BIRMINGHAM CITY COUNCIL

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**20th June 2017**
Subject:	**Birmingham Audit Annual Report 2016/17**

Wards Affected: All

1. PURPOSE OF REPORT

1.1 This report is the culmination of the work completed during the course of the year and provides an objective annual opinion on the adequacy and effectiveness of the systems of internal control. It highlights any significant issues that have arisen from internal audit activity during the year.

1.2 The report provides Members with information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2016/17, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also sets out the Internal Audit Charter for 2017/18 and the proposed Internal Audit plan for 2017/18.

2. RECOMMENDATIONS

2.1   Members are asked to accept this report and the annual assurance opinion for 2016/17. Reasonable assurance is reported.

2.2   Members are asked to approve the Internal Audit Charter.

2.3   Subject to any amendments agreed in the discussion at Audit Committee, Members are asked to give their approval to the 2017/18 Internal Audit plan.

3.   LEGAL AND RESOURCE IMPLICATIONS

3.1   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.

4.   RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

4.1   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.

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

5.   COMPLIANCE ISSUES

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

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Birmingham Audit Annual Report 2016/17

20th June 2017

Contents

1.   Background

1.1   The 2016/17 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 this change being both organisational and financial. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2016/17 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2017/18 audit planning process where further and even more fundamental change is expected.

2.   Assurance Opinion

2.1   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.

2.2   As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, reasonable assurance. No process can provide 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.

2.3   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; and corporate policies, rules and procedures are adequate, effective and are being complied with.

2.4 The model used to formulate the end of year opinion 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 which changes from time to time as the intelligence we collect on sources of assurance develops. The opinion for 2016/17 is based on the following sources of assurance and weightings:

Internal Audit work (planned, follow-up and fraud work)	65%
Assurance from the work of the External Auditor	10%
The AGS	15%
The Risk Management Process	10%

2.5 **Based on the audit work undertaken and other identified sources of assurance I am able to provide a reasonable assurance on the effectiveness of the systems of internal control.** As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Corporate Director during the year. A summary of significant findings from our work (including the main financial systems), is included as Appendix A.

3. Added Value

3.1 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:

- Our 'Schools' audit team working to support delivery of the Education Improvement Plan.
- Assisting the Child Protection Service in developing / improving case conference processes and engagement with children.
- Using audit intelligence systems to trace children who have gone missing from education.
- Embedding the audit data warehouse into service areas to secure process efficiency and proactively prevent fraud and error entering the system.
- Developing a methodology for contract due diligence and ensuring contractors are viable.

4. Quality, Performance & Customer Feedback

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the PSIAS.

4.2 Quality Assurance

4.2.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS and internal quality 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.

4.2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. But wef 1st April 2016 ceased the formal ISO9001 accreditation. The quality processes have been incorporate into the Information Security Manual, and the ISO27001 accreditation. Internal quality audits on our ISO processes are undertaken annually, most recently in April 2017. As in previous years only minor issues of non-compliance were identified and actions have been taken to correct these.

4.2.3 The PSIAS became effective from 1st April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

4.2.4 During 2015/16 we undertook a full self-assessment to identify Birmingham Audit's level of compliance with the standards. In July 2016 an in-dependent external assessment was undertaken by colleagues from Bristol City Council. Their assessment identified that: *"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards"* and 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. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups. The Head of Internal Audit is well regarded and maintains positive engagement across the Council."*

4.2.5   As reported in our half year update report, the review identified a number of recommendations to further enhance processes. These recommendations have been accepted and are being implemented.

4.3   **Inputs**

4.3.1   The 2016/17 internal audit plan contained 5,443 days, and I am satisfied that there were adequate staffing resources available to me to deliver the agreed plan.

4.4   **Outputs**

4.4.1   During the year we issued a total of 273 final reports, containing 2816 recommendations. For comparison purposes during 2015/16 we issued 198 final reports containing 1483 recommendations. The increase in the number of reports and recommendations relates in the main to recommendations following school visits.

Reports by Type	
Internal Audit Reviews	122
Follow up Reviews	31
School Visits	96
Investigations	24
Total	273

A full list of the audit reports issued during the year is detailed in Appendix B.

4.4.2 Audit and follow up 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. 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 reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

4.4.3 Of the 153 reports (122 Internal Audit and 31 Follow up Reviews) issued during the year, 2 were given a red level 3 risk rating, 57 had an amber level 2 rating, and 94 had a green level 1 rating.

4.4.4 On a monthly basis a list of all final reports issued, together with their Council risk rating, is sent to Members of the Audit Committee. Under the agreed protocol, Members can request to see copies of specific reports.

