

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>16<sup>th</sup> December 2019</b>
<b>Subject:</b>	<b>Birmingham Audit - Half Year Update Report 2019/20</b>
<b>Wards Affected:</b>	<b>All</b>

<b>1.</b>	<b>PURPOSE OF REPORT</b>
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 2019/20.
<b>2.</b>	<b>RECOMMENDATIONS</b>
2.1	Members are asked to note the level of audit work and assurances provided.
<b>3.</b>	<b>BACKGROUND</b>
3.1	The annual audit plan was approved by the Audit Committee in March. The Audit Committee's role includes reviewing the ongoing effectiveness of internal audit and monitoring delivery of the agreed plan.
3.2	The key messages contained within the report are: <ul style="list-style-type: none"><li>• the Internal Audit service has sought to add value to the organisation;</li><li>• 36% of planned jobs have been delivered. We aim to complete 95% by 31st March 2020;</li><li>• 104 final reports have been issued to date. 2 reports were given a high risk rating;</li><li>• 24 social housing properties have been recovered to date; and</li><li>• 5 grant audit certificates issued and expenditure monitored on 3 European Grants.</li></ul>
<b>4.</b>	<b>LEGAL AND RESOURCE IMPLICATIONS</b>
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 2019/20**

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16<sup>th</sup> December 2019

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## 1. Background / Annual Opinion

- 1.1 The 2019/20 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 The Council continues to go through significant change. 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 2019/20 will be based on the following sources of assurance:



- 1.3 The 2019/20 audit plan was approved by the Audit Committee at its March 2019 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 and on working in an innovative and collaborative way with managers; to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the first half of 2019/20 include:

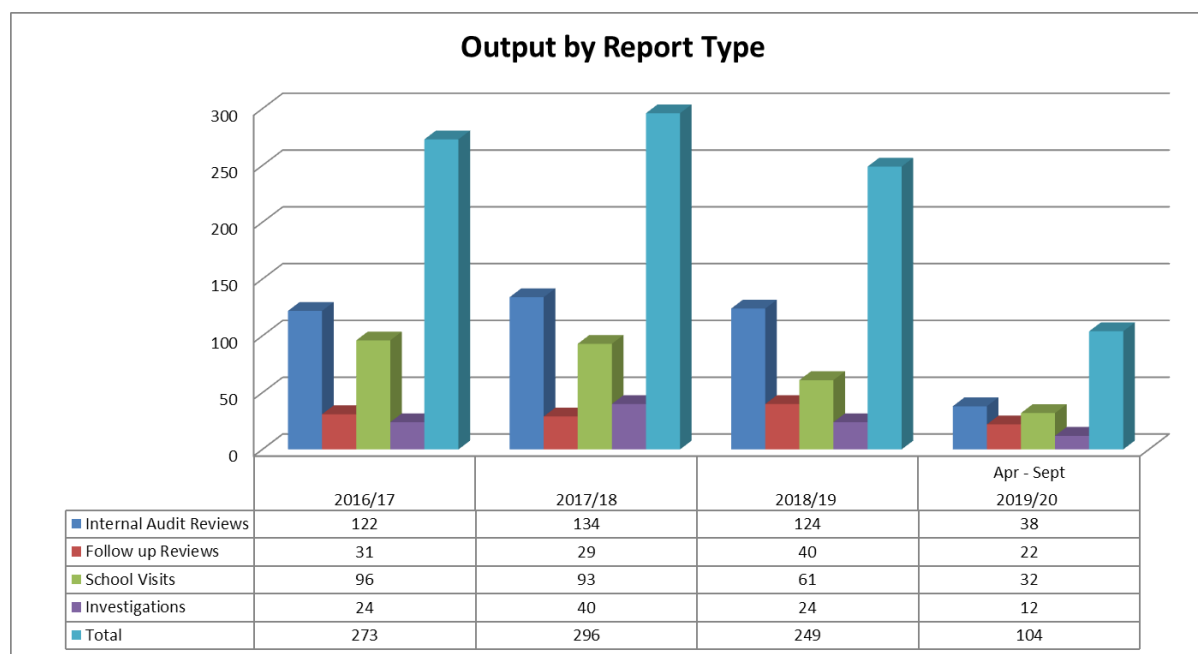
- Ongoing work with the Children's Directorate Finance and Governance Group to develop a more focussed approach to support the challenge of dealing with financial management in schools.
- Continued collaboration with the Quality, Impact & Outcomes Sub Group (of the Birmingham Safeguarding Children Board).
- Partnership working with the Education and Skills Directorate to undertaking a Directorate wide review of safeguarding to establish whether safeguarding is embedded.
- Contributing to the Directorate working party for managing the issues relating to Travel Assist, in particular the improvement of controls and the management of risk.
- Ongoing support and guidance to the Appointee and Court Deputy Service, including assistance in developing a suite of new management information reports to assist managers in the delivery of key functions.
- Providing advice on the transition of the IT services back to the Council, including charging mechanisms, procurement, and the processing of BACS files.
- Inputting into the development of the Cyber Security Strategy to ensure the required improvements highlighted by the Local Government Association assessment of cyber security at the council are implemented, by using the National Cyber Security Centre guidance.
- Development of proactive antifraud tests that run on a daily basis, these tests compare:
  - new housing applications against Revenue records;
  - new revenue records (SPD) against the housing register;
  - new Council employees to outstanding Council Tax debts; and
  - new Council Tax debts against payroll.

