PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**30th June 2015**
Subject:	**Birmingham Audit – Annual Report 2014/15**

Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 The purpose of this report is to give the annual assurance opinion on the adequacy and effectiveness of the systems of internal control in place. It also highlights significant issues that have arisen from internal audit activity during the year.

1.2 It gives members information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2014/15, and, in section 7, on compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also contains the detailed proposed Internal Audit plan for 2015/16

1.4 In addition it contains as appendix B, the Internal Audit Charter for 2015/16. The charter sets out the objectives, framework and services delivered by Birmingham Audit.

2. RECOMMENDATIONS

2.1 Members are asked to accept this report and the annual assurance opinion for 2014/15 that is contained in it at 4.5. Reasonable assurance is reported.

2.2 Subject to any amendments agreed in the discussion at Audit Committee, Members are asked to give their approval to the annual internal audit plan outlined in section 9 and shown in more detail in appendix C.

2.3 Members are asked to approve the Internal Audit Charter shown as Appendix B.

2.4 Members are asked to note the information on PSIAS compliance contained in section 7 and to determine whether any further action is required.

3. BACKGROUND

3.1 The 2014/15 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the requirements of the Accounts and Audit Regulations (Amendments) 2011. It also complied with the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.

3.2 The Council is going through a period of significant change. The drivers for change are both organisational (including the Kerslake Review, Le Grand's and Lord Warner's children's safeguarding review, and wider public sector reform) and financial (including the national austerity programme, and the Council's saving commitments). During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2014/15 audit plan reflected these changes by concentrating on those areas of highest risk. We have applied the same approach to our 2015/16 audit planning process where further and even more fundamental change is expected.

4. ASSURANCE

4.1 The audit plan is prepared and delivered to enable me 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). My opinion will form part of the Annual Governance Statement (AGS), which the Council is legally required to produce.

4.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide at best a reasonable rather than an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.

4.3 Our work is carried out to assist in improving control. However management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that:

- The Council's resources are utilised efficiently and effectively
- Risks to meeting service objectives are identified and properly managed
- Corporate policies, rules and procedures are adequate, effective and are being complied with.

4.4 A model has been used to formulate the end of year opinion. The model places reliance on assurance provided from other parties and processes. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion. The model is an evolving one and the formula will change from time to time as the intelligence we collect on

sources of assurance improves. The opinion for 2014/15 is based on the following sources of assurance and weightings:

Internal Audit Work	65%
Assurance from the work of the External Auditor	10%
The AGS	15%
The Risk Management Process	10%

4.5 **Based on the above I am able to provide a reasonable assurance.** As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Strategic Director during the year. A summary of significant findings from our work and a summary of our work on the main financial systems is included as Appendix A.

5. ADDED VALUE SERVICES

5.1 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 year include:

- Data analytics works in a number of business areas (including in respect of main financial systems) resulting in the identification of opportunities for efficiency and effectiveness gains. We have also used our data analytics capabilities to provide management information that they were not able to obtain from other sources.
- Successful work on recovering inappropriately occupied Social Housing and on strengthening the gateway into both housing and for Social Housing Right to Buy applications. This has included embedding our anti-fraud data-warehouse in service areas to enable the proactive checking of applications to prevent lets and/or inappropriate sales.
- Input to the implementation project for the new banking contract
- Researching, scoping and project managing a supplier statement review which has resulted in significant financial benefits for the Council
- Providing audit support to the Birmingham Safeguarding Children Board

6. QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK

6.1 I am required to report to members on quality, performance and customer feedback issues. These are summarised below. The Director of Finance also draws upon this information to report to members on the adequacy of the systems of internal audit. His report is being considered elsewhere on the agenda for this meeting. He has concluded that the internal audit service provided is adequate and effective. It meets its aims and objectives, is compliant with the requirements of the PSIAS, meets both professional standards and internal quality standards, is efficient, effective and continuously

improving and adds value and assists the organisation in meeting its objectives.

6.2 Quality Assurance

The provision of a quality service continues to be important to us in Birmingham Audit. Internal quality audits on our ISO quality and information security processes are undertaken annually, most recently in April 2015. As in previous years only minor issues of non-compliance were identified and actions have been taken to correct these.

During the year, Birmingham Audit was recommended for registration to the internationally recognised and externally assessed information security standard ISO27001:2013, and recommended for continual assessment to the quality standard ISO9001:2008.

6.3 Inputs

The 2014/15 internal audit plan contained 5,170 days. I am satisfied that there were adequate staffing resources available to me to deliver the agreed audit plan. At the end of the year we had completed 97% of the planned audits, against a target of 95%.

6.4 Outputs

During the year we issued a total of 194 final audit reports, containing 897 recommendations. For comparison purposes during 2013/14 we issued 254 final reports containing 1,140 recommendations.

Audit reports are given a risk rating of 1 – 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Green – Non material issues

2. Amber – High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance

3. Red – Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to members etc.

Of the 194 reports issued during the year, 6 were given a red level 3 risk rating, 96 had an amber level 2 rating and 92 had a green level 1 rating.

On a monthly basis a list of all final reports issued is sent to members of the Audit Committee.

