

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	29th June 2021
Subject:	Birmingham Audit Annual Report 2020/21
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 opinion on the adequacy and effectiveness of the systems of internal control for the financial year ending March 2021. 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 2020/21, 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 and provides an update on the Internal Audit plan for 2021/22.

2. EXECUTIVE SUMMARY

- 2.1 As a result of the COVID-19 pandemic it has not been possible to deliver the full programme of work set out at the beginning of the year. We have prioritised our resources on supporting the Council and concentrating on emerging systems and procedures. The plan set at the beginning of the year was prioritised on Must / Should / Could basis to ensure our assurance resources were appropriately targeted at significant systems and risks.
- 2.2 Based on the audit work undertaken and the wider assurance framework I can provide a reasonable assurance on the core systems of internal controls.
- 2.3 Birmingham Audit has complied with the requirements laid out within mandatory professional standards during the year.

2.4 The Internal Audit Charter is a key document that sets out the purpose, authority and responsibility of the internal audit function.
3. RECOMMENDATIONS 3.1 Members accept this report and the annual assurance opinion for 2020/21. 3.2 Members approve the 2021/22 Internal Audit Charter.
4. LEGAL AND RESOURCE IMPLICATIONS 4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. 4.2 The Internal Audit service has complied with the requirements laid out in the Public Sector Internal Audit Standards. 4.3 The work is carried out within the approved budget.
5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES 5.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan. 5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit
6. COMPLIANCE ISSUES 6.1 Council policies, plans, and strategies have been complied with.

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Birmingham Audit Annual Report 2020/21

29th June 2021

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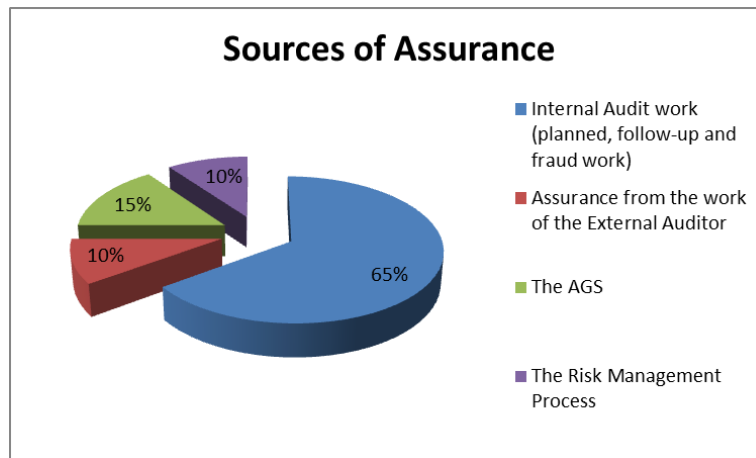
1. Background

- 1.1 The 2020/21 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). 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 As a result of the national pandemic the Council has faced significant challenges during 2020/21. It has had to work closely with the NHS, universities, schools and businesses across Birmingham to maintain critical services in order to protect and support citizens. During this state of emergency, it has had to react quickly and revise well established operating procedures and systems. Inevitably the pandemic has had an adverse impact on the delivery of services and Internal Audit. During the year we have had to prioritise resources into supporting the Council's response and helping to ensure that proportionate controls are built within emerging systems and procedures.

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 of risk management, corporate governance and financial control). My opinion forms part of the Annual Governance Statement (AGS), which the Council is legally required to produce. During the year it has been necessary to flex and reprioritise work in order to support the Council's response to the emergency and help ensure that proportionate controls are built within changing systems and procedures.
- 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. 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 in 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 2020/21 is based on the following sources of assurance and weightings:



- 2.5 Due to the need to reprioritise resources to support the Council's response to the COVID-19 pandemic it has not been possible to deliver the full programme of work set out at the beginning of the year. During the year we have supported the Council by concentrating resources on emerging systems and procedures. This has included areas such as COVID-19 support grants to individuals and businesses. The plan set at the beginning of the year was prioritised on Must / Should / Could basis to ensure our assurance resources were appropriately targeted at significant systems and risks.

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

- 2.6 Based on the audit work undertaken and the wider assurance framework I can provide a reasonable assurance on the core systems of internal controls. As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year. A summary of the significant findings from our work (including the main financial systems), is included as Appendix A.
- 2.7 Within their Audit Findings Report and Annual Audit Letter for the year ending 31st March 2020 the Council's External Auditors gave an unqualified opinion on the Council's financial statements, but did state that an emphasis of matter paragraph was included in their report in respect of the uncertainty over the valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. Additionally the External Auditors were satisfied that, in all significant respects, except for specific matters identified in the arrangements relating to the Commonwealth Games and the Council's Highways PFI agreement that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.
- 2.8 Whilst restrictions are now beginning to be lifted the Council's emergency response arrangements remain in place. Recovering from the pandemic will be a significant challenge for the forthcoming year.

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:
- Supporting the Council's response to COVID through the provision of proactive advice and secondment of staff to support the Track and Trace service. This has included the processes for awarding COVID support grants to individuals and businesses, pre-payment assurance checks and responding to fraud allegations.
 - Continued to develop and extend the Audit Data Warehouse and use of data insight. This has included supporting:
 - the Government's national Breathing Space Debt scheme, designed to relieve some of the pressure and stress caused by being in debt;

- providing analysis to support the Voyager / 1B data migration and trial balance reconciliation;
 - identification of anomalies in housing applications and Council Tax liability assessments.
- Joint working with Regulatory Services Financial Investigators to identify and recover fraudulently diverted creditor payments and business grants.
- Contributing to the management of Cyber risks and improvements to the Information Assurance Governance Framework. Including participation in the management of a serious data breaches.
- Work closely with the Education and Skills Directorate to support delivery of improvement across Birmingham Schools. This has included regular attendance at the Schools Causing Concern Board, the Schools in Financial Difficulty Focus Groups (including chairing the Special School Focus Group, and the Nursery Federation.
- Supporting School and Governor Support in delivering the advanced financial management training for Governors, and HR with the annual new Head Teacher training.
- Issue of a termly Auditor Magazine providing advice and guidance to schools and quarterly Fraud Spotlight providing advice and guidance to help minimise the risk of fraud.

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 Public Sector Internal Audit Standards (PSIAS).
- 4.2 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.