4.5 **Performance and Customer Feedback**

4.5.1 As at 31st March 2017 we had completed 98% of planned jobs against an annual target of 95%.

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

4.5.3 As part of the PSIAS external review, independent feedback was obtained from key stakeholders. The responses to this feedback indicated that stakeholders appreciated:

"•   *Their involvement in the formation of the Internal Audit Plan.*
 •   *The professional way in which the Internal Audit Service 's work is delivered.*

- *The advice received from the Internal Audit Service.*
- *The positive impact the Internal Audit Service's work has on the Council's governance, risk and systems on internal control and enhancing understanding of these areas across the council."*

4.6   Corporate Fraud Team

4.6.1   In common with other public bodies the Council has a duty to protect the public purse. 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. A sub-team within CFT was established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. In response to legislative changes and reductions in resources we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

4.6.2   The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) during the year.

	2015/16	2016/17
Number of outstanding investigations at the beginning of the year	19	14
Number of fraud referrals received during the year	139	111
Number of cases concluded during the year	144	115
Number of investigations outstanding at the end of the year	14	10

4.6.3　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. We have continued to ensure that our processes are as lean as possible to ensure we can balance the caseload against available resources.

4.6.4　In addition to the above, the team have carried out proactive exercises looking at Staff Car Parking and No Recourse to Public Funds, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Data analytical techniques have also been used to review and identify any potentially fraudulent transactions within the Council's main financial systems. The Team have delivered fraud awareness training to staff in the Adults and Health Directorate, Client Financial Services Team, and have issued various bulletins to raise awareness of fraud.

4.6.5　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 recovered 45 properties, cancelled 194 housing applications prior to letting, and reduced the points on a further 37 applications. The team also identified Housing Benefit overpayments totalling £589,110 and Council Tax changes of £324,974. This shows that in addition to the obvious social benefits deriving from the work, there is also a real financial saving from preventing and / or terminating fraud.

4.6.6　Our annual fraud report will be presented to Committee Members at the next meeting in July 2017.

5.　The Internal Audit Charter 2017/18

5.1　On an annual basis Members are asked to approve the Internal Audit Charter. The charter for 2017/18 is attached as Appendix C. 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.

6.   Internal Audit Plan 2017/18

6.1   The 2017/18 plan contains 5,113 days (4,013 days excluding the Schools Team). This compares to 5,443 days in 2016/17.

6.2   As in previous years the audit plan has been compiled using our professional judgement and is based on our assessment of risk. When compiling the plan we have taken into account the views of other key stakeholders throughout the organisation.

6.3   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. The Council is going through significant change, it is essential that proportionate and effective internal controls are maintained during this period. The audit plan will be subject to in year amendment and modification to reflect shifting priorities, emerging issues and process changes arising from the implementation of the Future Operating Model.

6.4   As in previous years we have used our risking model to 'score' all potential 'auditable' areas. The factors considered as part of the risk model are:

- 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 and Council Business Plan / Priorities.

6.5   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 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. Ongoing changes across the organisation may result in in-year changes to the plan.

6.6   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.

	16/17 %	16/17 Days	17/18 %	17/18 Days
Number of Audit Days in the annual plan	**100**	**5443**	**100**	**5113**
Main financial systems	16	860	18	905
Business controls assurance	35	1875	34	1735
Investigations	15	840	16	830
Schools (Non Visits)	4	195	3	155
Schools (Visits)	17	950	19	945
Follow up work	4	225	4	200
Ad-hoc work	5	273	3	178
Planning & reporting	3	180	2	125
City initiatives	1	45	1	40

6.7   Appendix D contains the detailed annual plan.

6.8   We are continuing to invest in the audit data warehouse and expand our data analytics capacity and capability across all areas. This approach is far less time consuming and labour intensive than traditional manual transaction testing and gives a much wider view on the system and service as a whole.

6.9   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.

6.10   A half yearly report will be produced to update Members on progress with the delivery of the 2017/18 plan.

Birmingham City Council

Summary of Significant Findings & our work on the Main Financial Systems

1.   **Red High Risk Reports**

During 2016/17 we issued 2 reports, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Deprivation of Liberty Standards Follow Up - Deprivation of Liberty Safeguards (DoLs) assessments continues to be a national problem. Whilst there is ongoing activity to review and amend the Mental Capacity Act in relation to when a DoLs assessment is required, any potential change to legislation is not expected to be in place until 2020. We acknowledge that this is not a Council specific problem and have seen evidence that the arrangements to manage and monitor assessments have improved. The Directorate have progressed the previously agreed actions, no new recommendations were identified.