6.5 Performance and Customer Feedback

As at 31st March 2015 we had completed 97% of planned jobs against an annual target of 95%.

Our customers (both internal and external) continue to provide positive feedback on the services provided.

6.6   **Corporate Fraud Team**

The Corporate Fraud Team is responsible for the investigation of financial irregularities perpetrated against the City Council. The team undertake reactive investigations into specific issues that are reported to them, as well as carrying out proactive projects to try and identify fraud and error. The team also raise awareness of fraud by producing fraud bulletins and issuing ad-hoc alerts, as well as contributing to corporate policies and procedures. The Application Fraud Team, a sub-team within the Corporate Fraud Team, is responsible for the investigation of Social Housing and Council Tax related fraud. A sophisticated data warehouse has been developed to provide intelligence to inform the investigative work, as well as assisting other City Council departments and external law enforcement bodies.

The team have continued to work with Directorate staff to implement the anti-fraud strategy for housing. This includes advising on records management, photo ID's, the new allocations policy, and providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing/homeless/Right to Buy applications. Last year the team were successful in recovering 77 inappropriately let social housing properties, stopping 364 housing applications where incorrect, inaccurate or incomplete information had been supplied and preventing Right to Buy discounts amounting to £228,540, being claimed fraudulently. This shows that in addition to the obvious social benefits deriving from the work of the team there is also a real financial saving from preventing and/or terminating social housing fraud.

The table below summarises the activity of the Corporate Fraud Team during the year.

	2013/14	2014/15
Number of outstanding investigations at the beginning of the year	25	40
Number of fraud referrals taken on during the year	187	112
Number of investigations concluded during the year	172	133
Number of investigations outstanding at the end of the year	40	19

6.7   **Benefit Counter Fraud**

On 1st February 2015 the Benefit Counter Fraud Team, formerly a part of Birmingham Audit, transferred to the Department for Work and Pensions (DWP) as part of the Government's introduction of a Single Fraud Investigation Service. During the 10 month period prior to the transfer the team achieved 291 sanctions against a target of 250 and set up payment instalments arrangements to recover £715,832 against a target of £562,000.

Following the transfer of the function to the DWP, the Council no longer has any responsibility or authority for investigating allegations of welfare benefit fraud. Responsibility for fraud investigation in relation to Council Tax remains the responsibility of the Council and this is discharged by the Corporate Fraud Team.

7 Compliance with the Public Sector Internal Audit Standards

7.1 With effect from 1st April 2013, new Public Sector Internal Audit Standards (PSIAS) were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

7.2 During the lead up to the implementation of the new standards a self-assessment was completed to assess Birmingham Audit's level of compliance with the new standards and where appropriate to review and revise practices to ensure full compliance. The self-assessment identified that Birmingham Audit's practices were generally in compliance with the PSIAS and only minor changes were necessary to ensure all requirements were met. The changes were all actioned. However, there is one specific areas of non-compliance that has not been addressed and under the requirements of the standards I must bring this to your attention for you to consider whether you believe any further action is required. This is as follows:

(i) The standards require that the Chief Internal Auditor should report to an organisational level equal to or higher than the corporate management team and must be sufficiently senior and independent to be able to provide credible constructive challenge to senior management and influence the control environment. The standards also require that the Chief Internal Auditor is performance managed by the Chief Executive Officer.

Whilst I am a senior officer, my reporting line is to the Director of Finance rather than directly to a member of the Corporate Management Team. I do however have unrestricted access to other senior officers at all levels (including the Chief Executive and all Strategic Directors) and to Members. The reporting arrangements for Internal Audit adopted within the Council are in line with those operated in most other Local Authorities, including all of the Core Cities. The underlying principle of this requirement is around safeguarding my independence and ensuring my remuneration and performance management is not inappropriately influenced by those subject to internal audit. The safeguards within the (former) Personal Development

Review (PDR) process and the current My Appraisal process, which require countersigning and corporate moderation mitigate against this risk.

8. The Internal Audit Charter

On an annual basis members are asked to approve the Internal Audit Charter. The charter for 2015/16 is attached as appendix B. It sets out the objectives; framework and services delivered by Birmingham Audit, and details the relationship with the Audit Committee, our business plan objectives, the statutory requirements around our service and outlines the rationale behind the annual audit plan.

9. Internal Audit Plan 2015/16

9.1 The 2015/16 plan contains 4,692 days. This compares to 5,170 days in the 2014/15 audit plan. This further reduction is due to the full year effect of redundancies that occurred 'in year' during 2014/15 and the deletion of vacant posts caused as a result of resignations in year. In order to ensure that we can continue to deliver an effective Internal Audit and Counter Fraud service with a further reduced workforce we continually review and where appropriate revise our working practices and methodologies. Some of the key changes within recent years are:

- **Increased use of assurance mapping –** Greater reliance is placed on assurance provided by others, including importantly that provided by managers (though this is subject to a degree of independent verification to ensure it is robust). This enables an audit focus on risk in those areas where there isn't other suitable sources of assurance.