4.3 Quality Assurance

- 4.3.1 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; internal quality standards; that the service is efficient, effective and continuously improving; and that the service adds value and assists the organisation in meeting its objectives.
- 4.3.2 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. Our self-assessment against the standards confirm that we continue to comply with requirements. At the February meeting, Members agreed the approach and terms of reference for our next external assessment. This will be completed during 2021/22. The result of this review will be reported to Committee once finalised.
- 4.3.3 During the year, we retained our accreditation to the internationally recognised information security standard ISO27001:2013. Additional, internal quality audits on our ISO processes have been undertaken, most recently in April 2021. As in previous years, only minor issues were identified; actions have been taken to correct these.
- 4.3.4 It is imperative that the Internal Audit Function continues to provide an effective service and responds to the assurance needs of the organisation. In order to help us ensure that we are providing appropriate insight and added value we have undertaken, with support from an external partner, an Internal Audit Total Impact Review. This review was designed to capture independent feedback on the impact of internal audit and identify areas for development. The development road map is currently being implemented.

4.4 Inputs

- 4.4.1 The 2020/21 internal audit plan contained 4664 productive days. During the year 3813 days were delivered. The variance between planned and actual days has arisen due to the impact of a vacancy on the school's audit team and the secondment of resources to help support the COVID-19 Track and Trace Team.

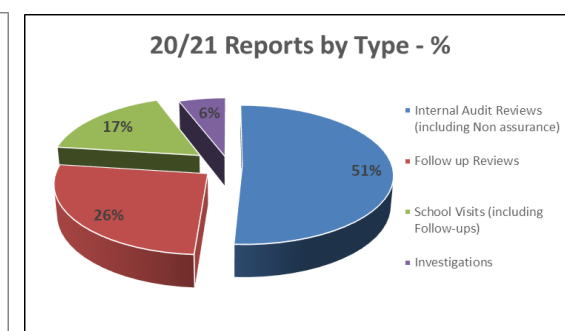
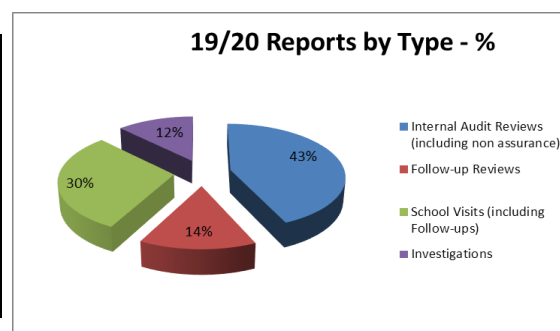
4.4.2 The actual days delivered in 2020/21 compared to those planned is detailed in the table below:

	20/21				
	Planned		Actual		Variance
Number of Audit Days in the annual plan	100%	4664	100%	3813	(851)
Main financial systems	15%	705	16%	601	(104)
Business controls assurance	38%	1780	36%	1381	(399)
Investigations	18%	830	22%	843	13
Schools (Non-Visits)	1%	30	0%	5	(25)
Schools (Visits)	15%	720	9%	332	(388)
Follow up work	4%	175	5%	172	(3)
Ad-hoc work	6%	299	6%	237	(62)
Planning & reporting	3%	120	6%	238	118
City initiatives	0%	5	0%	4	(1)

4.5 Outputs

4.5.1 During the year we issued 157 final reports, containing 899 recommendations. For comparison purposes, during 2019/20 we issued 210 final reports containing 1508 recommendations.

Reports by Type	19/20	20/21
Internal Audit Reviews	91	80
Follow-up Reviews	30	41
School Visits (including Follow-ups)	63	27
Investigations	26	9
Total	210	157

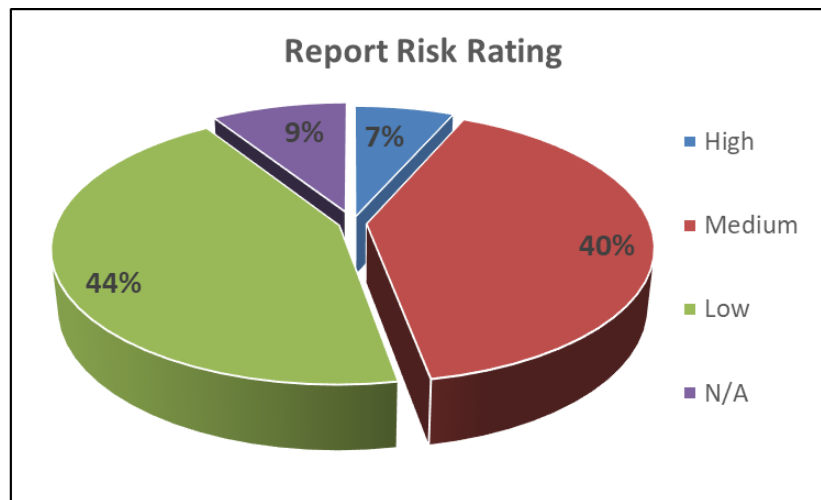


A full list of the audit reports issued, together with risk and assurance ratings, during the year is detailed in Appendix B.

4.5.2 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 (Green) - Non-material issues
2. Medium (Amber) - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance
3. High (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.

4.5.3 Of the 121 reports (80 Internal Audit and 41 Follow-up Reviews) issued during the year, 8 were given a high-level rating, 49 had a medium level rating, 53 had a low rating, and 11 related to non-assurance work.



4.5.4 On a monthly basis a list of all final reports issued, together with their risk rating, is sent to Members of the Audit Committee, Cabinet and the Council Leadership Team. Under the agreed protocol, Members can request to see a copy of any report.

4.6 **Performance and Customer Feedback**

4.6.1 As at 31st March 2021 we had completed 89% of planned jobs to draft report stage, against an annual target of 95%. Although this reduces to 77% when taking into account audits that have been deferred until 2021/22 or cancelled as they could not be completed due to the pandemic (e.g. school visits).

4.6.2 Throughout the year we have sought feedback from our customers by attending management teams and capturing comments via our ISO processes.

4.6.3 Both internal and external customers continue to provide positive feedback on the services provided, examples include:

‘.....this has saved both organisations significant time and effort and highlights what can be done when we work together.’

‘.....Many thanks for the extremely valuable and professional support you have provided to us through this transitional period. I’m confident we will reach our goal thanks to the hard work of the team and the focus and guidance you have provided, thank you.’