Disabled Facilities Grant - VAT Coding - The Council's Independent Living Service (ILS) is responsible for managing adaption works undertaken by external contractors on Non-Council properties which are funded from the Disabled Facilities Grant (DFG). Controls within the ILS have not been sufficiently robust to ensure that the VAT associated with those invoices being paid for adaptation works undertaken on Non Council properties, is being correctly processed; and that the Council does not claim VAT it is not entitled to. Consequently the ineffective control environment has resulted in significant financial and reputational risks materialising for the Council.

A penalty notice has been received from the HMRC which has been suspended for one month and will be cancelled if the specified conditions are met. As a result of action taken and monitoring systems established, the specified conditions are already being met. Therefore, no financial penalty is likely to be incurred. A follow-up review, to verify the effectiveness of the steps taken, will be undertaken in 2017/18.

School Visits

Throughout 2016/17 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of key elements of school strategic and operational service delivery. Based on feedback and changing priorities the school audit work programme was revised during the year to ensure sufficient emphasis on financial systems and controls.

Overall we have continued to find that the majority of schools visited have effective systems of control in place, and staff and Governors are complying with key processes. There are areas for development which would improve strategic and operational delivery, but in the main, schools are being well managed.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school, the appropriateness of roles, core values and the culture of tolerance / mutual respect. Overall, no significant concerns were identified from the surveys.

The main issues identified are:

- Financial Governance – weaknesses continue to be identified in the delegation framework in a proportion of schools. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities. Improvements are required in the financial reporting to Governors to allow sufficient scrutiny and challenge. The correct completion of pecuniary interest forms remains an ongoing issue in a number of schools together with the improved recording of gifts and hospitality. The majority of schools are now completing their Schools Financial Value Standard on an annual basis but not always submitting it by the deadline or recording its approval.

- Budget Planning – whilst day to day financial management is well established a high proportion of schools are relying on their carry forward surplus to set a balanced budget. This poses a risk for future years when the surplus has been utilised unless action plans to reduce expenditure / increase income are developed. It is not surprising that this continues to be an area of significance as the financial challenges in schools grow, notably there is a continued increase in school forecasting deficits in future years.

- Purchasing – we identified the need for greater compliance with the key controls for the ordering and receipting of goods. Improvements are also required in respect of establishing appropriate divisions of duty.

- Delegated Powers – we identified the need for greater compliance in the reporting of quotes to Governors and improvement is required in the monitoring of cumulative expenditure to ensure value for money obtained.

- Safeguarding – schools were well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. 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. Schools are rolling out Prevent training but still need to improve the recording of when employees have been trained.

- Attendance - overall attendance remains well managed and effective arrangements are in place. There are two areas that continue to require further development – the retention of sufficient records where pupils leave a school in year and ensuring correct codes are used to record attendance/absence.

2.   Risk Management

Risk management continues to be embedded within the Council. The revised risk management policy, strategy and toolkit have been placed on the Council's website, and advice and support is provided as requested and necessary. The Corporate Risk Register is reviewed by the Corporate Leadership Team and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee.

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. We carried out several audit reviews in 2016/17 covering governance in specific service areas.

As in previous years we also reviewed the process used to produce and monitor the AGS which forms part of the Council's accounts.

4.   Main Financial Systems

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2016/17 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

Financial Control / Ledger

2016/17 has been very challenging for the Council with a number of budgeted savings plans being very ambitious and not materialising. An Independent Financial Review has been undertaken and its recommendations acted upon. From the work we carried out during the year, we did not find any fundamental or material issues and are able to provide assurance that, in general, effective arrangements are in place for the proper management and control of the Council's finances. However, the recent restructure in finance has removed/repositioned the management accounts section, which supported ledger integrity, it is too early to evaluate the impact of this. We did identify some concerns around budget pressures due to inadequate budgets and unrealistic income targets being set.

Payroll and Human Resources (HR)

The gross payroll cost as at the end of period 12 for 2016/17 was £725m; this has reduced from £752m in the previous year. The payroll system is stable and functioning well. Processes are in place to maintain the accuracy and quality of information, including HMRC's real time information.

The content and functionality of People Solutions / Employee Portal has been expanded and improved to provide more guidance is available to staff. There is now an expectation that staff will use the online guidance rather than raising 'Ask HR' request.

Processes and controls are in place and operated by HR staff and Payroll staff to ensure that the payroll is accurate and that staff are paid correctly and statutory and voluntary deductions are correct. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of overpayments remains low, there is a still a need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

During the year PWC have assist the Council in developing employee tax risk matrices, together with supporting action plans. We found that the action plan was being adequately progressed, ensuring compliance with HMRC regulations.