- Provision of fraud awareness training and promotion of the Council's Anti-Fraud and Corruption Policy and Response Plan. We have also worked closely with the Council's Press Office and local news reporters to run a publicity campaign to heighten fraud awareness amongst the public and reinforcing the message of 'zero tolerance' through prevention, detection and deterrence.

### 3. Performance

#### 3.1 Outputs

3.1.1 During the first half of 2019/20 we issued 104 final reports. A comparison to 2017/18 and 2018/19 (full years) is given in the chart below:

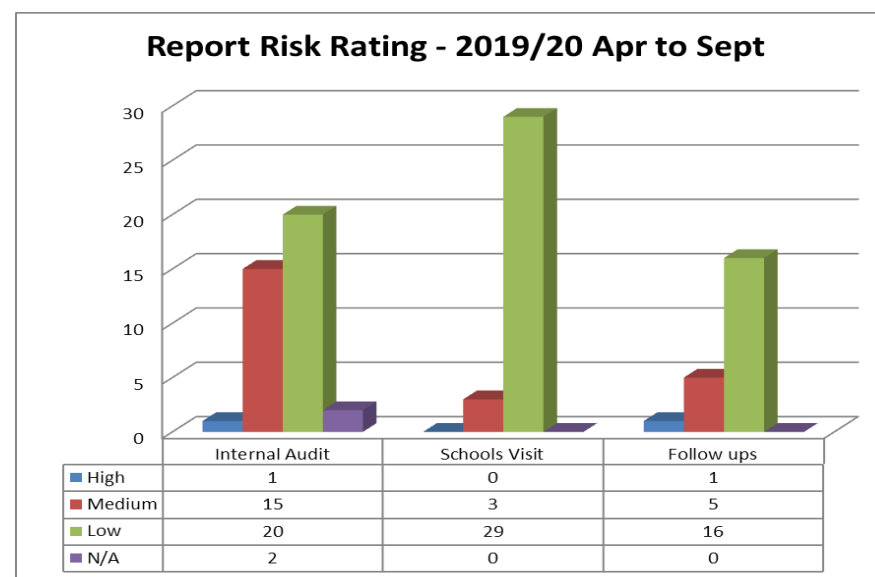
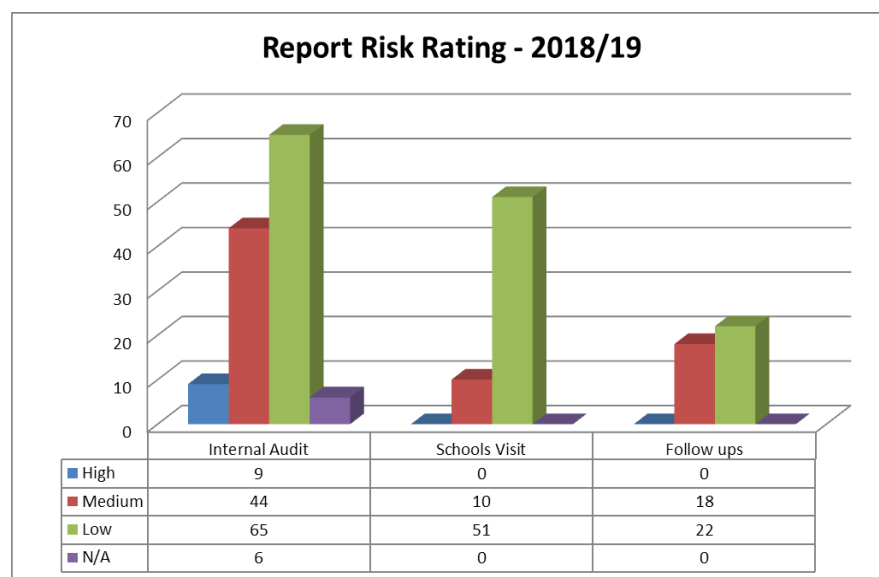