‘.....has been an absolute star in our COVID-19 response team. Despite not having a Public Health background, she has excelled at supporting education settings. Her organisation, communication and attention to detail has been exactly what we needed to respond to COVID....’

‘.....This has been invaluable to Birmingham’s programme and has greatly assisted our evidencing of outcomes for families.....’

‘.... Your work has played an important role in enabling my colleagues and I to fast-track and target improvements’

4.7 Corporate Fraud Team

4.7.1 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 is established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. The work of the Team is prioritised on a materiality basis, 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. We are continuing to develop analytical tests designed to detect fraud and error.

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

	2019/20	2020/21
Number of outstanding investigations at the beginning of the year	14	30
Number of fraud referrals received during the year	105	124
Number of cases concluded during the year	89	101
Number of investigations outstanding at the end of the year	30	53

4.7.3 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.

- 4.7.4 During the year the Team have worked closely with Regulatory Services Financial Investigators to investigate potential business grant fraud and trace payments through the banking system. Additionally, the team have carried out a number of proactive exercises utilising data analysis to identify potential anomalies as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. The Team have delivered fraud awareness training and have issued various bulletins to raise awareness of fraud.
- 4.7.5 The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes 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. Our investigations have been significantly hampered by COVID-19 restrictions. Despite these restrictions the team have still managed to recover 14 properties and stop 591 inappropriate housing applications prior to letting. The team also identified additional Council Tax liability of £332K. 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.
- 4.7.6 Our annual fraud report will be presented to Committee Members at the September meeting.

5. The Internal Audit Charter

- 5.1 The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit function to be formally defined in an Internal Audit Charter.
- 5.2 On an annual basis Members are asked to approve the Internal Audit Charter. The Charter for 2021/22 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, together with the rationale behind the annual risk-based audit plan.

6. Internal Audit Plan

- 6.1 The 2021/22 plan was developed following the completion of a risk assessment and was due to be approved by Members at the March Audit Committee meeting. The 2021/22 plan contains 4427 days. This compares to 4,664 in 2020/21. This reduction of 237 days principally relates to the suspension of recruitment to one vacant school auditor post as part of the Council's corporate workforce savings programme.

- 6.2 The table below shows a summary split of audit days over the different categories of work we undertake, based on our initial risk assessment. The previous year information is given for comparison purposes.

	20/21	20/21 Days	21/22	21/22 Days
Number of Audit Days in the annual plan	100%	4664	100%	4427
Main financial systems	15%	705	16%	705
Business controls assurance	38%	1780	39%	1711
Investigations	18%	830	19%	830
Schools (Non-Visits)	1%	30	1%	42
Schools (Visits)	15%	720	12%	540
Follow up work	4%	175	4%	175
Ad-hoc work	6%	299	6%	289
Planning & reporting	3%	120	3%	130
City initiatives	0%	5	0%	5

- 6.3 The plan was agreed by the Audit Committee at the March meeting.

7. COVID-19 Restrictions

- 7.1 COVID-19 restrictions have had a significant global impact. Whilst measures are being taken to slowly and safely lift the restrictions across the UK there is no doubt that the impact of the pandemic will continue to influence how the Council operates and the services it delivers to the communities and citizens of Birmingham for the foreseeable future. The restrictions have had a significant impact on the delivery of the 2020/21 audit plan. Our focus during the year has been on assisting the Council in responding to the pandemic and continuing to maintain critical services. The 2020/21 plan was prioritised to focus our activity on the areas required to support the delivery of an annual opinion on the systems of internal control. However, the overall level of coverage was lower than anticipated at the beginning of the year, this is particularly in areas such as school visits.

- 7.2 As the Council recovers from the incident and begins to normalise systems and processes we will need to consider any new or emerging risks together with any potential changes to priorities. The audit plan will be updated to reflect these emerging issues to ensure our work is appropriately targeted. Any changes made to the plan will be reported to Audit Committee.

8 Grant Certification

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

Grant Certificates
Troubled Families
Scambusters
Growth Hub
Primary School Grant
Local Transport Capital Grant

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

European Grants – First Level Controller
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
Urban-Regen-Mix
TRIS – Transition Regions towards Industrial Symbiosis
SPEA – Supporting Public Procurement of Innovative Solutions
BETTER – Stimulating regional innovation through better e-government services

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

1. High Risk Reports

During 2020/21 we issued 6 audit reports and 2 follow-up reports where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Birmingham Adult Education Service

Council Risk Rating: High Assurance: Level 4 RAG: 

Our review, undertaken at the request of management, identified deficiencies within the financial control environment. At the time of our follow up review significant progress had been made in addressing the weaknesses

Supplier Financial Risk - Embedding the Methodology

Council Risk Rating: High Assurance: Level 4 RAG: 

In 2018 Corporate Procurement relaunched the Supply Chain Risk Methodology in order to help ensure that appropriate processes in place to continuously monitor the financial health of suppliers and to be prepared if a supplier were to become insolvent. Whilst the methodology does not need to be applied to all contracts our review identified that further work was required to fully embed it within contract management arrangements.

Contract Extensions

Council Risk Rating: High Assurance: Level 4 RAG: 

Whilst appropriate arrangements existed for extending contracts in line with contractual options, we identified a need to strengthen the arrangements where no contractual option existed to extended beyond the original term existed.

Direct Payments - Progress of Completing Reviews

Council Risk Rating: High Assurance: Level 3 RAG: 

We identified that not all packages of care are being adequately reviewed and recorded on CareFirst. Due to the COVID-19 pandemic progress in implemented the agreed actions has slipped, however, we have been provided with assurance that implementation is now being taken forward.

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

Due to Covid-19 there has been a large increase in the volume of invoices processed. The value of one non-purchase order invoice was incorrectly scanned and entered within the accounts payable system. The incorrect value was not identified and was eventually paid. We have concluded that the overpayment was an error and not an attempt to divert funds. The overpaid funds have now been recovered from the vendor.

Homelessness - Temporary Accommodation
Council Risk Rating: High Assurance: Level 3 RAG: 

Whilst the majority of the weaknesses previously reported have yet to be fully addressed, we identified evidence of strategic and operational level changes which seek to proactively strengthen the management of Temporary Accommodation. The service alone is not able to directly address some of the strategic issues facing the wider Housing Options Service, e.g. national increase in families calling upon the statutory homeless service. However, we have been informed that a Future Operating Model (FOM) and Proposed New Model Customer Journey has been developed, which will seek to secure a significant reduction in bed and breakfast use, through a focus on robust prevention and early intervention work.

