

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	22nd November 2022
Subject:	Birmingham Audit - Half Year Update Report 2022/23
Wards Affected:	All

1. PURPOSE OF REPORT

- 1.1 The attached report provides Members with information on outputs and performance in relation to the provision of the Internal Audit service during the first half of 2022/23.

2. RECOMMENDATIONS

- 2.1 Members note the level of audit work undertaken and assurances provided.

3. BACKGROUND

- 3.1 Members agreed the Internal Audit plan for 2022/23 at the Audit Committee meeting held on 29th March 2022.
- 3.2 As at the end of September 2023 we had completed 38% of the planned jobs which is slightly below our target of 40%. The completion of the plan is being closely monitored and we remain confident that the 95% completion target for the end of the financial year can be achieved.
- 3.3 Post Audit Evaluation Questionnaires (AEQ) indicate that auditees value the work completed and the support and insight provided.

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. The work is carried out within the approved budget.

5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

5.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.

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

6. COMPLIANCE ISSUES

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

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Birmingham Audit Half Year Report 2022/23

22nd November 2022

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Appendix A: Reports Issued During the First Half of 2022/23

Appendix B: Summary of Significant Findings

1. Background / Annual Opinion

- 1.1 The 2022/23 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 The Council faces ongoing challenges. It must continue to provide effective services to citizens against a backdrop of global inflation and economic pressures and the need to continue to embed governance arrangements. These pressures add additional layers of complexity to the audit and assurance landscape. The audit plan is prepared using a risk-based methodology and is continually updated throughout the year, this helps to ensure that we concentrate on the most significant areas. The plan is prepared and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising of risk management, corporate governance, and financial control). In addition to audit reviews, the model used to formulate the end of year opinion, places reliance on assurance provided from other parties and processes. The opinion for 2022/23 will draw on the following sources of assurance:



- 1.3 The 2022/23 audit plan was approved by the Audit Committee at its March 2021 meeting. This report provides a summary of the progress made in delivering the agreed plan.

