

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	30th June 2020
Subject:	Birmingham Audit Annual Report 2019/20
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 2020. 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 2019/20, 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 Internal Audit plan for 2020/21.

2. EXECUTIVE SUMMARY

- 2.1 Based on the audit work undertaken I am able to provide a reasonable assurance on the core systems of internal controls evaluated for the year ending 31st March 2020. 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.
- 2.2 Birmingham Audit has complied with the requirements laid out within mandatory professional standards during the year.
- 2.3 The Internal Audit Charter is a key document that sets out the purpose, authority and responsibility of the internal audit function.

<p>2.4 The 2020/21 plan contains 4664 days. COVID-19 restrictions are posing a number of operational challenges. The plan has been prioritised on a Must / Should / Could basis to help ensure that we undertake sufficient work to form an opinion on the control environment at the end of the financial year. The plan will be updated for any emerging issues or risks as the Council moves into the recovery and normalisation of service delivery.</p>
<p>3. RECOMMENDATIONS</p> <p>3.1 Members accept this report and the annual assurance opinion for 2019/20.</p> <p>3.2 Members approve the 2020/21 Internal Audit Charter.</p> <p>3.3 Members approve the 2020/21 Internal Audit Plan and its prioritisation.</p>
<p>4. LEGAL AND RESOURCE IMPLICATIONS</p> <p>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.</p> <p>4.2 The Internal Audit service has complied with the requirements laid out in the Public Sector Internal Audit Standards.</p> <p>4.3 The work is carried out within the approved budget.</p>
<p>5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES</p> <p>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.</p> <p>5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit</p>
<p>6. COMPLIANCE ISSUES</p> <p>6.1 Council policies, plans, and strategies have been complied with.</p>

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Assistant Director, Audit & Risk Management

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Birmingham Audit Annual Report 2019/20

30th June 2020

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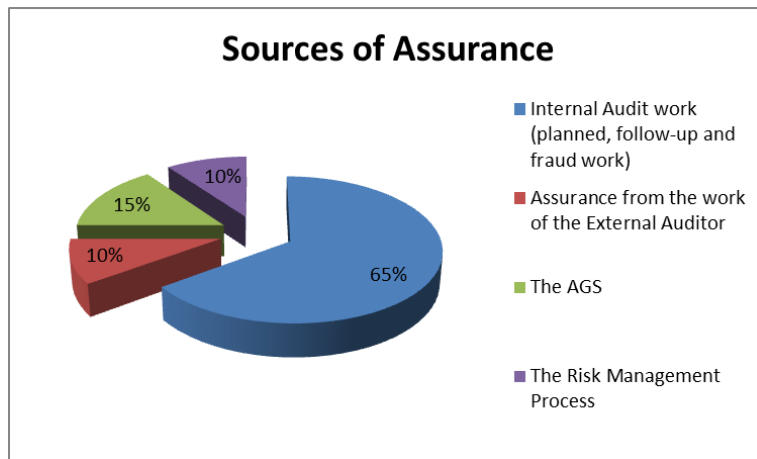
1. Background

- 1.1 The 2019/20 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 The Council continues to face significant challenges and go through a high level of change. Over recent years demand for services has continued to rise against a backdrop of reduced funding and austerity. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2019/20 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2020/21 audit planning process.

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.
- 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 2019/20 is based on the following sources of assurance and weightings:



- 2.5 Based on the audit work undertaken I am able to provide a reasonable assurance on the core systems of internal controls evaluated. 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.
- 2.6 The Birmingham Independent Improvement Panel, appointed by the Secretary of State, formally stepped down at the beginning of the year (31st March 2019), since then the Council has appointed five non-executive advisors to support ongoing improvement. These advisors are aligned to the Council's priority areas and work alongside the Council Leadership Team. They cover:
- Risk management.
 - Good Governance and Culture Change.

- Waste governance and industrial relations.
- Outcomes for vulnerable adults and children.
- Financial resilience.