- **Increased use of data analytics –** We have further increased our data analytics capacity and capability and are now rolling out its use on the audit of main financial systems. This is far less time consuming and labour intensive than a traditional approach using manual transaction testing and gives a much wider view on the system and service as a whole. There is clearly a need to retain an emphasis on providing an assurance around the management of risk and control. However, we are also using our data analytics capability to identify opportunities to improve service delivery and efficiency by analysing actual performance against key business success criteria indicators. This new element to our work has been very well received by service managers.

- **Reviewing our audit reporting methods –** We have introduced a new style of audit report that is briefer, less wordy and with greater use of graphs/diagrams/charts etc. to illustrate the points we are seeking to make. The end result is a report that is more focussed on improvement and achieving outcomes rather than simply highlighting problems. The new style audit reports have also been well received.

- **The implementation of a new audit management system and of 'Share-point', a documentation management solution –** Both went live during the early part of 2014/15. Whilst neither implementation was without some problems both are now working relatively well and are stable. In the current year we plan to use the new audit management system to assist in the tracking of implementation of recommendations. It has in built reporting capability that we can use to tailor reports for specific managers or business area containing details of all recommendations in their area. Ultimately we will be looking to develop on line access to the system so managers can provide updates and use it to manage/monitor their performance relating to implementation of audit recommendations

9.2   As in previous years the annual audit plan is compiled using our professional judgement and is based on our assessment of risk.

9.3   When compiling our proposed plan we have taken into account the views of other key stakeholders throughout the organisation.

9.4   In order to meet the standards required of us and as contained within the legislative and professional framework surrounding the delivery of an internal audit service, there is a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management and corporate governance. A careful balance therefore has to be struck to achieve the optimum use of resources available. This plan will be subject to in year amendment and modification to reflect shifting priorities and emerging issues as policy changes are implemented.

9.5   As in the development of the previous year's plan we have used our risking model to 'score' all potential 'auditable' areas. There are a number of factors that are considered as part of the risk model:
- Financial materiality
- Assessment of the adequacy of the control environment
- Strategic alignment to organisation priorities
- Sensitivity/Reputational risk
- Assessment of management
- Assurance based on internal audit work/knowledge and how recent that was
- Assurance based on external audit or other inspectorate work and how recent that was
- Direct assurance gained from operational management
- Inclusion in the corporate risk register, Council Business Plan or Council Promise

For each potential auditable area each of these factors is given a numerical value which feeds into a formula to arrive at an overall 'score'. Using these scores we are then able to rank all potential auditable areas in order of priority based on our assessment of risk and on this basis to determine how best to deploy the resources available to us. The risk assessment is designed to be

dynamic and responsive to changing circumstances. We will review and update our assessment throughout the year and the ongoing changes across the organisation may result in in-year changes to the plan if circumstances demand.

9.6 The table below shows the proposed split of audit days over the different categories of work we undertake and for comparison purposes shows the same information for the previous year.

	14/15 %	14/15 Days	15/16 %	15/16 Days
Number of Audit Days in the annual plan	**100%**	**5170**	**100%**	**4,692**
Main financial systems	21	1071	21	986
Business controls assurance	44	2258	44	2038
Investigations	16	840	17	800
Schools	4	235	3	140
Follow up work	5	264	5	250
Ad-hoc work	4.5	227	4.5	218
Planning & reporting	4	195	4.5	215
City initiatives	1.5	80	1	45

9.7 Appendix C contains the detailed annual plan.

9.8 As always the views of members on the overall content of the proposed plan and any suggestions for how specific elements of the plan should be used are welcomed.

10.   LEGAL AND RESOURCE IMPLICATIONS

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 (Amendments) 2011. The work is carried out within the approved budget.

11.   RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

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.

Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

12.   COMPLIANCE ISSUES

City Council policies, plans and strategies have been complied with.

13.   RECOMMENDATIONS

13.1   Members are asked to accept this report and the annual assurance opinion for 2014/15 that is contained in 4.5.

13.2   Subject to any amendments agreed in the discussion at committee, members are asked to give their approval to the annual internal audit plan outlined in section 9 and contained in more detail in Appendix C.

13.3   Members are asked to approve the Internal Audit Charter as shown in appendix B.

13.4   Members are asked to note the information of compliance with the PSIAS requirements contained in section 7 and to determine whether any further action is required.

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Kay Reid
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14. SIGNIFICANT ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2014/15 AND A SUMMARY OF OUR WORK ON THE MAIN FINANCIAL SYSTEMS

14.1 Red High Risk Reports

During the course of the year we have issued 6 'red' high risk reports. Brief details of the issues of concern highlighted in these reports are shown below

14.1.1 Quality of Child Protection Plans

This audit work was requested by the Performance and Quality Assurance Board (a sub group of the Birmingham Children's Safeguarding Board), and was delivered by Birmingham Audit, working in partnership with the former Children Young People and Families Directorate, and where appropriate other partners. We have reviewed the methodologies used for producing effective CPPs and reviewing their quality, and for ensuring that lessons learned are fed back to all parties.

Overall the CPP forms reviewed were not consistent and the detail was not always focussed on the child concerned. In addition it was difficult to place reliance on who did, and should have, attended initial child protection conferences. This raised concerns as to whether the child was receiving appropriate care to ensure they were properly safeguarded.