3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members are able to request copies of reports and receive further information. 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 - Non material 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 92 reports (38 Internal Audit, 32 School Visits and 22 Follow up reviews) issued, 2 were given a high risk rating, 23 had a medium rating, 54 had a low rating, and 2 (relating to advice and guidance) were not assigned a rating. An analysis of the report risk ratings, together with a comparison to 2018/19 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:

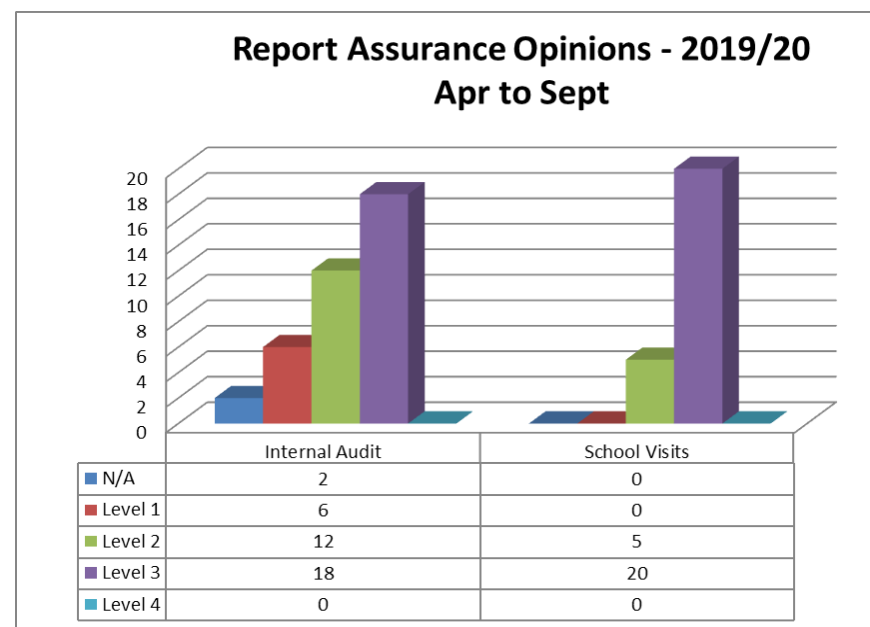
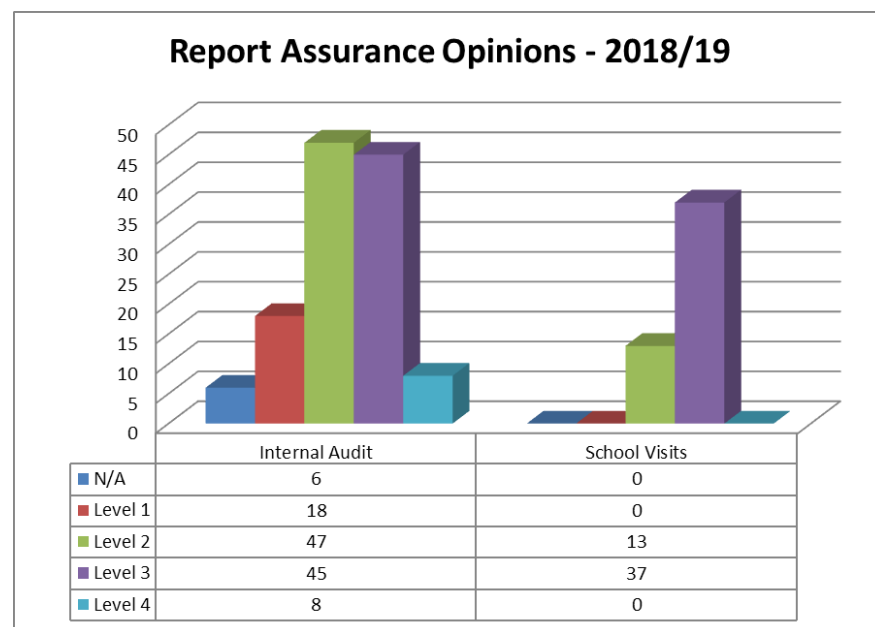
Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