- 2.7 Within their Audit Findings Report (September 2019) and Annual Audit Letter (October 2019) for the year ending 31st March 2019 the Council's External Auditors gave an unqualified opinion on the Council's financial statements and were satisfied that, in all significant respects, except for governance and the waste service, that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Due to delays in the independent review of the waste service External Audit felt that they did not have sufficient information to judge whether the risks were being sufficiently mitigated and had ongoing concerns over the effectiveness of industrial relations.
- 2.8 On 18th March 2020 the Council formally activated its business continuity and emergency plans in response to COVID-19. As a result, reporting structures and approval pathways were replaced by Strategic, Tactical and Operational groups. These groups and revised governance processes remain in place. Whilst this incident does not have an adverse impact on my opinion for the year ending 31st March 2019 it does present a number of challenges for the forthcoming year. These challenges are detailed in section 7 below.

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:
- The Schools' audit team has continued to work closely with the Education and Skills Directorate to support delivery of improvement across Birmingham Schools. This has included attendance at the Schools Causing Concern and Schools in Financial Difficulty Boards.
 - Providing a quarterly update on emerging issues to the Adult Social Care Risk Board to help ensure that effective solutions are identified to service delivery challenges.

- Working with management within the Appointee & Court Deputy Service to ensure that their systems and procedures are fit for purpose and protect service users.
- Continuing to use data analytics as part of our financial systems work to target our work and identify exceptions to agreed business processes.
- Contributing to the implementation of the Eclipse system through the provision of critical challenge and gateway assurance.
- Delivering Fraud Awareness Training to around 150 Adult Social Care managers.
- Developing our programme of proactive fraud work to continue to identify anomalies and issues of procedural non-compliance to be flagged up to directorates.
- Identification and prevention of Social Housing and Council Tax related fraud, delivering real financial savings to the authority.

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 In line with PSIAS requirements a full external assessment of Birmingham Audit's compliance to the mandatory standards was completed in July 2016. This assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that "the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control".

- 4.3.3 During the year a PSIAS self assessment has been completed, this self assessment confirmed our ongoing compliance with the standards.
- 4.3.4 We are currently in discussion with Core City colleagues to agree a framework for undertaking PSIAS reviews on a peer basis. Further details will be report to Committee in the near future.
- 4.3.5 During the year, we retained our accreditation to the internationally recognised information security standard ISO27001:2013. An external inspection of our processes was undertaken in October 2019. Additional, internal quality audits on our ISO processes are undertaken annually, most recently in March 2020. As in previous years, only minor issues were identified; actions have been taken to correct these.
- 4.3.6 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 commenced, with support from an external partner, an Internal Audit Total Impact Review. The review is designed to capture independent feedback on the impact of internal audit and identify areas for development. The result of the review, together with the development road map, will be reported to Audit Committee.

4.4 **Inputs**

- 4.4.1 The 2019/20 internal audit plan contained 4691 productive days. During the year 4316 days were delivered. The variance between planned and actual days has arisen due to the impact of a vacancy, which we are attempting to fill, and investment in the Council's culture change Programme – 'Owning and Driving Performance'. Despite this reduction I am satisfied that we delivered sufficient audit work to enable me to form my annual opinion.

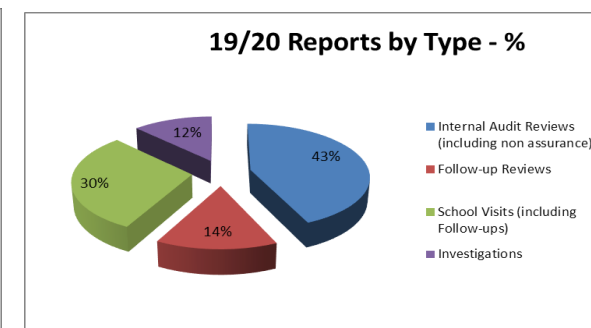
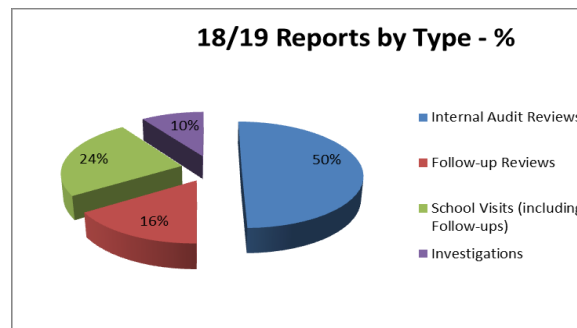
4.4.2 The actual days delivered in 2019/20 compared to those planned is detailed in the table below:

	19/20				
	Planned		Actual		Variance
Number of Audit Days in the annual plan	100%	4691	100%	4316	(376)
Main financial systems	15%	725	17%	719	(7)
Business controls assurance	38%	1770	31%	1343	(427)
Investigations	18%	830	21%	900	70
Schools (Non-Visits)	1%	60	2%	108	48
Schools (Visits)	15%	720	13%	544	(176)
Follow up work	4%	175	6%	264	89
Ad-hoc work	6%	286	6%	268	(18)
Planning & reporting	3%	120	4%	164	44
City initiatives	0%	5	0%	6	1

4.5 Outputs

4.5.1 During the year we issued 210 final reports, containing 1508 recommendations. For comparison purposes during 2018/19 we issued 246 final reports containing 2326 recommendations.

Reports by Type	18/19	19/20
Internal Audit Reviews	124	91
Follow-up Reviews	40	30
School Visits (including Follow-ups)	61	63
Investigations	24	26
Total	249	210

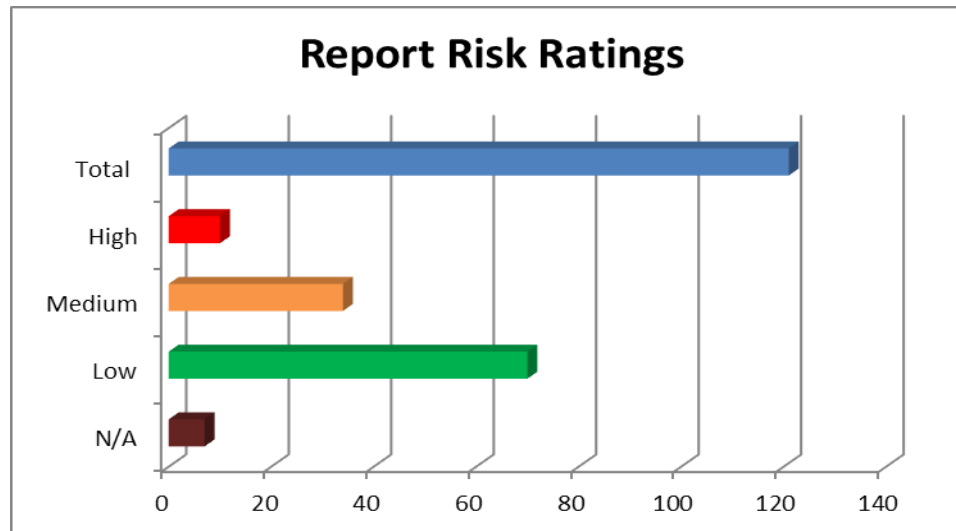


A full list of the audit reports issued, together with risk and assurance ratings, during the year is detailed in Appendix B.

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 (91 Internal Audit and 30 Follow-up Reviews) issued during the year, 10 were given a high-level rating, 34 had a medium level rating, 70 had a low rating, and 7 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 2020 we had completed 96% of planned jobs to draft report stage, against an annual target of 95%.

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:

‘.....It was exceptionally useful, and I do really appreciate the time you gave the service.’

‘.....I wanted to repeat our thanks and appreciation for the work you have undertaken in respect of this project. A really important piece of work.’

‘.....Brilliant work Audit team, mentioned at CMT today.’

‘.....I am grateful to Birmingham Audit for their ongoing support over a very difficult period of 3 years. It is pleasing and a recognition of all the hard work of the team,’

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.

	2018/19	2019/20
Number of outstanding investigations at the beginning of the year	28	14
Number of fraud referrals received during the year	109	105
Number of cases concluded during the year	123	89
Number of investigations outstanding at the end of the year	14	30

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 The team have carried out a number of proactive exercises utilising data analysis to identify potential anomalies in payroll and payments records; attendance; and serious and organised crime in procurement; 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. Last year the team recovered 59 properties and cancelled 667 housing applications prior to letting. The team also identified Housing Benefit overpayments totalling £473,794 and Council Tax changes of £429,144. 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 2020/21 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 2020/21 plan was developed following the completion of a risk assessment and was due to be approved by Members at the March Audit Committee meeting. Unfortunately, due to COVID-19 restrictions this meeting was cancelled. The 2020/21 plan contains 4664 days (including a vacancy on the Schools Audit Team which were attempting to fill). This compares to 4,691 in 2019/20.