Adult Education IT Systems Replacement – Follow up
Council Risk Rating: High Assurance: N/A RAG: 

The Council supplies a range of training programmes through Birmingham Adults Education Service. In order to drive the service forward and secure service improvement, a new IT infrastructure and supporting has been implemented. Our initial audit and subsequent follow up identified weaknesses within the project governance arrangements and raised system concerns surrounding the revised solution. Since the completion of our work we have received assurance that our recommendations have been actioned and the issues addressed.

GDPR - Procurement and Contract Management – Follow up
Council Risk Rating: High Assurance: N/A RAG: 

The Data Protection Act DPA came into place in May 2018 implementing the EU General Data protection regulation (GDPR). As a result, changes needed to be made to contracts to bring them in line with the new regulations and update procurement and contract management processes to ensure compliance. We have identified a need for specific GDPR training for procurement officers and contract managers, and to review and update toolkits, templates and data processing / sharing agreements.

2. School Visits

School audits were suspended between March and October 2020 due to the coronavirus pandemic which created significant pressures and nationwide school closures. Our audits restarted in November 2020 after consultation with the Directorate, Education colleagues, and school leaders. We introduced a blended approach of remote and on site working depending upon the preferences of each school selected for a visit. Despite the 3rd national lockdown most audits booked for January 2021 went ahead in agreement with the schools to be visited, but the programme was suspended again in February to the end of the financial year. This significantly reduced the number of school audits during 2020/21. Our school auditors remained busy though out the year by either supporting the public health track and trace programme or auditing other areas when appropriate.

We have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of maintained schools that focuses on the systems of effective financial management. Schools are selected on a risk basis to ensure we focus our resources in the most appropriate areas and respond to the current challenges. A robust follow process is in place that supports the schools appropriately based on level of assurance and level of risk.

Overall, our work has found areas for development across all the control areas reviewed, with the exception to safeguarding. We acknowledge that our risk-based plan means that we are auditing schools with the greater challenges so this may not reflect the whole maintained school sector.

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. No significant concerns were identified from the surveys. Any minor issues have been appropriately escalated and support provided.

The main issues identified were:

- Financial Governance – We found areas for development with the governance framework. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities.

- Adequacy of financial reporting to Governors and scrutiny / challenge by Governing Boards remains an area that requires improvement especially given the financial situation schools finding themselves in.
- The correct completion of pecuniary interest forms remains an ongoing issue, new templates and guidance have been issued to support schools.
- 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 – we continue to see an increase in schools with a deficit and not able to set a balanced budget or are forecasting deficits in future years. While most Governors and Schools Senior Leadership are looking to establish and agree mitigation action plans to address this risk, often these have not been formalised or do not go far enough to address the problem.
- Purchasing – Compliance with the school's financial procedures manual purchasing procedures continues to be an issue. In particular, ordering and receipting of goods.
- Delegated Powers – we have continued to find a need for greater compliance in the reporting of quotes to Governors. Improvements are also required in the monitoring and reporting of cumulative expenditure to ensure value for money obtained and compliance with the Schools Financial Procedures requirements.
- Purchase Cards – Despite a clear control framework that supports the management of purchase cards in schools we have found a high level of non-compliance regarding approvals, monthly reconciliations and individual purchases.

Our follow up reviews have been very successful in supporting schools improving their systems and controls, as well as placing a focus on their financial position. However, we have continued to face significant challenges in getting schools to implement our recommendations on a timely manner, we have asked for Directorate support in achieving this aim.

3. Risk Management

The Council's Risk Management Framework, which sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels, has been reviewed and updated to ensure focus on the strategic direction of the Council. Strategic Risks are continuing to be considered against the 'PESTLE' (Political, Environmental, Social, Technology, Legal, and Environmental) framework to ensure they remain appropriate. This revised Strategic Risk Register, together with the supporting risk action plans, is reviewed and challenged on a monthly basis by the Corporate Leadership Team.

The Risk Champions Group, which is made up of representatives from each directorate, has been revitalised and is supporting the implementation of robust operational risk management.

Advice and guidance, together with a supporting e-learning module, are available via the Council's Intranet to help embed risk management as a proactive management tool.

4. 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 the year we have completed audit reviews across information governance, project Governance, and the implementation of risk management.

As in previous years, we also reviewed the process used to produce and monitor the Annual Governance Statement (AGS) which forms part of the Council's accounts. The AGS 2020/2 identifies eight significant issues:

- Covid-19 Pandemic: impact on services;
- Covid-19 Pandemic: impact on Financial Resilience;
- Delivery Plan;
- Homelessness and Safety Implications for Tower Blocks;
- Asset Condition and Sufficiency;
- Commonwealth Games;
- Commissioning and Contract Management; and
- Birmingham SEND Written Statement of Action.

5. Main Financial Systems

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2020/21 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

Financial Control / Ledger

Our work on financial controls did not identify any fundamental or material issues; we are able to provide assurance that, in general, effective arrangements are in place. However, our work identified some areas that require further development, including improving processes for challenging and validating savings proposals that have subsequently been classified as non-deliverable; and developing a VAT improvement plan to aid the Council in continually improving the management of, and compliance with VAT requirements (providing this plan was adequately monitored).

We maintained a watching brief on the Target Operating Model (TOM) and the Financial Improvement Plan (FIP) and intend to do further work on the FIP in 2021/22.

Within their Annual Audit Letter (January 2021) the Council's External Auditor gave an unqualified opinion on the Council's financial statements for the year ending 31st March 2020, but did state that an emphasis of matter paragraph was included in their report in respect of the uncertainty over the valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. With regards to the overall Value for Money conclusion the External Auditor was satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020 except for specific weaknesses identified in the arrangements relating to the Common Wealth Games and the Council's Highways PFI agreement.

Payroll and Human Resources (HR)

The gross payroll cost has reduced in line with staffing resources. However, the payroll related expenditure still represents a significant cost to the Council. The gross payroll cost for 2020/2021 was £784m. The payroll system continues to be stable and functioning well.