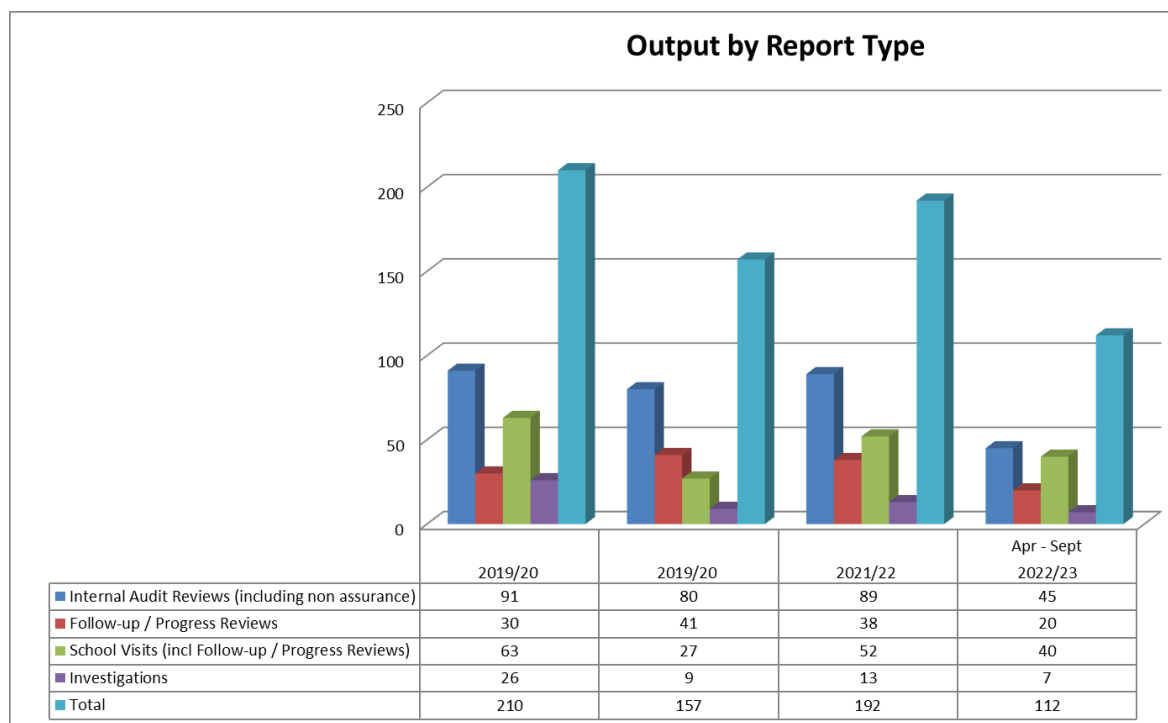
2. Added Value Services

- 2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives. This is particularly true in the current uncertain times where everyone needs to provide support and help the Council in providing critical services to the citizens of Birmingham. Examples of how we have done this during the first half of 2022/23 include:
- Working jointly with Children and Families on an audit of DBS compliance.
 - Working with the Children's Trust to deliver grant/funding certifications for Troubled Families and National Assessment and Accreditation Systems (NAAS).
 - Contributing to new Procurement rules.
 - Continuing to attend and contribute to the Schools Causing Concern, and Schools in Financial Difficulty groups.
 - Direct support of West Midlands Police Regional Organised Crime Unit in county lines operations.
 - Supporting Financial Investigations.

3. Performance

3.1 Outputs

3.1.1 During the first half of 2022/23 we issued 112 final reports. A comparison to the last 3 years (full years) is given in the chart below:

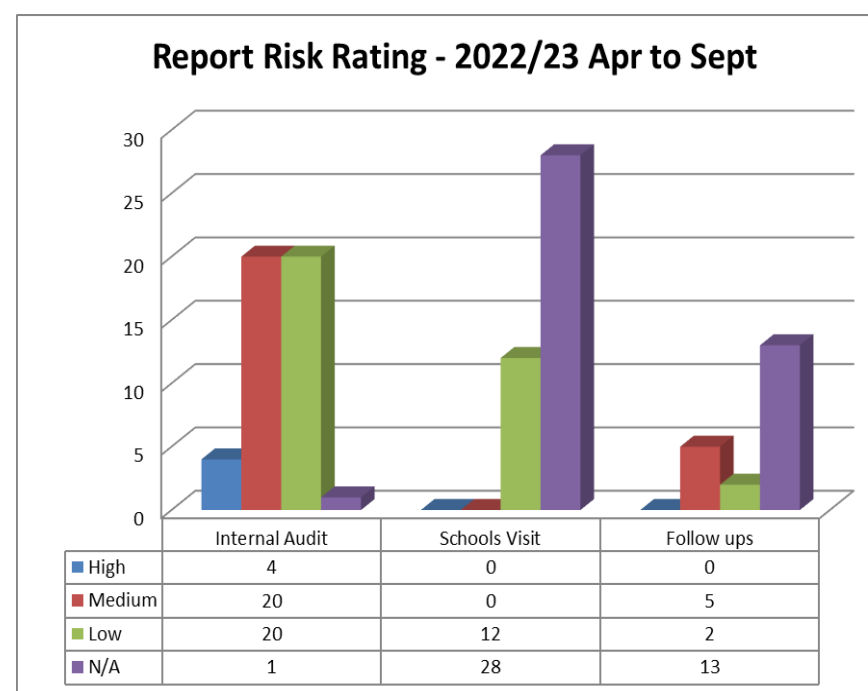
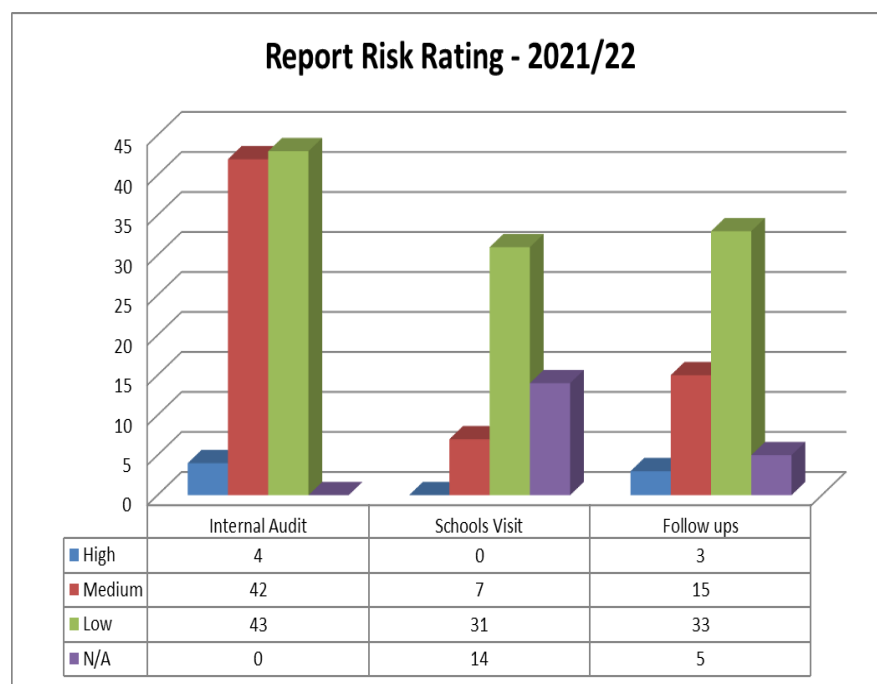