We intend to undertake a follow up audit to assess progress in the 2nd quarter of 2015/16.

14.1.2 Child Social Care – Quality and Appropriateness of Referrals

At the time of our audit we found that a number of poor quality referrals were still being received, resulting in delays in determining what level of intervention was needed for potentially vulnerable children.

The Directorate responded to Ofsted criticism in this regard in a number of different ways including the introduction of the Right Service Right Time (RSRT) model for practitioners to use to inform a view on the type of intervention required and the establishment of a central Information Advice and Support Service (IASS) to deal with contacts, referrals and referral enquiries.

A high volume of enquiries are being received by the IASS team (around 3500 to 4000 e-mails each month) which have potential to turn into referrals. While the team is dealing with these effectively, the process of sifting enquiries that either should not have been referred, or are poor quality, is labour intensive.

Detailed procedures have been created by the Birmingham Safeguarding Children Board and these have been rolled out across all agencies. These include very clear guidance on 'what constitutes a good referral.'

Management information is collated on the volume and source of referrals, but other than the collation of poor examples as and when they arise, there is no collection of data specifically related to quality.

There are a number of informal networking/feedback arrangements in existence between the different agencies, but at the time of our audit there was no formalised approach to feed back issues of quality to all agencies so that action can be taken.

We are aware that since the issue of our report in July 2014, there has been a whole service transformation of the 'front door' with the implementation of the Multi – Agency Safeguarding Hub (MASH) in August 2014, which will have addressed many of the issues identified in our report. Rather than do a specific follow up of this audit, we will include the key issues from our report into a wider review we will be undertaking on MASH.

14.1.3 Climate Change and Sustainability

Over recent years, we have undertaken a number of audits in relation to Climate Change and Sustainability, to reflect the high risks associated with this area. We have consistently reported significant concerns.

We reported on a further follow up review in July 2014. We concluded that a number of key issues relating to the overall management/governance arrangements for energy management within the Council and availability, and production of management information to monitor the Council's energy consumption need to be addressed as a matter of urgency.

Issues highlighted in our report included the following:-

• Due to a lack of management information and inadequate monitoring arrangements, at the time of the audit we were unable to obtain evidence as to whether the Council was on track to reduce its energy consumption by 50% by 2018.

• The service was unable to accurately monitor all on contract energy consumption as two out of the three largest utility suppliers to the Council were not providing regulation-compliant e-billing information.

• Since the previous audit, the STARK energy management system had been de-commissioned and the successor arrangements were not fully in place.

We subsequently planned to undertake a further follow up audit in November 2014. However, at that time, a Utilities Management Strategy had only recently

been approved by Cabinet. In view of this, we did not consider it appropriate to undertake a full audit at that stage.

The new strategy sets out the Council's vision for reducing its utility consumption through improved management, efficiencies, behavioural change and building disposals. An implementation plan has been produced but there is some work to do to refresh the plan, and business cases will need to be compiled and approved, to address each of the key deliverables. One of the key actions relates to establishing a Utility Management Team which will be responsible for taking forward the actions required to deliver the strategy.

We have been advised by management that regular and consistent utility costs and consumption information is now obtained via the Council's Utility Broker. There remains a lack of historical data for the period prior to the Utility Broker being in place (July 2013) and some issues with invoices from two suppliers, however these issues are reducing. We have also been informed that the replacement for the STARK system is now in place, this being the Utility Broker's self-service reporting tool. We intend to undertake a full review later in the year once the new team has been established.

14.1.4 Third Party Service Provision – Information Security (follow up)

The purpose of this audit was to review whether standards and requirements were in place and are being consistently applied, in relation to the privacy and security of Council data that is processed or shared with third parties.

Our previous audit identified a number of areas of concern that required improvement. These included the potential for data breaches by third parties, the lack of a corporate record identifying who holds or has access to Council data, delays in implementing the agreed recommendations within a previous audit report about data sharing and the absence of any monitoring or assurance from some third parties in respect to the effectiveness of their information security policies, procedures and associated training.

This most recent audit has confirmed that progress has been made in implementing the original recommendations, for example: the Commissioning Toolkit was completed and a simplified document entitled 'Understanding Commissioning', which includes reference to data management, was published on Inline in early May 2015. In addition, staff within Corporate Procurement Services (CPS) have now reviewed all contracts to establish if personal data is being shared. However, many of our recommendation have still not been fully implemented. It is of concern that the requirement for annual assurance in relation to IT governance arrangement has not been progressed and the Contract Management training has not yet been finalised / delivered. We will undertake a further review later in the year.

14.1.5 Younger Adults – Re-provisioning

2014/15 was the first year of an extremely ambitious project seeking to align the proportion of younger adult clients receiving community services whilst

achieving maximum value for money. The Directorate have reported challenges/difficulty with achieving the savings target attributed to this project, both in the first year and moving forward.

Since the savings from the project form part of the overall savings plan for the City Council it is critical that the Directorate robustly evaluate if the planned benefits can be realised. We recommended that the Directorate established predicted outcomes, and evaluated if these could realistically be achieved.