- 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.

	19/20	19/20 Days	20/21	20/21 Days
Number of Audit Days in the annual plan	100%	4691	100%	4664
Main financial systems	15%	725	15%	705
Business controls assurance	38%	1770	38%	1780
Investigations	18%	830	18%	830
Schools (Non-Visits)	1%	60	1%	30
Schools (Visits)	15%	720	15%	720
Follow up work	4%	175	4%	175
Ad-hoc work	6%	286	6%	299
Planning & reporting	3%	120	3%	120
City initiatives	0%	5	0%	5

7. Impact of COVID-19 Restrictions on the Audit Service and 2020/21 Audit Plan

- 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.

7.2 The restrictions have posed a number of operational challenges for Birmingham Audit, these include:

- Working from home – the need to move quickly to an alternative service delivery model. Making the best use of the technology to continue to operate the audit function whilst ensuring audit staff are supported.
- Maintaining compliance with professional standards, ensuring that we continue to add value to the organisation, contribute to the effectiveness of the control environment whilst maintaining our independence and objectivity.
- Agreeing and finalising draft reports, allowing managers the time to respond to the incident but reminding them of the need to respond and act on significant audit issues.
- Commencing planned audit reviews. The Council has had to focus its resources on reacting and responding quickly to the pandemic, whilst we have been able to start some planned reviews (mainly IT and financial); work in a number of areas has been deferred.
- Supporting key activities. Two members of staff have recently been seconded to the Track and Trace Team, this will result in a reduction of the planned days.

7.3 We have adopted a four phase strategy to respond to the incident:

- React – initial reaction to the incident ensuring that appropriate safeguarding steps are taken and audit staff are able to work safely from home.
- Resilience – helping the Council to continue to run, contributing and advising on the emerging risks and controls e.g. IT security, financial controls and government support schemes e.g. Retail, Hospitality and Leisure Grant, Discretionary Small Business Grant.
- Recover, working with the Council to assess the risks associated with recovery and rethinking future operating models.
- Realise, the ‘new norm’, identification of any new risks and updating the audit plan in line with revised operating models.

7.4 It is key that we are proactively engaged as the Council recovers and we are able to provide sufficient audit coverage in order to form an opinion at the end on the current financial year on the effectiveness of the control framework. In order to help us achieve this the audit plan has been prioritised on a Must / Should / Could basis:

- 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.

A detailed breakdown of the plan is given in Appendix D.

7.5 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.

7.6 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, the impact of COVID-19, and identify any areas they wish to suggest for inclusion in the audit planning process to support their own assurance.

7.7 During the year we will continue to provide the monthly audit report schedules to Audit Committee Members. Under the agreed protocol Members can select and view any report. A half-yearly report will also be produced to update Members on progress with the delivery of the 2020/21 plan.

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
Collaborative Fund
Highways Maintenance Challenge Fund
Integrated Transport 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 2019/20 we issued 8 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:

Travel Assist (Home to School Transport) – Commissioning

Council Risk Rating: High

Assurance: Level 4

RAG:

Our review, undertaken at the request of the Directorate, identified significant issues around the commissioning, contract management, and quality assurance arrangements. Additional, cross cutting concerns were identified in relation to the management of Disclosure and Barring Scheme (DBS) checks. A Response Team was immediately formed by the Education and Skills Directorate, which included an officer from Birmingham Audit, to put in place actions to mitigate the risks. We have undertaken progress reviews throughout the year, at our last review, undertaken in December, management were able to provide their assurance that our recommendations had either been implemented or were on track. The directorate is continuing to improve the controls within the service.

SENAR Commissioning Arrangements

Council Risk Rating: High

Assurance: Level 4

RAG:

A joint Ofsted and Care Quality Commission (CQC) inspection of the implementation of disability and special educational needs reforms as set out in the Children and Families Act 2014 identified significant concerns. These included the commissioning of services and the capacity of SENAR. In response to these concerns, and budget pressures, a service re-design was undertaken. At the request of the Directorate we undertook a review of the arrangements for external / independent providers commissioning and placement. We identified areas of weaknesses including the lack of a commissioning framework and the need to strengthen quality assurance arrangements.