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 2018/19 is given in the charts below. To date 60% of reports issued (including schools) this year have contained a negative assurance (Level 3 or 4) this compares to 52% for the whole of last year.





### 3.2 Plan Completion

3.2.1 As at 30<sup>th</sup> September 2019 we had completed 36% of planned jobs which is slightly below the target of 40%. We are aiming to complete 95% of the plan by 31<sup>st</sup> March 2020.

### 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:

	2017/18	2018/19	2019/20 (Apr – Sept)
Number of outstanding investigations at the beginning of the year	10	28	14
Number of fraud referrals received during the year	115	109	55
Number of cases concluded during the year	97	123	42
Number of investigations outstanding	28	14	27

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:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20 (Apr – Sept 18)</b>
Properties Recovered	87	64	24
Applications Cancelled	152	212	501
Housing Benefit Overpayment	£826,748	£858,202	£229,072
Council Tax Change	£1,077,096	£559,534	£242,943

(Note: 2017/18 increase in Council Tax due to a proactive exercise on exemptions)

#### **4. Resources**

- 4.1 Resources have remained unchanged, however 112 days has been lost from the schools audit plan due to an ongoing vacancy. A business case to appoint to this vacancy has been submitted.
- 4.3 We are continually reviewing our working practices, methodologies and structure to ensure they remain appropriate and support the organisation. We are committed to supporting the improvement of the Council and Finance Function. We have invested 85 days in the Council’s culture change Programme – ‘Owning and Driving Performance’ to help in driving the audit service forward.

## 5. Completion of the Internal Audit Plan 2019/20

- 5.1 The approved 2019/20 plan contains 4,691 productive days. The table below details completion as at 30<sup>th</sup> September 2019 and provides a comparison to 2018/19.

	2018/19				2019/20			
	Planned Days	%	Actuals	%	Planned Days	%	Half Year Actuals (Apr – Sept 19)	% (Apr – Sept 19)
<b>Number of audit days in approved plan @ 1<sup>st</sup> April.</b>	<b>4681</b>	<b>100%</b>	<b>4527</b>	<b>100%</b>	<b>4691</b>	<b>100%</b>	<b>1996</b>	<b>100%</b>
Main financial systems	730	16%	663	15%	725	15%	313	16%
Business controls assurance	1830	39%	1724	38%	1770	38%	711	36%
Investigations	830	18%	904	20%	830	18%	420	21%
Schools (Non Visits)	105	2%	110	2%	60	1%	55	3%
Schools (Visits)	720	15%	639	14%	720	15%	243	12%
Follow up work	150	3%	141	3%	175	4%	29	1%
Ad-hoc work	186	4%	203	5%	286	6%	142	7%
Planning & reporting	120	3%	143	3%	120	3%	83	4%
City initiatives	10	0%	0	0%	5	0%	0	0%