Accounts Payable (AP)

In 2016/17 over 577,000 invoices were paid by AP, for main creditors (including feeder file transactions) totalling £1.536 billion. 99.0 % of invoices were paid within 30 days of receipt in AP (against a target of 95%). The average monthly purchase card spend was over £810k, well above the target of £250k, maximising the rebate received by the Council.

Payment processes are well established with checks in place to prevent duplicate payments and enforce compliance. Our work identified that quality of vendor master data records have significantly improved and processes strengthened to ensure quality is maintained. The feeder file verification process, including verification of bank details for feeder file payments over £75k, was working intended.

Whilst the overall number of petty cash accounts and transactions has substantially reduced (approximately 41,000 transactions with a value of £2.31m for 2015/16), we did identified a number of concerns and lack of compliance with corporate guidance over the use of petty cash accounts. Our recommendations for strengthening controls and compliance have been accepted. We will revisit the use of petty cash as part of our programme of work in 2017/18 to ensure appropriate action has been taken.

Procurement

Corporate Procurement Services (CPS) has devised tools and procedures to help improve contract management across the Council, and they continue to work with contract managers to support improvements in contract management and identify savings. In the contracts we reviewed this year, which were selected on a risk basis, we found that basic governance processes, e.g. contract management plan, risk register, KPIs were not in place. We intend to undertake further work this year to review how CPS is continuing to embed the principles of good contract management across the Council.

The procedure introduced in September 2013 to regulate the engagement of individuals e.g. consultants, is being implemented. The changes in HMRC rules from April 2017, which place greater onus on the Council to ensure the correct tax and National Insurance contributions are paid, re-enforce the need for the necessary engagement checks to be undertaken.

As well as the work we have undertaken to provide an overall assurance, we have undertaken other work on procurement and contracts which was specifically requested by service areas. This included a review of the Independent Living Service, where recommendations were made to strengthen the tender documentation, draft contract, proposed contract management and performance framework, and procurement advertisement.

Accounts Receivable (AR)

The invoicing and recovery of debt is an essential part of the Council's financial management processes and reliance is placed on income targets being met. The value of debts raised in 2016/17 was £678m a 23.57% decrease on last year. Overdue debts (over 90 days old) as at 31/3/2017 was £24.9m (an overall decrease of 4% compared to the previous year) of which £14.6m relates to Housing Benefit Overpayment (HBO). HBO debts are managed separately by the Benefit Service.

The AR processes were found to be operating appropriately, with effective processes in place for raising bills and recovering debt.

Benefits Service

Housing Benefit payments equate to around £560million which is returned to the Council through the subsidy grant.

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). The introduction of Universal Credit (UC), which replaces many existing benefits, began in April 2013 and the roll out will continue throughout 2017 /2018.

During the year a significant service incident was encountered which resulted in the duplicate processing of feeder files into the Revenues and Benefits System. Prompt action was taken to stop any duplicate payments being made and minimise the impact of the incident. We completed independent checks on the reconciliation and are able to provide assurance that the impact on the subsidy claim has been assessed and robust audit trails exists that can be followed by the Council's External Auditors.

Whilst responsibility for informing the Benefits Service of change of circumstance rests with claimants, it was identified that in a number of cases Housing Benefit had remained in payment when Council Tax liability had ended. Once this issue was detected a proactive manual checking process was established to identify and suspend benefit payments. An automatic system solution has recently been implemented that will automatically suspend Housing Benefit once Council Tax liability has ended. The total number and value of these cases was low in relation to total benefits paid. A review of the automatic solution will take place in 2017/18 to verify its operation.

Our review of claim verification identified that the process was operating as intended and helping to secure processing efficiencies. Only minor recommendations were made to enhance claim processing.

Council Tax & Non-Domestic Rates

Council Tax is one of the ways the Council receives the money it needs to provide local services. The amount paid is based upon the value of the property. Reductions (discounts and exemptions) in the amount paid are applicable to certain people.

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office. There are various exemptions and reliefs that can be applied to empty properties, charities and small businesses.

The administration of Council Tax and NNDR has recently transferred back under the control of the Council from Service Birmingham and new management arrangements are being established. These arrangements will be reviewed as part of our 2017/18 planned work.

Whilst overall collection rates remain high, 94.55% for CT and 97.2% for NDR (source QRC4 2016/17); our testing did identified delays with the progression of a small number of debts through the recovery process. Additional resources have now been directed to the review of these accounts to ensure appropriate steps are taken.