We recognised that a significant amount of progress had been made with regard to the assessment/re-assessment of client care packages, however at the time of our audit this had not resulted in outcomes that delivered significant financial savings. We were encouraged to see that in addition to new governance and monitoring arrangements a review panel process had been introduced to evaluate the re-assessments and speed up the process. The next phase of the challenge will be to change the service provision for each service user, a task which cannot be underestimated. We also appreciate the complexities and barriers that come with this challenge.

We have been advised that since the issue of the audit report, we note that the Directorate senior management have reported and gained support from the Deputy Leader's Performance Star Chamber process, the Effectively Managed Council Business (EMCB) group and, held at the end of March, a very helpful open-learning event to reflect, learn and re-plan the governance, processes and targets around this key programme. At the time of writing, a further report on this was scheduled to be going to EMT in June.

Given the importance of this work area a follow up audit review is currently underway.

14.1.6 Subject Access Requests

A 'Subject Access request'(SAR) is a written request made by an individual for information being held by an organisation about them that he or she is entitled to ask for under the Data Protection Act. There are requirements governing the timescales within which requests should be responded to.

BCC is at risk of enforcement action from the Information Commissioner's Office (ICO) for failing to respond to subject access requests (SARs) within the prescribed timescales. The Council has been the subject of a number of recent ICO complaints regarding the length of time it has taken to respond to SAR's. There have been particular concerns within Children's Services. Given these concerns we reviewed arrangements in place with Children's Services to respond to this issue. We identified a number of areas for improvement:

- the process for the receipt and allocation of SARs is inefficient.

- some staff involved in the process do not hold the necessary knowledge and require re-training in the completion of searches and DP requirements;

- duplication of information resulting in inconsistencies and the inaccurate reporting of SAR performance;

- monitoring of SARs needs to be enhanced; and

- the security of children's files and data needs improvement, there is a risk that sensitive data could be compromised.

A follow up review to confirm that progress is being made in relation to the implementation of our recommendations is underway.

14.2 RISK MANAGEMENT

Risk management continues to be embedded within BCC. The revised risk management policy, strategy and methodology have been placed on the Council's website, and advice and support is provided as requested and necessary. The Corporate Risk Register is reviewed at the monthly Governance Group meetings and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee. The draft version is reviewed by the Effectively Managed Corporate Business (EMCB) Corporate Management Team (CMT) sub-group. This provides challenge and is a forum for routine discussion of risks facing the council. In addition business plans at directorate and divisional level include key risks.

14.3 CORPORATE GOVERNANCE

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. During 2014/15 the Council was subject to several external reviews due in part to the lack of progress in improving children's safeguarding and issues in schools. This included the Kerslake review of the council's governance and organisational capabilities which was jointly commissioned by the Leader of the Council and the Secretary of State for Department for Communities and Local Government (DCLG). This review was conducted by Sir Bob Kerslake and his report contained 11 recommendations. The council has developed an action plan to respond to the Kerslake recommendations. Delivery of the action plan is an integral part of the Council's "Future Council Programme" which commenced in March 2015 to deliver the significant change that is necessary. Delivery of the Future Council Programme will feature in our audit plan for the current year.

We carried out several audit reviews in 2014/15 covering governance in specific service areas such as the governance arrangements for housing related services (which are provided across all three directorates), the financial

governance arrangements within the Birmingham Community Safety Partnership, and the development of governance arrangements within Acivico for the deferred services. As in previous years we also critically reviewed the process used to produce the Annual Governance Statement which forms part of the Council's Accounts. Our work showed that generally, in the areas examined, the governance arrangements were adequate.

14.4 FINANCIAL CONTROL

14.4.1 The requirement to give an assurance on the adequacy and effectiveness of financial control is a key responsibility for us. During 2014/15 we reviewed each of the main financial systems. A summary of our work in these areas is contained below

14.4.2 Payroll and Human Resources (HR)

The performance indicators for the payroll service have been met with 99.53% of staff being paid accurately and on time against a target of 99.5%. The amount of salary overpayments due to payroll errors is very low at 0.20% of the payments made.

The corporate payroll system is stable and functioning well in the main and the introduction of HMRC's real time information has meant that data quality has improved.

We did find some areas of weakness relating to overtime payment and allowances in payment to some staff employed at Birmingham schools; these have now been addressed. A review of information held on digital personnel files for staff appointed in the last few years was generally sufficient; however it is largely incomplete for staff appointed earlier than this. Consideration on how to capture key data such as Right to Work information for these longer serving staff is on-going.

We continued to find non-compliance and errors by staff and line managers in the use of People Solutions to record absences or other events which affect pay (e.g. reduction in hours worked) which have given rise to overpayments. Where these are substantial our Fraud Team have investigated the circumstances and made recommendations for management action as appropriate.

14.4.3 Accounts Payable

Our annual review of the Accounts Payable (AP) function covers controls within the Shared Service Centre (SSC), Corporate Procurement Services (CPS) and also at a directorate level, where many of the controls are actually implemented.

Based upon work carried out during the year, we have concluded that arrangements are in place to ensure creditors are being paid accurately and in a timely manner. 98.99% of invoices by volume have been paid to terms or

within 30 days. This is well above the target of 95%. Our examination of master file data did identify some areas for improvement and appropriate recommendations in respect of this were made.