Processes and controls are in place and operated by HR and Payroll staff to ensure that the payroll is accurate and that employees are paid correctly and on time, and statutory and voluntary deductions accurately made. 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 directorate overpayments remains low in comparison to the number of payments made, £232k, managers still 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.

Work undertaken on starters and leavers found that in the main that all the correct checks and controls are taking place.

COVID-19 Business Grant

Processes were established to enable the payment of support grants on a timely and effective basis and in line with the specified requirements to ensure businesses received support during the pandemic lockdown. Due diligence checks were built into the payment process help in ensuring the accuracy of payment. Inevitable, a number of potentially false applications has been identified and these are being investigated.

Accounts Payable (AP)

The Accounts Payable (AP) team is responsible for the payment to suppliers for goods and services ordered by directorates and non-Academy schools. Processes and controls are in place to ensure that the council discharges its responsibilities and accurate payments are made to the correct supplier (target 95% of invoices paid within 30 days).

In 2020/21 8,866 vendors were paid, totalling £1.43bn including feeder file transactions. Purchase card spend across the Council was approximately £5.02m. 93.3% of invoices were paid within 30 days of the invoice date.

During the year the team encountered a number of fraudulent payment division attempts. As the nature and sophistication of this types of attacks grow there is a need for ongoing vigilance and verification of all master data changes. A high value payment error also occurred that initially went undetected, this further reinforces the need for all members of staff to be extra vigilant. Procedures and process are being strengthened.

Procurement

Our audit on Contract Extensions identified incidences of non-compliance with the Council's Standing Orders relating to contract extensions. In addition, appropriate arrangements were not in place to ensure relevant contract modifications were appropriately published.

Our follow-up review of the arrangements to embed the corporate Supply Chain Risk Methodology, identified that limited progress has been made. The methodology, which includes an annual financial health check of contractors, is still not widely embedded within contract management arrangements.

Our second follow-up review of the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with the Data Protection Act 2018, identified that issues remain. Specific training on GDPR for procuring officers and contract managers has still not been delivered, and procurement and contract management tools and templates have not been updated.

Accounts Receivable (AR)

The invoicing and recovery of sundry debt is an essential part of the Council's financial management processes and reliance is placed on services achieving their sundry income targets. The value of sundry debts raised in 2020/21 was £633m (excluding Housing Benefit Overpayment debts). Overdue sundry debts (over 90 days old) as at 06/04/2021 was £49.8m, including Housing Benefit overpayments.

Overall, processes were found to be operating effectively within the areas reviewed, with appropriate systems in place for raising bills and recovering debt; but there is room to secure greater process efficiency and maximise collection, e.g. billing for service in advance where appropriate.

Benefits Service

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). Housing benefit payments are returned to the Council through the subsidy grant. The subsidy claim must be accurate as a 1% error could cost the Council £5.41M reduction from Government. The Housing benefit caseload has seen a steady decrease (approximately 21%) over the last 3 three years. This decrease is due to the introduction of Universal Credit which replaces means tested benefits for working age people, one of which is Housing Benefit. Housing Benefit Overpayments (HBOs) have seen a corresponding reduction, reducing from approximately £13m to £10.6M between March 2020 and March 2021. HBOs for citizens migrating over to Universal Credit can no longer be recovered via Housing Benefit and must be reclaimed through Universal Credit payments. The overall level of Housing Benefit debts as at the end of March was £41.3m.

Council Tax Support (CTS) applications increased at the start of the pandemic from 119,636 in March 2020, to 122,149 in May 2021 and then remained steady throughout the rest of the year with 121,542 in March 2021. COVID-19 has place increased demand and pressure on the service this has been compounded by the need to administer COVID business grants and social isolation payments.

The processes and procedures reviewed were found to be operating as intended.

Council Tax & Non-Domestic Rates

Council Tax is one of the ways the Council receives money to provide local services. The amount paid is based upon the value of the property. In 2020/21 properties with a full year liability were raised totalling £432m with a year-end collection target of £390.4m (90.23%). The total amount collected as at 31/03/21 was £387.4m (92.17%).

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 Agency. There are various exemptions and reliefs that can be applied to empty properties, charities and small businesses. In 2020/21 an annual liability of £278.6m was raised against properties with a year-end collection target of £255.7m (91.80%). The total amount collected as at 31/03/21 was £242m (91.17%).

The processes and procedures reviewed were found to be operating as intended.

Rents

At March 2021 there were 56,450 city tenancies with 18,144 arrears cases (32.%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 18,800 accounts totalling approximately £9.624m (55.% of the total arrears figure). The current tenancy arrears at 31st March 2021 are approximately £16.684m

Recovery action is now targeted based on the level of arrears to help in ensuring that accounts with an arrears balance are actively monitored and acted upon. However, due to the pandemic court escalation is currently suspended.

6. Information Governance / Technology (IT) Issues

The resilience of IT has been key to the sudden shift to agile working within the Council during the COVID pandemic. Improvements to IT capabilities and products shortly before the first lockdown (i.e. Office 365) placed the Council in a good position to support an agile workforce.

The Council has a complex IT landscape which is constantly changing. Ensuring the Council's systems remain secure is essential to protect sensitive information and retain public trust. Adequate and effective information technology and information governance controls need to be in place to ensure that the Council can continue to operate effectively and deliver essential services.

The Council has embarked on a major IT change programme and is progressing a number of high-profile projects that are aimed at transforming operational process and improving customer experience e.g. Oracle replacement of the Finance and HR system, implementation of a new Social Care system, and refreshing the technical infrastructure.

Improvements have been made during the year to Information Governance processes. The Council have achieved Level 2 compliance against the Information Assurance Maturity Model (IAMM). Further recommendations have been made to embed GDPR requirements and ensure compliance on a consistent basis. The Data Protection Officer (DPO) and GDPR Programme manager have committed to mapping the recommendations to the IAMM action plan. Implementation of the recommendations will help in driving forward the Council's overall level of maturity and in meeting Level 3 criteria.