Rents

The Rent Service is responsible for the collection of rent from council tenants. This requires liaison with Place Directorate staff in the Letting Suites who have face to face contact with the tenants when the tenancy is set up. The level of rent arrears is closely monitored and action is taken to assist current (secure and introductory tenants) and former tenants to clear arrears. Discretionary housing payments (DHP) can be made to those in particular hardship. Tenants receiving help with their rent who are in receipt of UC which includes housing costs will have to manage and make arrangement to pay their rent themselves. DHP applications can still be considered from UC claimants if their UC includes housing costs.

Improvements have been made in the monitoring of Rent accounts to reduce the need for manual intervention and reduce arrears. Recovery action is now targeted based on the level of arrears. The processes introduced by management since the inception of the Introductory Tenancy Arrears Team are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly. The new escalation policy is helping to ensure that rent arrears are effectively managed.

5.   Information Governance / Technology (IT) Issues

The Council is dependent on information and technology to deliver services in an efficient and effective manner and achieve positive outcomes for 'citizens'. In common with other public sector bodies it is striving to make effective use of information and draw insight in order to target limited resources at the areas of greatest need. This introduces new challenges and risks that need to be managed.

Our work during the year has been targeted 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.

Council

Our work continues to raise concerns over the management of system user accounts and controlling access to sensitive personal information. During periods of significant organisational change it is essential that access is tightly controlled to avoid data breaches occurring.

Our information governance reviews identified:

- whilst the performance targets for responding to information access requests are now being achieved, scope remains to further tighten processes and ensure all requests are responded to promptly;
- data processing agreements, with 3rd parties who handle personal information on our behalf, are not always in place;
- a revised information security e-learning training package has now been implemented and communicated to all staff; and
- concerns over the level of compliance with security and information standards, impacting upon the use and reporting of information for statutory and non-statutory purposes.

Service Birmingham

During the year a significant service incident was encountered which resulted in the duplicate processing of feeder files into the Revenues and Benefits System. Service Birmingham responded to the incident and action was taken to minimise the impact and ensure that the benefit subsidy claim was not affected. Our recommendations to strengthen procedures and prevent reoccurrence have been accepted and are being actioned.

We found that the overall core IT infrastructure (network, directory service, data centres) is well managed. However, we have identified a number of improvements that can be made to enhance the security surrounding key operating and database systems.

Robust IT disaster recovery arrangements are in place, and tested, for nominated KPI systems. We identified a need to update the business impact assessment to ensure that all appropriate systems were included within the scope of these arrangements.

Council / Service Birmingham

We have continued to identify concerns in the overall governance and reporting arrangements surrounding the management of IT projects. Post implementation reviews of major projects have highlighted the need for a more effective lessons learnt process. A number of these concerns stemmed from the lack of a coordinated strategy being in place when the project was initiated.

High privilege SAP users are being managed effectively. Segregation of duties risks are being defined and compliance rules built within SAP's Governance, Risk and Control module and access provisioning processes. There is no a need to embed this into day to day activity.

An Information Communications and Digital Strategy has now been developed and agreed. The strategy sets out how Information and Communications Technology and Digital technologies (ICTD) will support the way in which council services will be provided in the future. Delivery of the strategy, through the two main programmes, is key and will be a focus of our work over the coming year. It is envisaged that key governance and security issues will be addressed through the implementation of this strategy.

The Information Assurance Board has been re-instigated, with ownership from the Corporate Leadership Team, the Board will have a key role in ensuring that information risks are identified and responded.

Final Reports Issued During 2016/17

Audit Reviews (122 Reports):

Key to linkages to the Council's areas of priority, core objective of good governance, Corporate Risk Register and financial assurance:

1. Children (a great city to grow up in)
2. Jobs & skills (a great city to succeed in)
3. Housing (a great city to live in)
4. Health (a great city to lead a healthy and active life in)
5. Good Governance
6. The Corporate Risk Register (CRR - based on the version which went to Audit Committee in March 2017)
7. Financial Assurance