## 6. Grant Certification

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

<b>Grant Certificates Issued</b>
Troubled Families
Growth Hub
NTS Regional Investigations Team
Local Transport Capital Grant
Collaborative Fund Grant: Teaching School Core Grant Funding

- 6.2 I have also been formally appointed as the First Level Controller for a number of 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

## Reports Issued During the First Half of 2019/20

## Audit Reviews (38 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
Placement, Supported Living	High	Level 3				✓	✓					✓	✓
Carers Strategy	Medium	Level 3				✓	✓					✓	✓
Ladywood Regeneration - Competitive Dialogue - Post Advert	Medium	Level 3		✓	✓					✓			✓
Information Governance - Use of live data	Medium	Level 3		✓						✓			✓
The Birmingham and Solihull Youth Promise Plus Funding Programme Management Arrangements	Medium	Level 3				✓				✓		✓	
InReach	Medium	Level 3					✓						✓
Equalities and Cohesion	Medium	Level 3			✓	✓	✓						✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Joint Strategic Needs Assessment	Medium	Level 3			✓	✓	✓						✓
Prevention Agenda	Medium	Level 3			✓	✓	✓						✓
Direct Payments Annual reviews	Medium	Level 3			✓	✓						✓	✓
IT Project Governance	Medium	Level 3		✓						✓			✓
Adult Social Care Joint NHS Funding	Medium	Level 3				✓						✓	
Impulse and CACI Hub	Medium	Level 3			✓								✓
Review of Civic Catering	Medium	Level 3		✓								✓	✓
Housing Repairs Contract Management	Medium	Level 2					✓			✓			✓
IT Governance	Medium	Level 2		✓						✓			
Risk Management Arrangements	Low	Level 3		✓							✓		
Control Accounts	Low	Level 3		✓								✓	
WMS - Fleet Services Vehicle Maintenance Recharges	Low	Level 3		✓			✓					✓	✓
Agency - Contract Management and Compliance	Low	Level 3		✓						✓			✓
Integrated 3rd Sector Funding	Low	Level 2		✓								✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
SAP Review	Low	Level 2		✓	✓	✓	✓					✓	
Payroll - Wage Types Use of Delimited	Low	Level 2		✓								✓	
West Midlands Job Portal	Low	Level 2					✓						✓
Accounts Receivable - Invoice and Receipt of monies	Low	Level 2		✓								✓	
Commissioning, Supported Living	Low	Level 2				✓	✓					✓	✓
ICTD Strategy	Low	Level 2		✓						✓			
Schools - Surplus Balances	Low	Level 2			✓							✓	✓
Northgate Housing	Low	Level 2				✓	✓						✓
Car Parking - Civil Enforcement	Low	Level 2		✓									✓
Accounts Receivable - Creation of Business Partners	Low	Level 1		✓								✓	
NNDR - Retail Reliefs	Low	Level 1		✓								✓	
Accounts Payable - Payments Above £75k	Low	Level 1		✓								✓	
Verify Earnings & Pensions (VEP) Service	Low	Level 1				✓	✓					✓	
Payroll Monthly Reconciliation Report	Low	Level 1		✓								✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Council Tax - Citizen Access Exception Reports	Low	Level 1				✓	✓					✓	
Multi Agency Engagement with the ICPC	N/A	N/A		✓									✓
Improving Financial Management in Schools - First Progress Review	N/A	N/A			✓							✓	

**Follow up Reviews (22 Reports):**

Title	Risk Rating Council	RAG
Neighbourhoods Directorate Budget Management & Monitoring - Follow Up	High	
Non-HRA Property Transactions Follow Up	Medium	
Safeguarding - Adults	Medium	
Housing Allocations Follow-up	Medium	
Information Governance - Data Quality Follow-up	Medium	
IT Emerging Issues IT Governance Housing Repairs Follow-up	Medium	
Third Party Governance - Information Security Follow-up	Low	
IT Infrastructure Mobile Phones Follow-up	Low	
Egress - Secure Email Follow-up	Low	
Web Services Follow-up	Low	