Our work has been targeted to provide assurance over the areas of greatest risk. The findings of our work have been summarised below:

- Performance in responding to Freedom of Information and Subject Access Requests continues to be lower than performance requirements, action is being taken to improve this position.
- Compliance with the Data Classification policy is not readily evident and improvements to data loss controls are required.
- During periods of significant organisational change, it is essential that IT access is tightly controlled to avoid data breaches and possible inappropriate activity occurring. Data Breach procedures are currently being enhanced and strengthened.
- Data Protection Impact Assessments need to be embedded in all process activities.
- Not all data sharing and processing activities are covered by appropriate agreements and the extent and nature of third-party access and data sharing is not clear in the Information Asset Register.
- There continues to be a need to reinforce and ensure compliance with the ICT policies.
- Inconsistent and conflicting policies and guidance.
- Ensuring staff have good knowledge and awareness around malware threats, and adequate patching policies are key defences in preventing security and data breaches.
- Our work in respect of management and security of IT applications continues to provide a reasonable assurance.

- Project governance and management arrangements have improved; it is important that lessons learnt are shared across the Council and robust processes established to ensure expected benefits are realised.
- Cyber Security is constantly evolving, and work against the cyber Strategy and Roadmap is continuing.
- Compliance with the process for movers and leavers is difficult to monitor, particularly for agency, temporary and external staff. Improved integration of systems and processes combined with role-based profiles will strengthen management of IT user accounts.

Through our work we have continued to support the Information Assurance Board in their role of ensuring that information risks are identified and responded to. The risk assessment is discussed with the Senior Information Risk Officer, Chief Information Officer, and nominated contact officers to ensure we concentrate on significant areas. The assessment is dynamic and continually updated throughout the year based on the feedback received.

Final Reports Issued During 2020/21
Audit Reviews (80 Reports, including 2 non-assurance reports):

Key to Council priorities and nature of assurance provided.

Outcomes

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

Assurance Type

6. Good Governance.
7. Strategic Risk.
8. Financial Assurance.
9. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Birmingham Adult Education Service	High	Level 4			✓	✓	✓				✓	✓
Supplier Financial Risk – Embedding the Methodology	High	Level 4		✓	✓			✓	✓		✓	✓
Contract Extensions	High	Level 4		✓	✓			✓	✓		✓	✓
High Value Payment Report	High	Level 4		✓	✓						✓	✓
Direct Payments - Progress of Completing Reviews Overdue by 12 Months	High	Level 3			✓	✓	✓				✓	✓
Homelessness - Temporary Accommodation	High	Level 3			✓	✓	✓			✓	✓	✓
Cityserve - Procurement and Contract Management	Medium	Level 4		✓	✓						✓	✓
Shelforce - Procurement	Medium	Level 4		✓	✓		✓				✓	✓
Heartlands Day Centre	Medium	Level 4				✓	✓		✓		✓	✓
Corporate Payroll - IR35 Compliance	Medium	Level 3		✓							✓	✓
CityServe Contracts Review	Medium	Level 3		✓	✓						✓	✓
Direct Payments - Impact and Outcomes	Medium	Level 3			✓	✓	✓					✓
Revaluation of Assets	Medium	Level 3		✓	✓						✓	✓
Major Capital Projects - Compliance with the Financial Control Standard	Medium	Level 3		✓	✓	✓	✓	✓	✓		✓	✓
Non-Treasury Investments	Medium	Level 3		✓	✓						✓	
Ethic 2020 - Gifts & Hospitality	Medium	Level 3		✓						✓		
Enablement	Medium	Level 3			✓	✓	✓				✓	✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Safeguarding Adults	Medium	Level 3			✓							✓
IT Emerging Issues - User Account Management and Provisioning	Medium	Level 3		✓					✓			✓
Financial Savings Plan	Medium	Level 3		✓	✓	✓	✓	✓			✓	
Civic Cleaning	Medium	Level 3			✓							✓
Hospital Discharge Funding	Medium	Level 3			✓	✓	✓				✓	✓
School Improvement - Contract Management/Delivery	Medium	Level 3			✓				✓		✓	✓
The Active Wellbeing Society	Medium	Level 3			✓	✓	✓		✓		✓	✓
Advantage Impact- IT System	Medium	Level 3		✓								✓
Commonwealth Games - Security and Resilience	Medium	Level 3						✓				✓
CivicaPay - Post Implementation Review	Medium	Level 3		✓	✓	✓	✓				✓	
Waste Management Services Independent Review Phase 1	Medium	Level 3		✓	✓	✓	✓		✓			✓
Commercial Activities - Cityserve	Medium	Level 3		✓							✓	✓
Care Centres	Medium	Level 3			✓	✓	✓					✓
Eclipse Implementation - Testing Strategy	Medium	Level 3			✓	✓	✓				✓	✓
Direct Payments, Embedding Operational Practice (Stage One)	Medium	Level 3			✓	✓	✓				✓	✓
Interim Procurement Governance Arrangements during Coronavirus Outbreak	Medium	Level 3		✓	✓	✓	✓	✓	✓		✓	✓
Section 117	Medium	Level 3		✓							✓	✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓			✓	
Information Governance - Information Asset Register	Medium	Level 2		✓	✓	✓	✓		✓			✓
Hospital Discharges	Medium	Level 2			✓	✓	✓					✓
Web Services	Medium	Level 2		✓	✓	✓	✓	✓				✓
Council Tax - Recovery and Enforcement	Medium	Level 2					✓				✓	
NDR - Recovery and Enforcement	Medium	Level 2		✓							✓	
Anti-Virus - Malware	Medium	Level 2		✓	✓	✓	✓	✓				✓
Information Governance - Remote Working	Medium	Level 2		✓	✓	✓	✓	✓	✓			✓
GDPR Article 33 Breach Notification	Medium	Level 2		✓	✓	✓	✓	✓	✓			✓
NNDR Charitable Relief	Medium	Level 2		✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Not in Employment & Training (Inc. Not Knowns)	Medium	Level 2			✓	✓	✓					✓
Financial Forecasting	Medium	Level 2		✓	✓	✓	✓	✓		✓	✓	
School Themed Work - Income Control	Low	Level 3			✓	✓	✓		✓		✓	✓
Non-Invoiced Income - Pause Cafes	Low	Level 3		✓							✓	
Birmingham Municipal Housing Trust - Procurement	Low	Level 3			✓	✓	✓		✓		✓	✓
School Visits Follow up City wide	Low	Level 3			✓	✓	✓		✓		✓	✓
Treasury Management	Low	Level 3		✓	✓	✓	✓	✓			✓	
IT Applications - Register of Electors Online	Low	Level 3			✓	✓	✓	✓				✓
Rent Collection & Charges - Income Collection & Sundry Debts	Low	Level 2					✓				✓	✓
Payroll Allowances	Low	Level 2		✓							✓	
Payment Card Industry (PCI) Compliance - Planning Applications	Low	Level 2		✓							✓	✓
Ability to pay suppliers compliance	Low	Level 2		✓							✓	
Information Assurance Maturity	Low	Level 2		✓	✓	✓	✓	✓	✓			✓
SAP	Low	Level 2		✓							✓	
Non-Invoiced Income - Register Office	Low	Level 2			✓	✓	✓				✓	✓
Public Health - Supporting Clinical Commissioning Groups	Low	Level 2			✓	✓	✓					✓
Youth Provision Outcomes	Low	Level 2			✓		✓					✓
Accounts Payable - Purchase Cards	Low	Level 2		✓							✓	
Benefit Service - Quality Checks - Performance Management	Low	Level 2			✓	✓	✓				✓	✓
Abritas	Low	Level 2			✓	✓	✓		✓			✓
Rents Reconciliations	Low	Level 2					✓				✓	
Eclipse Implementation	Low	Level 2			✓	✓	✓				✓	✓
Accounts Receivable - Business Areas Raising Invoices Promptly	Low	Level 2		✓							✓	
Annual Review Process - Birmingham Children's Trust	Low	Level 2			✓						✓	✓
Urgent Payments	Low	Level 2		✓							✓	
Highways PFI Management - Interim Period	Low	Level 2		✓	✓	✓	✓	✓	✓			✓
Northgate Housing - IT Review 2021	Low	Level 2					✓		✓			✓
Council Tax - Exemptions and Discounts	Low	Level 2					✓				✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Neighbourhoods Directorate Risk Management Arrangements	Low	Level 2			✓	✓	✓			✓		
Corporate Payroll - No pension contributions due to a change in circumstance	Low	Level 1		✓							✓	
NNDR Rateable Value Growth Process	Low	Level 1		✓							✓	
Rent Collection and Charges Introductory Tenancies Arrears Process Debt Advice	Low	Level 1					✓				✓	✓
Revenues and Benefits - Funds and Provisions	Low	Level 1			✓	✓	✓				✓	✓
Direct Debit Failure Council Tax Automatic Robotics Process	Low	Level 1					✓				✓	
Clean Air Zone - Procurement Issues	Low	N/A		✓	✓	✓	✓		✓		✓	✓
Finance Team Processes Review	N/A	N/A		✓							✓	