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Disabled Facilities Grant - VAT Coding	High	4							✓
Adults Direct Payment	Medium	3				✓			
Dealing with Excluded Pupils	Medium	3	✓					✓	
Sexual Health Contract - Effectiveness of Commissioning	Medium	3	✓						
Northgate Housing Security	Medium	3			✓				
BMHT Property Transactions	Medium	3			✓				
Contracts and Procurement Summary Report 2015/16	Medium	3		✓					✓
Children Missing From Education	Medium	3	✓					✓	
Tenancy Management	Medium	3			✓				
Accounting for Non HRA Assets	Medium	3					✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Effective Social Working With Families	Medium	3	✓					✓	
CareFirst	Medium	3	✓					✓	
Sexual Health Contract - Identification of Child Sexual Exploitation	Medium	3	✓					✓	
Cityserve Financial Control Review	Medium	3					✓		
Annual Tenancy Visits	Medium	3			✓				
Database Security	Medium	3					✓		
Quotation Process	Medium	3		✓					✓
Markets	Medium	3							✓
Accounts Payable - Purchase Cards - Directorates / Youth Service	Medium	3	✓						
Operating System Security	Medium	3					✓		
Resilience - Business Continuity Planning for Critical Services	Medium	3					✓	✓	
IT Project Governance - Service Birmingham	Medium	3					✓		
Local Growth Fund - Management Arrangements	Medium	3		✓			✓		
Registration Service	Medium	3					✓		
Special Education Needs and Disability - Strategy and Plan	Medium	3	✓			✓			
Home Support Services and Care Homes - Contract Management	Medium	3					✓		
Take up of Direct Payments	Medium	3				✓			✓
Leisure Facilities Externally Operated Contract Management	Medium	3				✓	✓		
Licensing	Medium	3					✓		
Child Permanency Reports	Medium	3	✓						
Transport and Engineering Consultancy Framework - Contract Management	Medium	3							✓
Pathways for Children in Care	Medium	3	✓						
Infrastructure Assets	Medium	3							✓
Data Quality - DfE Returns	Medium	3	✓				✓		
Implementation and take up of the DP Prepaid card	Medium	3				✓			✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Schools Asset Management	Medium	2	✓						✓
Acivico Contract Monitoring - Overall Delivery of Contract	Medium	2					✓	✓	
Savings Plan – Progress	Medium	2					✓	✓	✓
Sophos Post Implementation Review	Medium	2					✓		
Child Protection Case Conferences - Engagement	Medium	2	✓					✓	
Workforce Planning - Strategy	Medium	2		✓					
Financial Control Review	Medium	2					✓		
IT Disaster Recovery	Medium	2					✓		
Adult Care Planning - Financial Assessments	Medium	2				✓			✓
Public Health Restructure and Service Redesign - Governance	Medium	2				✓			
Acivico Contract Monitoring - Final Accounts Process	Low	3					✓	✓	
Mobile Devices	Low	3							✓
Housing Visiting Programme Mobile Solution	Low	3			✓				
Fixed Asset IT System	Low	3							✓
Accounts Payable - Corporate review of the use of Petty Cash – Economy	Low	3							✓
Accounts Payable - Corporate review of the use of Petty Cash - People	Low	3							✓
Information Security Management (iCare Application)	Low	3					✓		
Accounts Payable - Corporate review of the use of Petty Cash - Place	Low	3							✓
Payment Card Industry - Data Security Standard (PCI – DSS)	Low	3					✓		
Rent Collection & Charges - Overall Arrears Recovery Process	Low	3			✓				✓
Carefirst Voyager Master Data	Low	2						✓	
Vendor Master Data	Low	2							✓
Cancellation and Write Offs	Low	2							✓
Corporate Payroll Transaction Testing	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Lost and Stolen IT Equipment	Low	2							✓
Human Resources Subject Access Request	Low	2					✓	✓	
Children's Direct Payments	Low	2	✓					✓	
Carefirst IT Review	Low	2	✓					✓	
Accounts Receivable - Processing & Payment Methods	Low	2							✓
Benefit Service - Discretionary Housing Payments	Low	2			✓				
Corporate Payroll Annual Summary Report 2015/16	Low	2							✓
Accounts Receivable Annual Summary Report 2015/16	Low	2							✓
N3 Network	Low	2				✓			
Environmental Health	Low	2				✓			
Highways PFI	Low	2						✓	
Rent Collection & Charges - Introductory Tenancy Process - Case Panel Review	Low	2			✓				
E-Procurement - IT Security (In-Tend System)	Low	2		✓			✓		
Destin Manual	Low	2					✓		
Quality Checks - Housing Benefits	Low	2			✓				
Accounts Receivable - Recovery of employee related debts	Low	2							✓
Directory Services 2017	Low	2							✓
Accounts Payable - Activities in Directorates	Low	2							✓
Non Invoiced Income - Car Parking Income	Low	2							✓
SAP FireFighter	Low	2					✓		
Data Centre Move	Low	2					✓		
RBIS IT Security	Low	2					✓		
Data Centres	Low	2					✓		
Procurement Governance Arrangements	Low	2		✓			✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Tell Us Once 2017	Low	2					✓		
BID Synchronisation Project review	Low	2					✓		
Greater Birmingham and Solihull Local Enterprise Partnership - Arrangements for managing BCC Interests & Risks	Low	2					✓		
Children's Centre Manager	Low	2	✓				✓		
Information Security Management (CASPAR Application)	Low	2	✓				✓		
Information Security Management (EMS One Application)	Low	2	✓				✓		
Information Security Management (Apex Innovation Application)	Low	2	✓				✓		
IT Projects - ChildView Hub (CACI)	Low	2	✓				✓		
Planning Applications	Low	2					✓		
SAP Security	Low	2					✓		✓
Benefits Service - Risk Based Verification (RBV)	Low	2					✓		✓
IT Projects - Agile Working Project	Low	2					✓		
Accounting for Non-BCC Activities	Low	2							✓
Depreciation	Low	2							✓
Rent Collection and Charges - Former Tenancies	Low	2			✓				✓
Treasury Management	Low	2							✓
Rent Collection & Charges - Introductory Tenancies	Low	2			✓				✓
Information Security Management (Escort Liaison Application)	Low	2					✓		
Information Security Management (eAdmissions Application)	Low	2					✓		
National Non-Domestic Rates Credit Balances	Low	2							✓
National Non-Domestic Rates DD SPA and SPA	Low	2							✓
National Non-Domestic Rates Vulnerable	Low	2							✓
Council Tax Report - DIS	Low	2							✓
Council Tax Report -SPA	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Council Tax Report - AOE	Low	2							✓
Network Management	Low	2					✓		
Impulse	Low	2	✓				✓		
Risk Management - Parks and Nature Conservation	Low	1				✓	✓		
Accounts Payable - Validation of High Value Payments - Greater Than 75k	Low	1					✓		
Ethics	Low	1					✓		
Risk Management - Planning and Regeneration	Low	1					✓		
National Non-Domestic Rates - Accounts in Query	Low	1							✓
National Non-Domestic Rates - Accounts requested back from Enforcement Agents	Low	1							✓
Accounts Receivable - Debt collection agency process	Low	1							✓
Accounts Payable - Payments to Unaccompanied Asylum Seeking Child & Families with No Recourse to Public Funds	Low	1							✓
Accounts Receivable - Write Offs and Reasons	Low	1							✓
Complaints - Revenues and Benefit Service	Low	1					✓		
Billing & debt recovery processes within business areas	Low	1							✓
Accounts Payable - Feeder Files - External Supplier Invoices	Low	1							✓