14.4.4 Procurement

Our work this year on contracts and procurement has covered all directorates. It has included work where CPS is the primary client, and other areas, such as Acivico and schools. In the main the procurement activity is adequately controlled however we did have some specific concerns in a few areas where we felt controls should be strengthened or where controls were not being applied consistently:

- Contract management remains an area where we have continued to identify weaknesses across the council. Improving contract management is a priority for CPS, which restructured during the year to establish a contract management team. The work of the team is still in its infancy but the methodology appears adequate. The continued development of contract management plans is an important mechanism in setting out the foundations for good contract management. As more services continue to be delivered externally, the need for robust contract management is greater.

- Some compliance failures in relation to a procedure introduced in September 2013 to regulate the engagement of 'off payroll' individuals. We are working with colleagues across the council to bring about improvement in this area.

- A follow up review, of externalised leisure centres also showed progress on implementing key recommendations (regarding profit share information, performance indicators and contract management) was slower than anticipated.

- Corporate guidance on tendering evaluation has still not been reviewed, updated and communicated.

14.4.5 Accounts Receivable (AR)

Our work this year within AR has been a combination of individual audit reviews of processes along with data analysis. Overall we found that controls are adequate in managing risks within this area of activity. We also found that the Shared Services Centre is effective in monitoring sundry debt recovery. From our data analytical work we did identify potential issues and opportunities for efficiency gains. Examples are high numbers of credit notes issued, duplicate master data and inefficiencies within some income collection methods. The detailed results were submitted to management to address.

14.4.6 Revenues, Benefits and Rents

Council Tax & Business Rates

At the time of writing Council Tax (CT) in year collection was just below its target rate of 98% (by 0.74%). Our data analytical work in this area identified some delays in progressing CT debt through the debt recovery process and a high number of different codes / stages which could be streamlined to make managing this process easier and more efficient. Single Person Discounts remain a problematical area with pro-active anti-fraud work identifying potentially fraudulent claims. Details of these have been passed to management for action.

The in year collection rate for Business Rates was being exceeded (by 0/24%).

Benefits Service

This area is subject to major change with welfare reform remaining high on the government's agenda. Our work has shown that the service is generally performing well and is well managed. We have been working closely with the business areas on specific projects such as Risk Based Verification, the introduction of Universal Credit and being PCI compliant.

Rents

Rents are below their collection rate by 0.57% but in the main this is attributed to the changes with welfare reforms. We have undertaken data analysis to review the management of older debt. This has identified areas of delay in the debt collection process. We have passed our detailed findings on this to management for their attention.

14.5 Information Technology (IT) Issues

Information and Information technology are key business assets that underpin service delivery. The failure of an IT system or inaccurate information can have devastating effects. Advancing technologies, such as cloud, social media and mobile devices together with alternative service delivery vehicles introduce new challenges and risks that need to be managed.

Our work during the year has been targeted in order to provide assurance over the areas of greatest risk. The findings of our work have been summarised below. Responsibility for resolving the issues identified cut cross the Council and Service Birmingham.

Service Birmingham

Our work identified that more robust processes have been put in place to prevent attacks on the Council's main website. This includes filtering internet traffic through a third party security solution. These processes now need to be extended to other relevant websites.

Service Birmingham has robust change management processes. Changes to SAP need to be brought into the scope.

Throughout our work we identified the need for Service Birmingham to update and maintain the accuracy of its configuration database. The configuration database provides a record of all IT assets and how they are configured. An accurate database helps ensure that critical IT asset are effectively managed and all dependencies identified.

Council

Information governance has continued to be a key feature of our work. Issues identified include:

- control of 3rd party access (as detailed in 14.1.4 above);
- problems responding to Data Protection Subject Access Requests (as detailed in 14.1.6 above);
- ensuring all staff have received appropriate information security training;
- the quality of data held; and
- information security concerns.

Our IT security reviews have continued to identify ongoing problems with the management of users and their access privileges. It is essential that staff leaving the Council have their access to systems removed on a prompt and timely basis.

Council / Service Birmingham

We identified a need to strengthen the arrangements surrounding the management of IT assets, in particular ensuring that old and obsolete computers are disposed of on a timely basis.

Whilst robust operational controls are in place to reduce cyber risks, there is a need to increase knowledge and awareness of potential cyber threats and introduce an overarching cyber security policy.

Internal Audit Charter 2015/16

1. Introduction

1.1 This charter sets out Birmingham Audits (BAs) purpose, authority and responsibilities; establishes BAs position within the organisation, including reporting relationships with the 'board'; covers the arrangements for appropriate resourcing; defines the scope of internal audit activities and role of internal audit in any fraud-related work; and includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. It also sets out the objectives, framework and services delivered by BA. The detailed actions to deliver the charter are contained within the BA Business Plan.