Follow Up Reports (41 Reports):

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

Title	Risk Rating Council	RAG
Public Sector Network (PSN) Follow Up	Medium	
Heartlands Day Centre Follow Up	Medium	
Information Governance - Tenant Management Organisations (TMO's)	Low	
Council Tax - Student Discount 2nd follow up	Low	
Payroll Overtime Follow Up Report	Low	
Information Governance - Environmental Health 2nd follow up	Low	
Third Party Governance - Information Security	Low	
Information Governance - Transparency Code Follow Up	Low	
Accounts Receivable - Adults Aged Debts	Low	
IT Governance - Housing Repairs	Low	
Accounts Payable - Construction Industry Scheme follow up	Low	
IT Emerging Issues Data Sharing - Adults Social Care	Low	
IT Infrastructure DMZ Follow Up	Low	
User Account Management and Provisioning (SLAM)	Low	
IT Applications - Impulse and CV Hub	Low	
Appointee and Court Deputy Service 2nd Follow Up	Low	
Birmingham Adult Education Service Follow Up	Low	
The Health and Social Care Network Follow Up	Low	
Data Sharing Follow Up	Low	
Rents - Income collection & sundry debts	Low	
Leaseholder Service Charges Follow Up	Low	
Information Governance - Caldicott Guardian Follow Up	Low	
BCT Client Annual Review	N/A	
BCT Client Focussed Governance	N/A	
BCT Client Service Delivery Performance Framework	N/A	
Home to School Transport 3rd Progress Review	N/A	
Early Years Health and Well-being	N/A	
Residential Care Services - Progress Review	N/A	
Funeral and Property Protection Progress Review	N/A	
SEND Commissioning Arrangements - Third Progress Review	N/A	

Title	Risk Rating Council	RAG
Home to School Transport 4 th Progress Review	N/A	
R01 Enablement 1st Progress Review	N/A	

Investigation Reports (9 Reports)
School Visits (14 Reports, 2 Follow-up Reports, 11 progress reports)

Internal Audit Charter 2021/22**1. Introduction****1.1 This charter sets out Birmingham Audit's:**

- purpose, authority and responsibilities;
- establishes Birmingham Audit's position within the organisation, including reporting relationships with the 'board';
- covers the arrangements for appropriate resourcing;
- defines the scope 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 Birmingham Audit (which are in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS)). The detailed actions to deliver the charter are contained within the Birmingham Audit Service Plan.

Notes:

1. *The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief Financial Officer, or Monitoring Officer.*
2. *Statutory officer roles with regards to Internal Audit:*

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

Chief Financial Officer - is responsible for ensuring the sound financial administration of the Council and effective systems of Internal Audit. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.

Monitoring Officer - has a specific duty to ensure that the Council, its officers, and its Elected Members, maintain the highest standards of conduct in all they do.

2. Purpose, Authority & Responsibilities

- 2.1 Birmingham Audit's 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.

Birmingham Audit's helps the Council meet high standards of Service delivery, conduct and governance and assist in driving down the levels of fraud which achieved by examining, evaluating and reporting on the effective use of resources, reviewing the whole system of internal control and implementation of the intelligence led investigations regime.

- 2.2 In accordance with the Council's Constitution, Part D – D1 Financial Regulations, section FC4 Financial Governance directors must:

“(v) Providing open and unfettered access to internal and external auditors.

(vi) Implementing agreed internal audit recommendations within agreed timescales.”