Our follow-up review identified that whilst progress was being made, this had been slower than expected due to the lack of capacity within SENAR. However, additional resources have been made available and we would expect to see sufficient progress at our next review.

Equalities and Cohesion**Council Risk Rating: High Assurance: Level 3 RAG: **

The Public Sector Equality Duty was created by the Equality Act 2010, which states that everything a public body does, must have regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Our review into the adequacy and effectiveness of the equalities and cohesion arrangements in place identified issues with regards to the Council's approach, particularly in relation to the lack of strategic vision, governance and compliance which could lead to significant reputational risk. We acknowledge that these were urgently addressed in 2019.

Placement, Supported Living**Council Risk Rating: High Assurance: Level 3 RAG: **

Supported Living is provided to assist service users with complex needs to live independently and safely in their own property as an alternative to living in residential accommodation.

Our review of the management and administration of supported living found issues which impacted on the Directorate's ability to deliver the required outcomes in an effective manner. These include inconsistent assessments, S117 reviews not completed jointly with Health, and ineffective management information and reporting. A follow-up review found out that whilst progress had been made with the implementation of the recommendations, there was a need for the Directorate to continue to drive implementation plans forward.

In-year School Admissions**Council Risk Rating: High Assurance: Level 3 RAG: **

In-year admissions are those which are outside the annual admissions cycle, the Council took the decision to delegate this to maintained / state funded schools, whilst co-ordinating all other parts of the admissions processes centrally. However, the system was not working as increasing numbers of schools were failing to notify the School Admissions and Fairer Access (SAFA) team of their in-year admissions and leavers in a timely manner; this position posed potential risks.

We reviewed the current system and facilitated a series of workshops with the SAFA team to explore alternative models of delivery. A delivery model based around the current system but with improved IT that gave greater control, tracking, and communication with schools was agreed. A follow up review indicated that considerable progress has been made leading to improvements in school reporting.

Children's Trust (Client) – Focused Governance Review**Council Risk Rating: High Assurance: Level 3 RAG: **

In April 2018, the Birmingham Children's Trust (BCT) was launched to provide children's services on behalf of the Council. BCT is a wholly owned company (WOC) and was created to deliver improvements in children's services. Overall responsibility for children's services is still retained by the Council. It is therefore important that strong governance arrangements are in place to monitor and manage the performance of the trust.

Our review found that governance arrangements required strengthening. Our follow up review, which was based on management assurance, confirmed that recommended actions had been taken.

Commonwealth Games Village - Management of Construction**Council Risk Rating: High Assurance: Level 3 RAG: **

In June 2018, Cabinet approved the Outline Business Case for the Commonwealth Games Village (CGV) and the wider Perry Barr Regeneration programme. The CGV is being developed on the former Birmingham City University site, providing accommodation for around 6,500 athletes and team officials during the Games, and in legacy, 1,416 new homes.

At the time of our audit, there was significant pressure on the budget and slippage on the project timelines. Subsequently, a revised Full Business Case was approved by Cabinet. We also noted that there was insufficient contingency and that risk management process were inadequate. Following a subsequent progress review undertaken in March 2020, we concluded that the level of project contingency remained a high project risk.

Temporary Accommodation**Council Risk Rating: High Assurance: RAG: **

Local housing authorities in England have a duty to secure accommodation for unintentionally homeless households in priority need. Households might be placed in Temporary Accommodation (TA) until suitable secure accommodation becomes available.

In common with national trends, there has been significant increased pressure on the statutory homeless service in Birmingham in relation to the volume of customers; this has also resulted in significant financial pressures due to the need to increase the use of TA, such as expensive Bed & Breakfast accommodation.

Our review identified that the Council is reliant on external providers to advise of changes in placements without any verification process to validate the charges, debt escalation procedures are not being robustly and consistently applied due to lack of resources, and inadequate reporting to enable an oversight of the Debt.

Data Protection Regulation - Procurement and Contract Management, Council Risk Rating: High

RAG: 

Follow up

The Data Protection Act 2018 (DPA 2018) came into force in May 2018, implementing the EU General Data Protection Regulation (GDPR). Whilst established key principles of data privacy remained relevant in the new legislation, it also introduced a number of changes that affect commercial arrangements with suppliers. Our review identified that there is still work to do to implement effective arrangements to ensure that effective procurement arrangements are in place to ensure full compliance. 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.

