

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **Audit Committee**

Report of: **Assistant Director, Audit and Risk Management**

Date of Meeting: **30th March 2021**

Subject: **Birmingham Audit – Internal Audit Plan 2021/22**

Wards Affected: All

1. Purpose of report.

1.1 To gain approval of the 2021/22 proposed internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the methodology and assumptions applied in developing the 2021/22 internal audit plan;

2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the risking process; and

2.1.3 subject to any agreed adjustments, approve the proposed plan.

3. Summary of Key Issues

3.1 The estimated number of audit days available for 2021/22 is 4427.

3.2 The audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control.

3.3 The plan is dynamic and is constantly reviewed and updated, based on discussions and feedback received, to reflect the changing risks faced by the Council.

3.4	The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
3.5	Progress in delivering the audit plan, together with any key issues identified, will be reported to future Audit Committee meetings.
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 Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.
5.	Risk Management & Equality Analysis Issues
5.1	Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.
5.2	We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.
6.	Compliance Issues
6.1	Decisions are consistent with relevant Council Policies, Plans or Strategies.

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Birmingham Audit –Internal Audit Plan 2021/22

30th March 2021

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1. Background

- 1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:
- Accounts and Audit Regulations 2015;
 - Fraud Act 2006;
 - Social Housing Fraud (Power to Require Information) Regulations 2014;
 - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
 - Public Sector Internal Audit Standards (PSIAS).
- 1.2 The annual audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.
- 1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources, such as the Council's external auditor.

- 1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. During last year we completed a Total Impact Review. The objective of the review was to measure the holistic contribution of the Internal Audit function and identify a development plan to maximise the value provided by the service. The findings from this work were reported to the Audit Committee as part of the 2020/21 Half Year Report. During 2021/22 we will continue to take forward the findings from this review and build upon the effectiveness of the service.

2. Quality Assurance

- 2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.
- 2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013.
- 2.3 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. At the last Committee meeting, February 2021, Members agreed the approach and terms of reference for our next external assessment. This will be completed during 2021/22. The result of this review will be reported to Committee once finalised.

3. Internal Audit Plan

- 3.1 Our estimated number of productive days available for 2021/22 is 4427. This compares to 4664 in 2020/21. This reduction of 237 days principally relates to the suspension of recruitment to one vacant school auditor post as part of the Council's corporate workforce savings programme.
- 3.2 As part of our planning process we have undertaken a risk and assurance mapping exercise across the whole of the organisation. This involves identifying the potential risks that may impact on the delivery of key objectives and priorities, the systems of governance, and financial controls. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise, we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Directors / Assistant Directors.
- 3.3 The COVID-19 restrictions have had a significant impact on the delivery of the 2020/21 audit plan. Our focus during the year has been on assisting the Council in responding to the pandemic and continuing to maintain critical services. Inevitably this has resulted in some restriction and limitation to the scope of our work during the year. The results of our work during 2020/21 will be reported to Committee, together with our annual opinion on the systems of internal control, within our Annual Report. The planned areas of audit activity that we have been unable to complete during 2020/21 have been fed into the risk assessment when developing the 2021/22 audit plan.
- 3.4 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area, we liaise with the Council's external auditors. We have allocated 705 days for the main financial systems work, including the review of IT controls, in 2021/22 the main areas we intend to cover are:
- Payroll
 - Accounts Payable

- Accounts Receivable
- BACS
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Direct Payments
- Carefirst / Eclipse

3.5 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team, complete the school visiting programme and for undertaking chargeable work.

3.5.1 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2021/22 plan we have allocated 830 days for this work (this excludes work on application-based fraud e.g. Social Housing, Council Tax, NNDR etc.). We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral, we provide support and guidance to managers to ensure the necessary action is completed.

3.5.2 540 days have been allocated for the completion of school visits during 21/22. This is a reduction of 180 days from the 720 days allocated in 2020/21. The school visiting programme is risk based to ensure we target our resources effectively.

