analytical outputs / technology use
- Discussion papers
- Accepted suggestions
- Comparisons between business units/directorates

Appendix 2: Stakeholder interviews

Stakeholder interviews

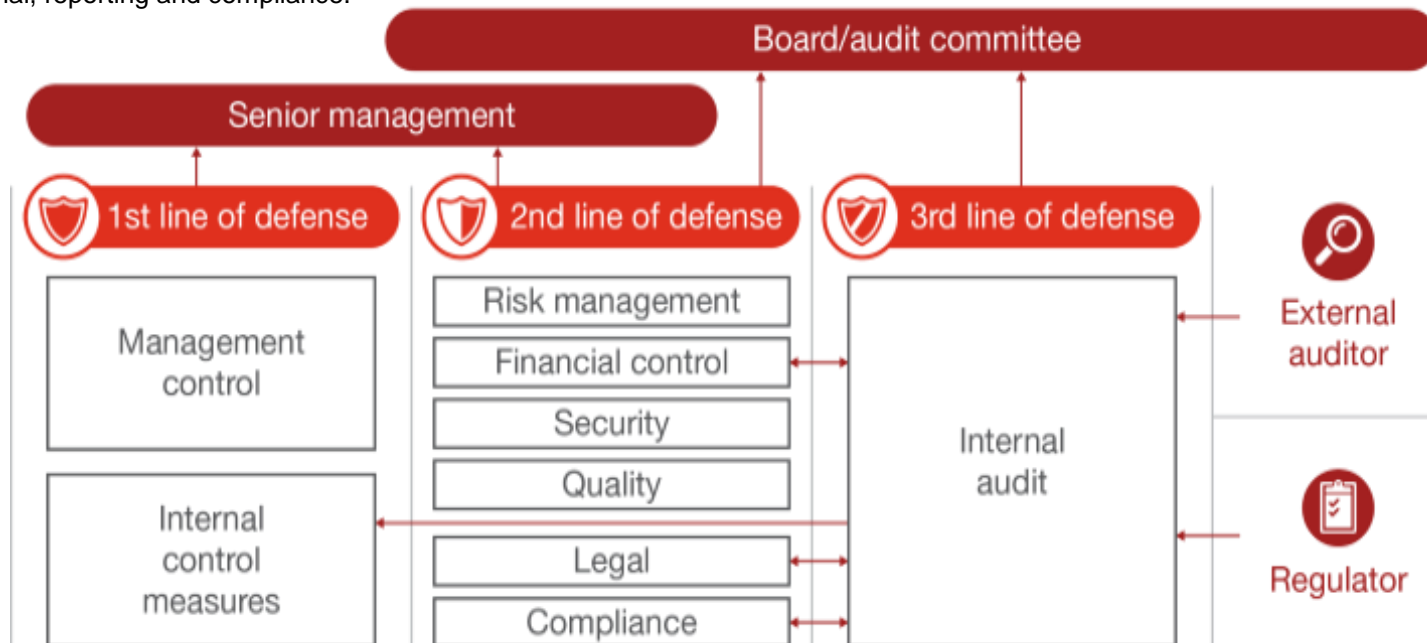
Name of Attendee	Stakeholder	Role
Graham Betts	Council Leadership Team	Acting Chief Executive and Adult Social Care
Rebecca Hellard	Council Leadership Team	Chief Financial Officer
Tim O'Neil	Council Leadership Team	Director Education and Skills
Peter Bishop	Council Leadership Team	Director, Digital and Customer Services
Ian Macleod	Council Leadership Team	Director, Inclusive growth
Dawn Hewins	Council Leadership Team	Director, Human Resources
Jonathon Tew	Council Leadership Team	Assistant Chief Executive
Robert James/Chris Jordan	Council Leadership Team	Director, Neighbourhoods
Sarah Dunlavy	Other Stakeholders	Assistant Director Audit and Risk Management
Fred Grindrod	Audit Committee	Chairman Audit Committee - Labour
Paul Tilsley	Audit Committee	Audit Committee – Liberal Democrat
Merion Jenkins	Audit Committee	Audit Committee - Conservative
Brigid Jones	Cabinet	Deputy Leader

Appendix 3: The three lines of defence

The Three Lines of Defence (3LoD) summarised

To ensure the effectiveness of an organisation's risk management framework, those charged with governance need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. PwC and the Institute of Internal Auditors endorse the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

1. The first line of defence – functions that own and manage risk. Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and controls.
2. The second line of defence – functions that oversee or specialise in risk management and compliance. The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.
3. The third line of defence – functions that provide independent assurance, above all internal audit. Internal audit (though increasingly other external providers of assurance too) form the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance on those charged with governance. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.



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Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Background Information

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation as part of an ongoing quality assurance and improvement programme.

There are two possible approaches to external assessments outlined in the standard: a full external assessment; or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- possess a recognised professional qualification;
- have appropriate experience of internal audit within the public sector / local government;
- have detailed knowledge of leading practices in internal audit; and
- have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to the provision of service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external peer reviewer. The key benefit to this approach is cost. The Chartered Institute of Public Finance (CIPFA) offer a service to provide external assessments and can undertake a full quality assessment at an approximate cost of £30K. The Chartered Institute of Internal Auditors (CIIA) also offer a similar service at an approximate cost of £14k. They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes around 5 working days and costs approximately £12.5k (costs based on quotes obtained for PSIAS reviews at Birmingham City Council).

There are clear financial savings to members of the Core Cities group by adopting a peer review approach. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process and Indicative Timescales

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain:
 - relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives);
 - details of responsibilities, resources, structure and activities;
 - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
 - the completed self-assessment and supporting evidence; and
 - evidence of how quality is maintained, and performance measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff and stakeholders to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should approximately 5 days in total.

Proposed schedule

Liverpool review Birmingham

Bristol review Liverpool

Manchester review Sheffield

Glasgow review Leeds

Leeds review Manchester

Sheffield review Nottingham

Nottingham review Bristol

Birmingham review Glasgow