3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members can request copies of reports and receive further information. A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priority outcomes, core objective of good governance, the Corporate Risk Register, financial and business controls assurances is detailed in Appendix A.

3.1.3 Internal Audit, follow up, and school visit reports are generally given a risk rating to assist in the identification of the level of corporate significance. The key to the ratings given is:

1. Low – No material issues.
2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance.
3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputational risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

3.1.4 From the 105 reports issued (45 Internal Audit, 20 Follow up reviews, and 40 School Visits) , 4 reviews were given a high risk rating, 25 had a medium rating, 34 had a low rating, and 42 (relating to advice and guidance or monitoring improvement progress) were not assigned a rating. An analysis of the report risk ratings, together with a comparison to 2021/22 is given in the charts below. A summary of the significant findings from our work is detailed in Appendix B.



3.1.5 In addition to a risk rating, audit and school reports are given an opinion rating on the effectiveness of the control environment. The audit opinion ratings are:

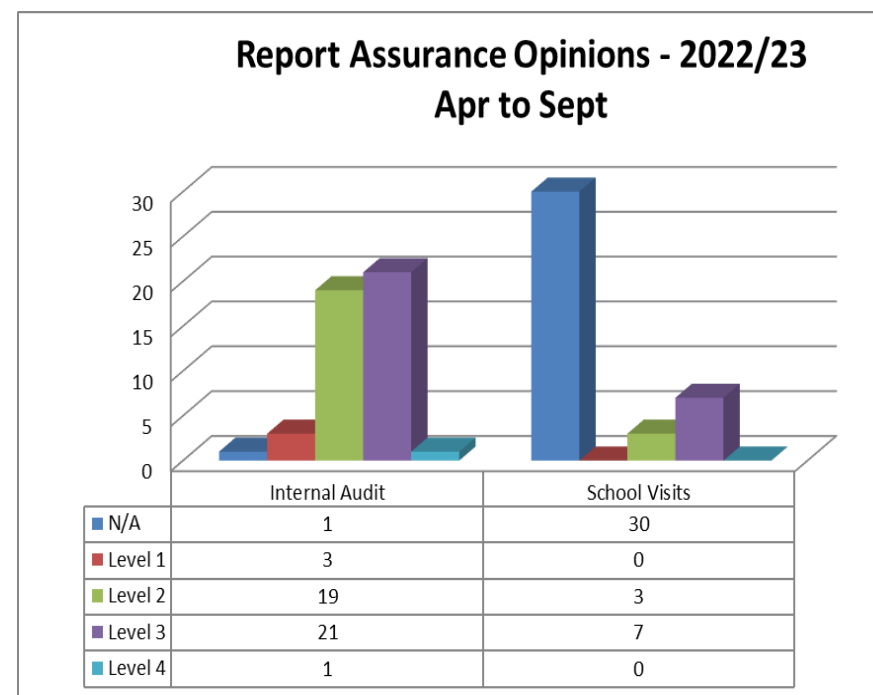
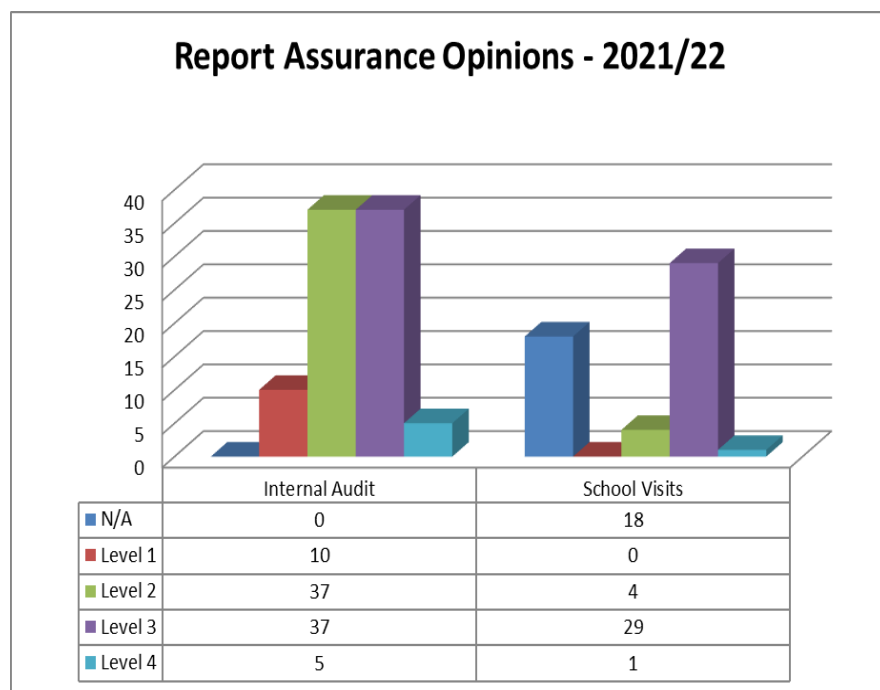
Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