<b>Title</b>	<b>Risk Rating Council</b>	<b>RAG</b>
Corporate Payroll - Allowances Follow-up	Low	
Information Governance - Tenant Management Organisations Follow-up	Low	
Council Tax Student Discounts	Low	
Wireless Network	Low	
IT Emerging Issues Fake E Mail Invoice Scam	Low	
Information Governance - Environmental Health	Low	
IT Emerging Issues Neighbourhoods Birmingham Wellbeing	Low	
IT Asset and Configuration Management Follow Up	Low	
IT Infrastructure DMZ Follow Up	Low	
Information Governance - Local Government Transparency Code Follow Up	Low	
Rent Collection & Charges - Arrears Recovery	Low	
Housing Rents - Former Tenancy Arrears	Low	

### **Investigations (12 Reports)**

### **School Visits (32 Reports including 7 school follow ups reports)**

## Summary of Significant Findings

### Red High Risk Reports

During the first half of 2019/20 we issued 2 red reports, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

#### Placement, Supported Living

**Council Risk Rating: High Assurance: Level 3**

**RAG:**



Supported Living is provided to help service users to live independently and safely as an alternative to living in residential accommodation. At the request of the Adults Social Care Directorate a review of the supported living pathway for Birmingham residents was completed.

At the time of our work we raised concerns that impact on the directorate's ability to deliver the required outcomes, including maximising independence, providing a value for money service and the achievement of financial savings. These include:

- many of the supported living packages not being reviewed for a number of years. Although our testing did show that reviews are now being completed we were concerned that, from the evidence available, not all key areas were being reviewed i.e. confirming the provider had signed the new contract, reviewing the cost of the care package, and the circumstances of other residents.
- Although the new contract framework and Care Match system (introduced in September 2018) are intended to improve the quality of service delivery and provide improved value for money, there is a risk that these outcomes may not be delivered due to the consequences of direct allocation/commissioning, reviews not being completed effectively, and funding/budget arrangements.
- Strategic and operational management information is not available to monitor supported living cases.

Our recommendations were accepted and a project group established to ensure good practise is shared and enforced where appropriate between teams

#### Neighbourhoods Directorate Budget Management & Monitoring - Follow up

**Council Risk Rating: High Follow up**

**RAG:**



Our follow up review of budget management and monitoring processes identified that the Neighbourhoods Directorate were still encountering significant financial pressures. Both Neighbourhoods and Finance Officers have sought to increase the focus on meeting budgetary targets, to ensure predictive year to date forecasts are as accurate as possible and reflect all known pressures.

## School Visits

We have continued to work with directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools and support the measures implemented by the Council to monitor the position. Our visits show that school Governors and senior management are generally striving to lead schools effectively in very challenging circumstances. However, the need to respond to financial pressures and ensure effective financial planning remains. There are a high proportion of schools that are relying on carry forward surpluses to balance their budgets or are predicting deficits in future years. This poses a significant threat for both the individual schools and the Council. Governors and senior school leadership need to be proactive in establishing and agreeing plans to address predicted shortfalls.

Our visits have identified areas of governance and financial management that require development. This includes:

- financial reporting to governors;
- management of pecuniary interest declarations and associated information on the schools website;
- recording and reporting of gifts and hospitality;
- compliance with ordering and receipting of goods procedures; and
- the Statement of Internal Control.

Schools have continued to demonstrate that they are well aware of their responsibilities in relation to safeguarding children and take that responsibility seriously. However, there remains the need for improvement in respect of monitoring IT and internet use, and undertaking due diligence prior to lettings; to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements. In addition, we identified a need for the timely referral and evidencing of pupils who leave the school in-year and their destination is unknown or when parents have chosen to home educate.

Our follow up process has recently been revised. From September 2019, any schools provided with a Level 3 assurance / high risk rating will be visited at three monthly intervals to assess progress in implementing the agreed actions. If sufficient progress has not been made after nine months the School Finance Governance Board will be notified and a financial warning notice considered.