2. School Visits

Throughout 2019/20 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. Fewer school visits were undertaken compared to previous years as we are in the process of filling a vacancy. Also, a greater number of follow ups have been undertaken.

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.

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

The main issues identified are:

- Financial Governance – Despite the re-launch of the updated Schools Financial Procedures Manual (SFPM) in September 2018 which included revised model templates, we are still finding 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 are finding themselves in.
- The correct completion of pecuniary interest forms remains an ongoing issue, new templates and guidance have been issued in the SFPM 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 in deficit, not able to set a balanced budget, or 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 the 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.
- Attendance – We continue to review the destination of pupils who leave schools in year. A small number of schools are not making referrals to the Children Missing in Education (CME) team within the required 5 days of a pupil's absence without contact or seeking advice when forwarding addresses are not provided for pupils moving abroad before removal from roll.
- Safeguarding – Schools are aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. However, the following areas require further strengthening; Monitoring IT and internet usage of staff and pupils and undertaking appropriate due diligence prior to lettings to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements.

Our follow up work identified that insufficient progress was being made with the implementation of agreed recommendations. As a result, we have introduced a 'real time' follow up process where schools receiving a level 3/4 assurance and High-risk rating are visited at a 3, 6 and 9 month interval to verify progress. Early indications are that this new process has led to an improvement.

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. The previous corporate risks, which had become increasing operational in their nature, have been removed from the corporate register for management at a directorate level. The Council Leadership Team (CLT), using a 'PESTLE' (Political, Environmental, Social, Technology, Legal, and Environmental) analysis, have identified the strategic risks faced by the Council together with potential development opportunities. The management of these risks will help to support the ongoing improvement of the Council and delivery of strategic priorities and outcomes. This revised Strategic Risk Register, together with the supporting risk action plans, is reviewed on a monthly basis by CLT.

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, the actioning of Ombudsman recommendations, transparency, 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 2019/20 identifies eight significant issues: Financial Resilience; Major Projects; Homelessness and Safety

Implications for Tower Blocks; Asset Condition and Sufficiency/ Health & Safety; Commonwealth Games; Commissioning and Contract Management, COVID-19 Pandemic and SEN Inspection.

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 2019/20 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 did identify some concerns around saving plans, including instances where adequate information was not readily available to support the basis of how some of the savings proposals had been identified or that the current status of the savings proposals was always accurately documented within the saving trackers maintained by Directorates. We also identified that there is further scope for greater scrutiny / challenge to be provided by Finance. The Council continues to face significant financial pressures. As with the work undertaken by CIPFA on forecasting; the forecasting reviews which we undertook for both Inclusive Growth and Education and Skills Directorates also identified that Voyager does not provide the budgeting and forecasting functionality required by the finance teams, what it provides is on-demand extracts of data that are used by the finance teams in their own spreadsheet-based monitoring “system.” However, there is a lack of a formal audit trail, and a general reliance on Excel spreadsheets, many of which are re-created each month.

Within their Audit Findings Report and Annual Audit Letter (October 2019) the Council’s External Auditor gave an unqualified opinion on the Council's financial statements for the year ending 31st March 2019. The External Auditor recognised the improvements that the Council had made regarding value for money and concluded that value for money risks had generally been mitigated, except in one area relating to Governance and the Waste Service, where it was concluded that the value for money risk had not been sufficiently mitigated.

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 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 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, 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 have found that in the main that all the correct checks and controls are taking place.

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 2019/20 10,464 vendors were paid, totalling £1.95bn, including feeder file transactions. Purchase card spend across the Council was approximately £12.5m. 94% of invoices were paid within 30 days of the invoice date.

Payment processes are well established with checks in place to prevent duplicate payments and enforce compliance. Our work identified that the quality of vendor master data records remains high.

Procurement

Our audit on the Travel Assist – home to school transport service identified significant issues around commissioning, contract management and quality assurance. In particular, we identified weaknesses in the management of Disclosure and Barring Scheme (DBS) checks. We have undertaken progress reviews throughout the year and at our last progress review, undertaken in December 2019, management were able to confirm that recommendations had either been implemented or were on track.