Level 2 - Specific control weaknesses were noted. However, generally the controls evaluated are adequate, appropriate and effective to ensure that risks are being managed and objectives achieved.

Level 3 - Specific control weaknesses of a significant nature were noted, or the number of minor weaknesses noted was considerable. The ability to manage the relevant risks and achieve objectives is compromised.

Level 4 - Controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met.

3.1.6 An analysis of the opinion ratings (excluding follow ups), together with a comparison with 2021/22, is given in the charts below. To date 34% of reports issued (including schools) this year have contained a negative assurance (Level 3 or 4) this is a slight improvement on the whole of last year (i.e. 49%).



3.1.7 Post Audit Evaluation Questionnaires (AEQ) are issued with every final report. Since April 2022 11 AEQ's have been returned:

	AEQ's Returned	Total Average Score
Audit	7	4.84
Schools	1	5
Investigations	3	5
Total	11	4.95

Each question is scored: Strongly Agree/Very Good 5, Agree/Good 4, Satisfactory 3, Disagree/poor 2, Strongly Disagree/Very poor 1

3.1.8 The table demonstrates that everyone returning a questionnaire valued the audit or investigation and the support and insight provided.

3.2 Plan Completion

3.2.1 The approved 2022/23 plan contains 4,416 productive days. The table below details completion as at 30th September 2022 and provides a comparison to 2021/22 (full year).

	2021/22					2022/23				
	Planned Days	%	Year Actuals	%	Variance Days	Planned Days	%	Half Year Actuals (Apr – Sept)	% (Apr – Sept)	Variance Days (Apr – Sept)
Number of audit days in approved plan @ 1st April.	4427	100%	3971	100%	(341)	4416	100%	1787	100%	(2629)
Main financial systems	705	16%	617	16%	(88)	705	16%	242	14%	(463)
Business controls assurance	1711	39%	1351	34%	(360)	1745	39%	673	38%	(1072)
Investigations	830	19%	589	15%	(241)	830	19%	323	18%	(507)
Schools (Non-Visits)	42	1%	21	1%	(21)	27	1%	9	1%	(18)
Schools (Visits)	540	12%	509	13%	(31)	540	12%	231	13%	(309)
Follow up work	175	4%	180	5%	5	175	4%	101	6%	(74)
Ad-hoc work	289	6%	456	11%	167	259	6%	128	7%	(131)
Planning & reporting	130	3%	248	6%	118	130	3%	79	3%	(51)
City initiatives	5	0%	0	0%	5	5	0%	0	0%	(5)

3.2.2 As at 30th September 2022 we had completed 38% of the original planned jobs to draft report stage, which is slightly below our target of 40%. The actual audit days delivered are slightly lower than anticipated due to a vacancy. A member of the Computer Audit Team successful gained a position with the Council Cyber Security Team at the beginning of the year. We are currently attempting to recruit to this position. The completion of the plan is being closely monitored, we remain confident that the 95% completion target for the end of the final year can still be achieved.