- 3.5.3 Chargeable work includes audit reviews completed on behalf of the Birmingham Children's Trust, Acivico, and grant certification. The contract for the provision of internal audit services to the Birmingham Children's Trust ended on 31st March 2021. We are currently in negotiations with the Trust to specify the interim arrangements that they require until they issue an invitation to tender. We have expressed our desire to submit a bid to continue as the Trust's internal auditors.
- 3.6 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
 - strategic alignment to organisation priorities;
 - materiality;
 - sensitivity/reputational risk;
 - assessment of management controls;
 - management concerns;
 - assurance based on internal audit work / knowledge and how recent that was;
 - inclusion in the corporate risk register;
 - assurance based on scrutiny reviews;
 - assurance based on external audit or other inspectorate work and how recent that was; and
 - assurance gained from other sources, including that gained from operational and performance management.
- 3.7 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities.
- 3.8 The plan also includes a proportion of time that has been set aside to cover contingencies and follow-up work. This helps us 'flex' the plan and respond to emerging issues during the year and ensure that significant audit issues are actioned.

- 3.9 A summary of the 2021/22 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. A detailed plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.
- 3.10 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
- 3.11 Any significant updates to the plan will be reported to the Audit Committee. Progress in delivering the plan, together with any significant issues identified, will also be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

Appendix A

Internal Audit Plan Summary

	19/20		20/21		21/22	
	%	Days	%	Days	%	Days
Number of Audit Days in Annual Plan	100%	4691	100%	4664	100%	4427
Main Financial Systems	15%	725	15%	705	16%	705
Business Controls Assurance	38%	1770	38%	1780	39%	1711
Investigations	18%	830	18%	830	19%	830
Schools (Non Visits)	1%	60	1%	30	1%	42
Schools (Visits)	15%	720	15%	720	12%	540
Follow up Work	4%	175	4%	175	4%	175
Ad-hoc Work / Contingency	6%	286	6%	299	6%	289
Planning & Reporting	3%	120	3%	120	3%	130
City Initiatives	0%	5	0%	5	0%	5

Appendix B

Internal Audit Plan 2020/21

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	705
Business Controls Assurance		
Work in Progress b/fwd. from 2020/21	50	
IT Related Non-Financial Systems Work	370	
Data Analysis	200	
Corporate Risk Management Facilitation	50	

Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	935
<u>Adults Social Care</u>		
Occupational Therapy DFG	20	
Transitions to Adulthood	20	
Day Centres	15	
Assessment & Support Planning	20	
Commissioning	20	
Liberty Protection Standard	10	
Placements	20	125
<u>Education and Skills</u>		
Safeguarding Corporate Overview	30	
Home to School Transport	15	
Commissioning & Contract Management Framework	20	
SEND - Transition from Commissioning Independent Provision to LA School based Provision	6	
Pre 16 Careers Service Delivery Arrangements (LA & Schools)	15	
Post 16 Providers - NEETS & Not Knowns Performance	15	
Birmingham Children's Trust – Contract Management	20	
Safeguarding & Development – BCSB	30	151
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		

Accountable Body	30	30
<u>Neighbourhoods</u>		
Homelessness	15	
Waste Management	25	
HMO Licensing	15	
Fleet Management	20	
Housing Visiting Programme	10	
Bereavement Services	10	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	295
<u>Partnerships, Insight and Prevention</u>		
Public Health	30	
Resilience	20	
Project Management	30	80
		1723
Investigations		
Reactive investigations	430	
Proactive work	200	
Fraud Awareness	200	830
Schools - Non Visits		
Themed Work	30	
Responding to the Challenge of Improving Financial Management in Schools	12	42
Schools - Visits	540	540
Follow Up Work		175
Ad Hoc Work / Contingency		289
Planning and Reporting		130

City Initiatives		5
TOTAL		4427