Follow Up Reports (31 Reports):

Title	Risk Rating Council
Deprivation of Liberty Standards Follow Up	High
IT Project Governance Follow Up	Medium
Independent Living Follow Up	Medium
Management of Voids Follow Up	Medium
SAP GRC Follow Up	Medium
Information Governance - Adoption & Fostering Follow Up	Medium
Young Adults Re-provisioning Follow Up	Medium
Personal Education Plans Follow Up	Medium
IT Service Management Follow Up	Medium
International School Follow Up	Medium
Library of Birmingham Follow Up	Medium
Planning and Regeneration - Grant Funded Schemes - Governance and Management Arrangements Follow Up	Medium
Birmingham Municipal Housing Trust Property Transactions Follow Up	Medium
International School 2nd Follow Up	Medium
Corporate Asset Management Follow Up	Low
Reconciliation of Control Accounts Follow Up	Low
Children with Complex Needs - Complaints Procedures Follow Up	Low
Caldicott Guardian Follow Up	Low
Web Page Security Follow Up	Low
SAP Roadmap Follow Up	Low
Housing Benefit Overpayments (HBO'S) Follow Up	Low
Third Party Service Provision Follow Up	Low
CareFirst Voyager master Data Final Follow Up	Low

Title	Risk Rating Council
Cohort IT Security Follow up	Low
SAP External Audit Report Recommendations Follow Up	Low
Subject Access Requests Follow up	Low
InReach (Birmingham) Ltd Follow Up	Low
Accounts Payable - Purchase Cards Follow Up	Low
Highways Open Book Accounting Follow Up	Low
Public Health - Restructure and Redesign Follow Up	Low
DBS Checks	Low

Investigation Reports (24 Reports)

School Visits (96 Reports)

Internal Audit Charter

Internal Audit Charter 2017/18

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 (which are in accordance with the mandatory PSIAS). The detailed actions to deliver the charter are contained within the BA Business Plan.

Notes:

1. The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief Finance Officer or City Solicitor.

2. Statutory officer roles with regards to Internal Audit:

Chief Executive & Assistant Chief Executive - ensure there is an open, honest, transparent and accountable culture in operation within the Council and are available as and when required by Internal Audit.

Chief Finance Officer - this role is responsible for ensuring the sound financial administration of the Council. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.