3.3 Corporate Fraud Team

3.3.1 The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud, or other irregularity, has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future.

3.3.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2020/21	2021/22	2022/23 (Apr – Sept)
Number of outstanding investigations at the beginning of the year	30	53	57
Number of fraud referrals received during the year	124	91	45
Number of cases concluded during the year	101	87	45
Number of investigations outstanding	53	57	57

3.3.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned.

3.3.4 Within the CFT there is a sub-team specifically established to tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2020/21	2021/22	2022/23 (Apr – Sept)
Properties Recovered	14	22	15
Applications Cancelled	591	548	181
Council Tax Change	£332,000	£336,703	£346,363
Housing Benefit Overpayment	£265,000	£394,829	£213,447

4. Grant Certification

4.1 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 Issued
Local Growth Fund
Covid Expenditure Grant
Adults Weight Management
Children and Families Weight Management
Scambuster
Operation Beorma Grant
Troubled Families Claim
Mental Health Grant
Local Transport Capital Grant
Universal Drug Treatment
Greater Birmingham and Solihull Local Enterprise Partnership

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

European Grants – First Level Controller
USE - IT Transfer Network
Urban M – Stimulating Innovation through Collaborative Maker Spaces
Urban - Regen-Mix
BETTER – Stimulating regional innovation through better e-government services

Appendix A

Reports Issued During the First Half of 2022/23

Audit Reviews (45 Reports):

Key to linkages to the Council's priority outcomes, core objective of good governance, Corporate Risk Register, Financial Assurance and Business Control Assurance:

Outcomes

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

Assurance Type

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

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Procurement of Consultants/ Interims	High	Level 4		✓			✓			✓			
Day Centres	High	Level 3			✓							✓	
IT Procurement and Commercial Management	High	Level 3		✓						✓		✓	✓
Directorate Commissioning and Contract Management	High	Level 3			✓	✓	✓			✓		✓	
Placements - Supported Living	Medium	Level 3				✓							✓
Assessment and Support Planning	Medium	Level 3			✓	✓	✓					✓	✓
ERP Project Assurance	Medium	Level 3		✓						✓			
IT Applications – JADU	Medium	Level 3		✓			✓						✓
Tenant Management Organisations	Medium	Level 3					✓						✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Corporate Payroll - Overpayment, change in employee hours	Low	Level 3		✓								✓	
Asset Management - Non HRA property transactions	Low	Level 3		✓	✓	✓		✓				✓	
Commonwealth Games - Risk and Issue Management	Low	Level 2		✓	✓	✓	✓	✓		✓			
Information Governance - GDPR Programme	Low	Level 2		✓						✓			
AMSCI Programme Loans	Low	Level 2			✓	✓						✓	
Adult Social Care - Shared Care Record	Low	Level 2				✓	✓			✓			✓
BACS	Low	Level 2		✓								✓	
Housing Rents Variations	Low	Level 2				✓	✓					✓	
Corporate Payroll Starters and Leavers	Low	Level 2		✓								✓	
Council Tax - Management of deceased accounts - Probate	Low	Level 2				✓	✓					✓	
Adult Social Care - Client Financial Services	Low	Level 2				✓	✓			✓		✓	✓
Benefit Service - Complaints & Appeals	Low	Level 2				✓	✓					✓	
Financial Management - Public Health Grant	Low	Level 2			✓	✓	✓			✓		✓	
IT Projects - Clean Air Zone (CAZ) Post Implementation Review	Low	Level 2		✓					✓	✓	✓	✓	
Leisure Services - Contract Management	Low	Level 2			✓	✓	✓			✓		✓	
Benefit Service - Citizen Access On Line Claims	Low	Level 1				✓	✓					✓	
Cyber Security Programme	Low	Level 1		✓	✓	✓	✓	✓		✓	✓	✓	✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Oracle 1B Data Analysis – Urgent payments / Leavers during migration	Low	Level 1		✓								✓	
IT Projects - Home to School Transport 365 Lessons Learnt	N/A	N/A			✓					✓		✓	✓