2. Purpose, Authority & Responsibilities

2.1 BAs primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.

2.2 In accordance with section 12 of the Financial Regulations the AD ARM on the authority of the Director of Finance shall have authority to:-

- enter any Council premises or land at all reasonable times.
- have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties.
- require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination.
- require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

The rights above apply equally to organisations which have links with or provide services on behalf of the Council (eg: voluntary aided schools, wholly owned companies, voluntary organisations or other agents acting on behalf of the Council) where the City Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

2.3 BAs responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that BA staff will:

- be fair and not allow prejudice or bias to override objectivity;
- declare any interests that could potentially lead to conflict;
- sign a confidentiality statement;
- not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;
- be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;
- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements;
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

3. Position within the Organisation (including reporting relationship with the board)

3.1 BA will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. BA will not have any operational responsibilities.

3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by BA lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by BA will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.

3.3 The AD ARM will report the results of audit work in accordance with the protocol for working with BA to senior managers and the board.

Note: The term 'senior managers and the board', can refer to one or all of the following: Audit Committee, Chief Executive & Director of Economy, Deputy Chief Executive or Director of Finance.

4. Resourcing

4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. BA has achieved the Investors in People (IIP) Standard, ISO9001:2008 Quality Standard and the ISO27001:2013 Information Security Standard. The Quality & Information Security Standards are subject to regular external review.

4.2   During 2015/16 we will seek more efficient and effective ways to deliver the audit service, provide assurance to Members and help improve value for money and quality of Council services. The data warehouse will continue to be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.

4.3   We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.

4.4   We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.

4.5   If the AD ARM or those charged with governance consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of BA, or prejudice the ability of BA to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

5.   Scope

5.1   The scope of the internal audit function will embrace the internal control system of BCC. It covers all financial and non-financial related activities of the Council at all levels of its structure.

5.2   The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the AD ARM will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.

5.3   BA will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities BA will take this into account. Where the results indicate that insufficient work has been done then BA may undertake a separate review.

5.4   The scope of audit work extends to services provided through partnership arrangements. The AD ARM will decide, in consultation with all parties, whether BA conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the AD ARM will agree appropriate access rights to obtain the necessary assurances.

5.5   BA will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.

5.6 BA will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events, and working groups.

5.7 Other Work

Where appropriate resources exist BA will make provision within the plan for:-

- The review of key systems or key services provided by the Council on behalf of other organisations.
- The review of key systems or services provided by others on behalf of the Council. In order to achieve this BA will require access to partner records, systems and staff. This access should form part of any partnership contract between BCC and the partner.

The decision to include it in the plan will be dependent on the level of risk identified and whether reliance can be placed on opinions provided by others.

5.8 Fraud & Corruption

Section 14 of the Financial Regulations states the following:

- The responsibility for prevention and detection of fraud rests with all employees.
- Each Strategic Director must ensure that the Director of Finance, AD, ARM and if applicable, the Monitoring Officer, is notified immediately whenever a matter arises which involves, or is thought to involve, any financial irregularities, fraud and corruption.
- The Director of Finance is responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.
- If there are any suspicions that a Member may be involved / or associated either directly or indirectly in an incident that may require investigation, then the Strategic Director must report this to the Director of Finance, who may refer the matter to the appropriate Cabinet Member or Committee.
- Each Strategic Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting (Whistleblowing) Code and Public Interest Disclosure Act 1998.

BA will assist managers to minimise the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, BA will, in appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by BA will adhere to all Council policies.

Where Directorates require BA to attend disciplinary hearings as a management witness, sufficient notice, i.e.: 10 working days, should be given.

6. Avoiding Conflicts of Interest

Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

BA will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.

7. The Audit Committee

7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:

- their approval of the internal audit charter and audit plan, and monitoring of progress against them.
- the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues.
- access to all reports. Those considered to be of the highest risk will be highlighted and bought to their attention.
- performance management information will be provided.

7.2 We will attend the committee meetings, and contribute to the agenda.

7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.

7.4 Our progress reports will include the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

7.5 An annual internal audit report will be produced and include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

8. Business Plan Objectives - 2015/16

- To deliver an internal audit service that meets professional and mandatory standards and delivers suitable assurance to the Council.

- To deliver an effective counter fraud service to prevent, detect and deter fraud and error.

9. Statutory Requirements

9.1 There is a statutory requirement for Local Authorities to have a counter fraud and internal audit function. This service is provided for the Council in-house by BA working in partnership with a number of external bodies. The AD ARM

provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.

9.2 The services we provide are in accordance with the following legal and professional requirements:

Legal:

- Accounts and Audit Regulations (Amendments) 2011
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 1998
- Criminal Procedures Investigation Act 1996
- Data Protection Act 1998
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 1972
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2002
- Regulation of Investigatory Powers Act 2000
- Social Housing Fraud (Power to Require Information) Regulations 2014
- The Protection of Freedoms Act 2012
- Theft Act 1978
- Welfare Reform Act 2012

Professional Requirements:

- Relevant CCAB professional guidance including the Public Sector Internal Audit Standards
- Department for Work & Pensions (DWP) Performance Standards Framework
- Quality - BS EN ISO9001:2008
- Information Security - BS EN ISO27001:2013

9.3 BA reports to the Section 151 Officer under the Local Government Act 1972. The legislative driver for internal audit and counter fraud continue to evolve.

