BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit and Risk Management**
Date of Meeting:	**27th March 2018**
Subject:	**Birmingham Audit – Development of 2018/19 Internal Audit plan**

Wards Affected: All

1. Purpose of report.

1.1 To update members on progress in developing the 2018/19 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note progress made in developing the 2018/19 internal audit plan;

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

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

3. 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 Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.

4. Risk Management & Equality Analysis Issues

4.1 Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.

4.2 We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

5. Compliance Issues

5.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

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Birmingham Audit – Development of the 2018/19 Internal Audit plan

27th March 2018

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1. Background

1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.

1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:

- Accounts and Audit Regulations 2015;
- Fraud Act 2006;
- Social Housing Fraud (Power to Require Information) Regulations 2014;
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
- Public Sector Internal Audit Standards (PSIAS).

1.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.

1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources; such as the Council's external auditor.

1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.

1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.

2. Quality Assurance

2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. Internal quality audits on our ISO processes are undertaken annually.

2.3 Our external PSIAS review was undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. The result of this self-assessment will be reported to Members as part of the Annual Audit report issued to Committee in June 2018.

3. Internal Audit Plan 2018/19

3.1 Our estimated number of audit days available for 2018/19 is 4681. This compares to 5113 in 2017/18 (a decrease of 432 days or 8.5%). This reduction results from the need to decrease resources in order to manage the service within the budget envelope that is available. The reduction in resources has been minimised by maximising income and appointment of an audit apprentice.

3.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control, together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Corporate Directors.

3.3 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's external auditors. We have allocated 730 days for the main financial systems work, including the review of IT controls, in 2018/19 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR

- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Income and Expenditure in Schools
- Direct Payments
- Carefirst

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

3.5 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2018/19 plan we have allocated 830 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.

3.6 In July 2015 additional funding was made available to support the establishment of a schools visiting team. The initial objective of this Team was to visit all Birmingham schools to review aspects of governance, financial management and safeguarding. A revised risk based visiting programme will be implemented during 18/19 once all schools have received an initial visit.

3.7 Chargeable work includes audit reviews completed on behalf of Acivico, grant certification, and additional housing repairs compliance testing. Birmingham Audit will also be providing an Internal Audit Service to the Birmingham Children's Trust with effect from 1st April 2018.

3.8 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:

- assessment of the adequacy of the control environment;
- strategic alignment to organisation priorities;
- materiality;
- sensitivity/reputational risk;
- assessment of management controls;
- management concerns;
- assurance based on internal audit work / knowledge and how recent that was;
- inclusion in the corporate risk register;
- assurance based on scrutiny reviews;
- assurance based on external audit or other inspectorate work and how recent that was; and
- assurance gained from other sources, including that gained from operational and performance management.

3.9 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities. Contingency time is incorporated to help us 'flex' the plan and respond to emerging issues during the year e.g. any risks arising from hosting the Commonwealth games etc. This ensures we can maintain a focus on the important strategic issues that the Council faces.

3.10 A summary of the 2018/19 audit plan, based on our current assessment of risk is detail in Appendix A, previous year figures are provided for comparative purposes. A detailed draft 2018/19 plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.

3.11 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.12 Any updates to the plan will be reported to the Audit Committee at the next meeting (June 2018). Progress in delivering the plan, together with any significant issues identified, will be provided to the Audit Committee and an annual report produced at the end of the year giving an opinion on the effectiveness of the systems of internal control.

Internal Audit Plan Summary

	16/17		17/18		18/19	
	%	Days	%	Days	%	Days
Number of Audit Days in Annual Plan	**100%**	**5,443**	**100%**	**5113**	**100%**	**4681**
Main Financial Systems	16%	860	18%	905	16%	730
Business Controls Assurance	35%	1875	34%	1735	39%	1830
Investigations	15%	840	16%	830	18%	830
Schools (Non Visits)	4%	195	3%	155	2%	105
Schools (Visits)	17%	950	19%	945	15%	720
Follow up Work	4%	225	4%	200	3%	150
Ad-hoc Work / Contingency	5%	273	3%	178	4%	186
Planning & Reporting	3%	180	2%	125	3%	120
City Initiatives	1%	45	1%	40	0%	10

Draft Internal Audit Plan 2018/19

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	90	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	**730**
Business Controls Assurance		
Work in Progress b/fwd. from 2017/18	30	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	

	Days	Total
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	920
Adults and Health		
Air Quality	10	
Assessment & Support Planning	25	
Better Care Fund	20	
Carers Strategy	20	
Commissioning	20	
Delayed Transfers of Care	10	
Delivery of Improvement and Business Plan	15	
Enablement	15	
Integrated 3rd Sector funding	15	
Integrated Personal Commissioning	20	
Prevention Agenda	15	
Public Health	30	
Placements	20	
Seven Day Working	15	
Transitions to Adulthood	20	270
Children and Young People		
Contract Monitoring - Birmingham Children's Trust	50	
Children Services (Education)	50	
Pupil Premium - Accountability and Usage	10	
Safeguarding & Development – BCSB	40	
Safeguarding Corporate Overview	40	190

	Days	Total
Economy		
Accountable Body	30	
Car Parking - Civil Enforcement	20	
Youth Employment Initiative	10	60
Finance and Governance		
Ethics	5	
Governance	20	
New Service Delivery Vehicles	10	
Risk Management	10	
Self-Assessment - AGS Process	10	55
Place		
Equality, Community Safety and Cohesion	25	
Homelessness	20	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	
Housing Improvement - Capital Works Programme	20	
Waste Management	30	295
Strategic Services		
Improvement Agenda	20	
Project Management	20	40
		1830
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	**830**

	Days	Total
Schools - Non Visits		
Consortium / Forum	20	
Deficits	20	
Facilities Management and Repairs	15	
Themed Work	50	**105**
Schools - Visits	720	**720**
Follow Up Work		**150**
Ad Hoc Work / Contingency		**186**
Planning and Reporting		**120**
City Initiatives		**10**
TOTAL		**4681**