City Solicitor / Monitoring Officer is responsible for ensuring that the Council acts and operates within the law, responding to whistleblowing allegations, and promoting and maintain high standards of conduct by Council members, officers, partners and contractors. They may commission Internal Audit to investigate specific issues of concern and ensure that audit recommendations are acted upon.

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:

- each Corporate Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and must make its services available as and when required for audit both internally and externally;

- Corporate Directors must respond in writing to any recommendations contained in audit reports in accordance with agreed protocols; and

  - the AD ARM on the authority of the Chief Finance Officer 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: 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 Birmingham Audit Protocol.

4.   Resourcing

4.1   The service will be delivered to professional standards by appropriately qualified and skilled staff. BA has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.

4.2   During 2017/18 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will be used to support 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 Corporate Director must ensure that the Chief Finance Officer, 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 Chief Finance Officer 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 Corporate Director must report this to the Chief Finance Officer, who may refer the matter to the appropriate Cabinet Member or Committee.
- Each Corporate 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, ie: 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   Annual / half year update reports will be produced. The annual report will 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 - 2017/18

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

Birmingham City 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 2015
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 2003
- Criminal Procedures Investigation Act 1996
- Data Protection Act 1998
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 2002
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2008
- Regulation of Investigatory Powers Act 2012
- 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
- Relevant IIA guidance
- Information Security - BS EN ISO27001:2013

9.3 BA reports to the Section 151 Officer under the Local Government Act 2002. 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, Leader, Section 151 Officer and 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 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 and Risk Management processes. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.

9.7   We give an opinion on the internal control environment 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
- School activities

10. The Annual Audit Plan

- The Future Council programme has presented new risks as well as opportunities. We will continue to contribute to driving forward the change agenda ensuring our planning process is future focused.

- The audit plan for 2017/18 has been compiled based on a number of factors, ie:

  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, ie: 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 years internal audit work and other assurance gained regarding the control environment.

  There is also an allocation for undertaking programmed school visits as part of the school improvement programme.

- 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 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 2016.

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

- Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

  Consultancy work is defined as:

  "The provision to businesses of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."

  Consulting services may include but are not limited to:

  ➢ School financial health checks,
  ➢ facilitation of workshops,
  ➢ assistance in the completion of financial returns
  ➢ representation on Boards etc.

  The purpose, scope and approach for each piece of consultancy work will be agreed prior to commencement of the work.

- 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.

Birmingham City Council

Proposed Internal Audit Plan 2017/18

	Days	Days
Financial Systems (**including computer audits where appropriate**)		
Main Accounting	70	
Housing Rents	30	
Accounts Payable	60	
Accounts Receivable	60	
Carefirst	30	
Payroll/HR	60	
Benefits	60	
Revenue (Council Tax and NNDR)	80	
Asset Management	70	
Grants and Contributions	15	
Cash Income / Cashiers	60	
Procurement, Contract Audit and PFI	140	
Direct Payments	40	
Income / Expenditure - Schools	20	
Central transaction Hub	20	
IT related financial systems work	90	**905**
Business Controls Assurance		
Work in progress b/fwd. from 2016/17	40	
IT Related non-financial systems work	500	
Data Analysis	200	
Corporate Risk Management Facilitation	75	
Contingency	50	
Chargeable work on behalf of Acivico	40	905
Adults and Health / Children and Young People		
Children Services (Social Care)	60	
Children Services (Education)	50	
Corporate Safeguarding	50	
Independent Living	20	
Adoption and Fostering	20	
Public Health	30	
Troubled Families Programme	20	
Prevention Agenda	15	
Assessment & Support Planning	25	
Individual budgets	20	
Residential Placements - Adults	20	
Children with Complex Needs	20	
People Commissioning	25	
Children in Care Placement Services	5	

	Days	Days
Safeguarding & Development - BCSB	50	
Better Care Fund	25	455
Place		
Birmingham Resilience	20	
Equality, Community Safety & Cohesion	25	
Waste Management	30	
Illegal Money Lending	10	
Wellbeing Service	20	
Careline	15	
Homeless - Temporary Accommodation	20	
Allocations	20	160
Economy / Finance / Transformation		
Annual Audit Letter	5	
Ethics	15	
Governance	20	
New Service Delivery Vehicles	20	
Project Management	40	
Risk Management - Contribution to Improvement Agenda	15	
ACIVICO - Management Arrangements	40	
Self-Assessment - AGS Process	10	
Accountable Body	50	215
		1735
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	**830**
Schools		
Schools Consortium	20	
Schools Themed Work	100	
Schools Facilities Management	15	
School Deficits	20	
Visits	945	**1100**
Follow Up Work		**200**
Ad Hoc Work		**178**
Planning and Reporting		**125**
City Initiatives		**40**
TOTAL		**5113**