9.4 The Council adopted the CIPFA / SOLACE code of corporate governance in July 2002. This code together with the Statement of Recommended Practice (SORP) 2002 introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with the CIPFA / SOLACE Framework - Delivering Good Governance in Local Government. This means that the Chief Executive & Director of Economy, Leader, Section 151 Officer and Director of Legal & Democratic Services (& Monitoring Officer) are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements in relation to the four key roles and six core principles, and identify any significant governance issues.

9.5 We have a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An integrated assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.

9.6 The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. Our opinion will be prepared using the following sources of assurance, Internal / External Audit work, the AGS process, Risk Management & Scrutiny processes and SSM input. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.

9.7 We give an opinion on assurance which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by BA makes an important contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include: -

- Section 151 work around the major and significant financial systems
- IT Governance
- Audit around the major risks and the risk management process
- Audit of corporate governance/business control assurance arrangements
- Counter fraud activities

10. The Annual Audit Plan

- The Council is going through significant change to its structure, systems, processes and service delivery. This has presented new risks as well as opportunities. We will continue to contribute to driving forward the change agenda whilst continuing to operate as a critical friend.

- The audit plan for 2015/16 has been compiled based on a number of factors, i.e.:

  o the level of risk associated to each entity.
  o the level of assurance associated to each entity.
  o any reviews that fall under the 'must do' categorisation, i.e.: those which are required to be undertaken as part of the minimum internal audit standard.

  On an annual basis each entity will be reassessed based on the results of the previous year's internal audit work and other assurance gained regarding the control environment.

There is no allocation for undertaking programmed school visits. Assurance on schools expenditure will be obtained through a series of themed audits which may include visiting a number of schools about specific issues.

- All of the risks contained within the Corporate Risk Register are included within the BCC Assurance Map, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability be added to the audit plan.

- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.

- We will assess ourselves against the suggested checklist 'Protecting the Public Purse' which is published by the Audit Commission. In addition we will comply with the CIPFA Code of Practice on managing the risk of fraud and corruption. Prevention and detection of fraud remains a priority for the Council.

- We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the NFI 2014.

- Follow up audits will be undertaken in accordance with the agreed policy.

- Consultancy work will be undertaken within the limitations of existing resources.

- A Charging Policy has been implemented. This means that some elements of work will only be undertaken if resource is available and the client is willing to pay.

Proposed Internal Audit Plan 2015/16

	Days	Days
Financial Systems (including computer audits where appropriate)		
Main Accounting	92	
Housing Rents	52	
Accounts Payable	78	
Accounts Receivable	80	
Carefirst	70	
Payroll/HR	80	
Benefits	80	
Revenue (Council Tax and NNDR)	81	
Asset Management	78	
Grants and Contributions	15	
Cash Income	15	
Procurement, Contract Audit and PFI	155	
IT Related Core Systems Work	110	**986**
Business Controls Assurance		
Work in progress b/fwd from 2013/14	80	
IT Related Non Financial Systems Work	342	
Data Analysis	250	
Corporate Risk Management Facilitation	75	
Contingency	81	
Acivico	40	**868**
People		
Social Letting Agencies	10	
Admissions and Appeals	20	
Appointee & Receivership	20	
Assessment & Support Planning	25	
Blue Badge Scheme	15	
Child Protection - The Case Conference Process	20	
Children in Care Placement Services	5	
Children's Services (including Social Care)	60	
Delivery of Improvement Plan	10	
Education and Commissioning	60	
Homeless - Temporary Accommodation	20	
People Commissioning	40	
Prevention Strategy and Implementation	20	
Public Health	40	
Safeguarding	20	
Safeguarding & Development - BCSB	50	
Safeguarding Corporate Overview	50	
The Strategy for Supporting Carers	20	
Troubled Families Programme	20	
Careline	15	

Adoption	20	
Fostering	20	
		580

Place		
Accountable Body	50	
Local Enterprise Partnerships	15	
Birmingham Resilience	20	
Car Parking Service - Policy and Delivery	15	
Environmental Health	15	
Highways Management	30	
Housing Repairs	10	
Independent Living	20	
Leisure Facilities	20	
Leisure Facilities - externally operated	10	
Licensing	20	
Management of Localisation Agenda	25	
Management of Voids - service redesign	15	
Housing Visiting Programme	15	
Neighbourhood Advice and Information Service	10	
Tenancy Management Services	20	
Trading Standards	15	**325**

Economy		
Annual Audit Letter	5	
Business Development Plan	10	
Acivico Contract Monitoring	50	
Councils Savings Plan – Delivery	20	
Customer Services	10	
Ethics	5	
New Service Delivery Vehicles	10	
Risk Management - Contribution to Improvement Agenda	5	
Section 106 funding	20	
Workforce Planning	20	
Climate Change & Sustainability	20	
Compliance with new legislation - policy changes	30	
Project Management	40	
Governance - Implementation of the Kerslake recommendations	10	
Governance - Overall governance structure for Group Interests	10	**265**

Investigations		
Reactive investigations	580	
Proactive work / Fraud Awareness	220	**800**

Schools		
Themed Work	100	
School Funding	20	
Schools Consortium	20	**140**
Follow Up Work		**250**
Ad Hoc Work		**218**
Planning and Reporting		**215**
City Initiatives		**45**
TOTAL		**4692**