Follow up / Progress Reviews (20 Reports):

Title	Risk Rating Council	RAG
Direct Payments - Embedding Operational Practice (Stage Two) Follow Up	Medium	
Heartlands Day Centre - 2nd Follow Up	Medium	
Funerals and Property Protection Report	Medium	
Housing Repairs Contract Management and Performance	Medium	
Direct Payments - Progress of Reviews in Excess of 12 Months Overdue	Medium	
Cityserve - Procurement and Contract Management	Low	
Recruitment and Selection - Casuals	Low	
Home To School Transport - Interim Report	N/A	
Home to School Transport Progress Review	N/A	
Anti Virus Progress Review	N/A	
Information Governance Progress Review	N/A	
IT Procurement Progress Review	N/A	

Title	Risk Rating Council	RAG
IT Project Governance Follow Up	N/A	
Day Centres	N/A	
Placements - Supported Living	N/A	
Assessment and Support Planning	N/A	
Assessment & Support Planning – Early Intervention Community Team	N/A	
GDPR Compliance - City Operations	N/A	
Online Service Delivery (Intranet)	N/A	
IT Project Governance	N/A	

Investigations (7 Reports)

School Visits (10 Reports, 30 school follow up / progress reports)

Summary of Significant Findings

Red High Risk Reports

During the first half of 2022/23 we issued 4 red rated reports, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Procurement of Consultants/ Interims

Council Risk Rating: High

Assurance: Level 4

RAG: 

Our audit identified that procurement governance had not always been followed and that CEST documentation is not always accessible. The inability to provide CEST documentation could result in financial penalties being imposed by HM Revenue and Customs. Management is developing an e-learning package, and this should help to improve compliance going forward.

Day Centres

Council Risk Rating: High

Assurance: Level 3

RAG: 

We identified issues with financial controls and operational processes across the Day Centres reviewed. The issues were occurring due to the lack of consistent processes and procedures. Procedures are now being developed and training provided to all Day Centre managers.

IT Procurement and Commercial Management

Council Risk Rating: High

Assurance: Level 3

RAG: 

Our work identified a number of issues and barriers restricting the effectiveness of IT procurement activity, this including business engagement; difficulties in recruiting to posts; and alignment of procedures following service transition. Since the completion of our work, it has been agreed that IT Procurement would be aligned with Corporate Procurement Service (CPS).

Directorate Commissioning and Contract Management

Council Risk Rating: High

Assurance: Level 3

RAG: 

We identified a need for guidance and training to be provided to ensure operational staff had both the knowledge and a framework to guide them in undertaking their commissioning role.

School Visits

We have continued to work with the Children's and Families Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools. Schools are selected through a risk-based plan and our work programme is constantly reviewed to meet key priorities and issues.

Our work has taken into account any challenges that have occurred due to the roll out of the Oracle 1B system. Whilst we have still commented on financial issues, we have not penalised schools for any issues that are outside of their control caused through the implementation.

The outcomes from the audits completed continued to reflect the general trends from previous years. This is not unexpected as our work focuses on those schools with the greatest challenges, selected through the risk-based plan. Overall, we found general weaknesses and areas for development across financial governance, budget planning, financial management purchasing and internet monitoring.

Budget deficits continue to be one of the key risks facing schools and the Council. The financial challenges are complex, and do differ between the sectors, but broadly they all translate into providing a quality education within budget, often with reducing funds and rising costs. As a result, there is a continued increase in schools relying on carry forward surpluses to achieve balanced budgets along with predicted deficits in future years. Whilst it is now a DfE requirement for all schools to agree a deficit repayment plan, some schools are finding this a challenge due to continued financial pressures.

In June 2022 we strengthened our follow up approach for schools; progress reviews, to confirm that appropriate action is being taken, are now undertaken. Schools failing to make sufficient progress are escalated to the Local Authority.

Main Financial Systems

We have continued to provide advice, guidance and support on controls as part of the transformation of financial processes. The revised control frameworks will be subject to review and independent testing as they become embedded.