- 2.3 Birmingham Audit's 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 Birmingham Audit 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; and
- 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 Birmingham Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Birmingham Audit 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 Birmingham Audit lies with management. Management can either accept the advice and implement recommendations or reject them. Any advice, guidance or recommendations made by Birmingham Audit will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.
- 3.3 The Assistant Director Audit and Risk Management 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. Birmingham Audit has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.
- 4.2 During 2021/22 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 Assistant Director Audit and Risk Management, 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 Birmingham Audit, or prejudice the ability of Birmingham Audit 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 the Council. 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 Assistant Director Audit and Risk Management will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.
- 5.3 Birmingham Audit 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 Birmingham Audit will take this into account. Where the results indicate that insufficient work has been done then Birmingham Audit may undertake a separate review.
- 5.4 The scope of audit work extends to services provided through partnership arrangements. The Assistant Director Audit and Risk Management will decide, in consultation with all parties, whether Birmingham Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the Assistant Director Audit and Risk Management will agree appropriate access rights to obtain the necessary assurances.
- 5.5 Birmingham Audit will not undertake tasks which are likely to compromise its independence, internal control functions, or certification processes.
- 5.6 Birmingham Audit will participate and contribute to Council and Directorate policy development as required through attendance at relevant events and working groups.
- 5.7 Other Work

Where appropriate resources exist, Birmingham Audit will make provision within the plan for the review of key systems or key services provided by:

- the Council on behalf of other organisations; and

- others on behalf of the Council. In order to achieve this Birmingham Audit will require access to partner records, systems and staff. This access should form part of any partnership contract between the Council 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

In accordance with the Birmingham City Council Constitution, Part D – D1 Financial Regulations, FC6 Delivery and Adherence to Core Strategies, directors must:

“(i) Directors will maintain appropriate systems to enable the Chief Finance Officer to collect information on the adherence to core strategies.

The Council core strategies that support Sound Financial Management including:

- (i) Anti-Fraud & Corruption Strategy*
- (ii) Anti - Money Laundering Policy*
- (iii) Whistle-blowing Strategy*
- (iv) Risk Management Strategy*
- (v) Insurance Strategy*
- (vi) Contracts and Procurement Regulations”*

Birmingham Audit will assist managers in minimising the scope for fraud by evaluating the Council’s systems of internal financial control and reporting thereon. Where irregularities are suspected, Birmingham Audit 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 Birmingham Audit will adhere to all Council policies.

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

6. Avoiding Conflicts of Interest

- 6.1 Birmingham Audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.
- 6.2 Birmingham Audit will maintain a register of interests for Audit staff. Any interests declared will be considered when planning and delivering work.
- 6.3 Where appropriate audit staff will be rotated to avoid any conflict of interests.

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 brought to their attention; and
 - 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. Birmingham Audit Business Plan – 2021/22

- 8.1 The Business Plan 2021+ sets out Birmingham Audits vision to be a highly respected and valued team for insight, analysis and advice.
- 8.2 Objectives:
- Deliver an internal audit service that meets professional and mandatory standards and delivers an informed and evidenced assurance to the Council.
 - Deliver an effective counter fraud service to prevent, detect and deter fraud and error and to assist law enforcement agencies through the provision of intelligence.
 - Enhance awareness and management of risk across the Council by embedding the risk management framework and co-ordinating the production of the Strategic Risk Register.
 - Add value and insight by understanding the risks and challenges that we, and our clients face and identifying opportunities to deliver improvements for the citizens of Birmingham.

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 Birmingham Audit working in partnership with a number of external bodies. The Assistant Director Audit and Risk Management 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
- GDPR/Data Protection Act 2018
- 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 Birmingham Audit 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 has adopted the CIPFA / SOLACE code of corporate governance. This code together with the Statement of Recommended Practice (SORP) 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 Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader 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 is established 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 Birmingham Audit 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; and
- school activities.

10. The Annual Audit Plan

10.1 We will contribute to protecting and enhancing organisational value, supporting the Council's aim to make a positive difference, every day, to people's lives. We will provide an enterprise wide perspective when carrying out audit work, constantly considering the challenging financial situation, and ensuring our planning process is future focused, adds value and insight, and improves organisational operations. We will continue to provide independent assurance and advice that supports healthy transparency in the risk management process. We will place emphasis on the responsibility taken by management to recognise their key risks and take ownership and accountability to manage these effectively, understanding risk appetite to properly accept / mitigate risks to achieve the best outcome.

10.2 The audit plan for 2021/22 has been compiled based on a number of factors, i.e.:

- the level of risk associated to each entity;
- the level of assurance associated to each entity;
- 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.

10.3 All the risks contained within the Strategic Risk Register are included within the Council's Assurance Framework, 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.

- 10.4 Following guidance from the External Auditors each of the systems they designate as 'main financial systems' will feature in the audit plan, unless otherwise directed.
- 10.5 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.
- 10.6 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 National Fraud Initiative (NFI). And ongoing development of anti-fraud database.
- 10.7 Follow up audits will be undertaken in accordance with the agreed policy.
- 10.8 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 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:

- facilitation of workshops;
- assistance in the completion of financial returns; and
- 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 incur the cost e.g. grant claim certification.

Internal Audit Plan 2021/22

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	705
Business Controls Assurance		
Work in Progress b/fwd. from 2020/21	50	
IT Related Non-Financial Systems Work	370	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	935
<u>Adults Social Care</u>		
Occupational Therapy DFG	20	
Transitions to Adulthood	20	
Day Centres	15	
Assessment & Support Planning	20	
Commissioning	20	
Liberty Protection Standard	10	
Placements	20	125
<u>Education and Skills</u>		
Safeguarding Corporate Overview	30	
Home to School Transport	15	
Commissioning & Contract Management Framework	20	
SEND - Transition from Commissioning Independent	6	
Provision to LA School based Provision	15	
Pre 16 Careers Service Delivery Arrangements (LA & Schools)	15	
	20	
Post 16 Providers - NEETS & Not Knowns	30	151
Performance		
Birmingham Children's Trust – Contract Management		

Safeguarding & Development – BCSB		
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		
Accountable Body	30	30
<u>Neighbourhoods</u>		
Homelessness	15	
Waste Management	25	
HMO Licensing	15	
Fleet Management	20	
Housing Visiting Programme	10	
Bereavement Services	10	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	295
<u>Partnerships, Insight and Prevention</u>		
Public Health	30	
Resilience	20	
Project Management	30	80
		1723
Investigations		
Reactive investigations	430	
Proactive work	200	
Fraud Awareness	200	830
Schools - Non Visits		
Themed Work	30	
Responding to the Challenge of Improving Financial Management in Schools	12	42
	540	540
Schools - Visits		
Follow Up Work		175
Ad Hoc Work / Contingency		289
Planning and Reporting		130
City Initiatives		5
TOTAL		4427