Our work on reviewing how well the corporate Supply Chain Risk Methodology (SCRM) is being embedded, identified that very little 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 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 significant 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. There is also currently insufficient due diligence at tender stage and during contract management to obtain sufficient guarantees regarding the contractors' ability to implement appropriate security measures.

The Council's External Auditors within their audit plan for the year ending 31st March 2020 have raised a specific contract monitoring and management value for money risk and will be considering the improvement actions taken by the Council.

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 2019/20 was £658m (excluding Housing Benefit Overpayment debts). Overdue sundry debts (over 90 days old) as at 06/04/2020 was £41.5m, including Housing Benefit overpayments.

Overall, processes were found to be operating effectively, 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 £3m 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 £16.1m to £13M between March 2019 and March 2020. 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 £43.9m.

Council Tax Support (CTS) applications have remained at a static level during 2019/20 at approximately 123,000 but were starting to rise at the end of March due to the implications of COVID-19 restrictions.

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 2019/20 properties with a full year liability were raised totalling £419m with a year-end collection target of £391.8m (93.48%). The total amount collected as at 31/03/20 was £391.1m (92.94%).

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 2019/20 an annual liability of £458.1m was raised against properties with a year-end collection target of £437.6m (95.52%). The total amount collected as at 31/03/20 was £429.3m (94.21%).

Rents

At March 2020 there were 57,157 city tenancies with 17,721 arrears cases (31%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 16,054 accounts totalling approximately £7.782m (60.9% of the total arrears figure). The current tenancy arrears at 31st March 2020 are approximately £12.776m.

Improvements have been made in the monitoring of Rent accounts. Recovery action is now targeted based on the level of arrears. The processes introduced are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly.

6. Information Governance / Technology (IT) Issues

The Council operates in a complex IT landscape in which the contours are constantly changing. Ensuring the Council's systems remain secure is essential to protect sensitive information and retain public trust. Adequate and effective information technology (IT) 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 which has seen IT services transition of from Capita back to the Council and the implementation of the BRUM account for online citizen services during 2019. The Council is also progressing a number of high-profile projects that are aimed at transforming operational process and improving customer experience e.g. replacement of the Finance and HR system, implementation of a new Social Care system, and refreshing the technical infrastructure.

Significant progress has been made during the year in strengthening Information Governance processes. Whilst the Council appears to be well on track to achieve level 2 maturity against the Information Assurance Maturity Model (IAMM); initial evidence suggests that these processes still next to embed and be applied on a consistent basis.

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 low.
- There is a need to ensure that all data sharing and processing activities are covered by appropriate agreements.

- There continues to be a need to reinforce and ensure compliance with the ICT Acceptable Use policy.
- Effective control over the management of system user accounts continues to be problematic. During periods of significant organisational change, it is essential that IT access is tightly controlled to avoid data breaches and possible inappropriate activity occurring.
- Management of IT assets continues to be an area of concern.
- Our work in respect of management and security of the IT infrastructure (network, directory service, data centres) continues to provide a reasonable assurance.
- Project governance and management arrangements are improving; however, it is important that lessons learnt are shared across the Council and robust processes established to ensure expected benefits are realised.
- Progress is being made against the ICT Strategy, with the delivery of a number of key outcomes. There is a need to complete an annual review of outcomes to continue to drive the strategy forward on a successful basis.

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.

Final Reports Issued During 2019/20

Audit Reviews (91 Reports, including 7 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. Corporate Risk Register.
8. Financial Assurance.
9. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Travel Assist (Home to School Transport) – Commissioning	High	Level 4			✓		✓	✓		✓		✓
SENAR Commissioning Arrangements	High	Level 4			✓		✓	✓		✓		✓
Equalities and Cohesion	High	Level 4			✓		✓			✓		✓
Placement, Supported Living	High	Level 3				✓	✓					✓
In-year School Admissions	High	Level 3			✓		✓					✓
Birmingham Children Trust Client Focussed Governance Review	High	Level 3		✓	✓		✓		✓			
Commonwealth Games Village - Management of Construction	High	Level 3						✓	✓	✓	✓	✓
Temporary Accommodation	High	Level 3					✓				✓	✓
Information Governance - Use of live data	Medium	Level 3		✓					✓			✓
The Birmingham and Solihull Youth Promise Plus Funding Programme Management Arrangements	Medium	Level 3			✓		✓					✓
InReach	Medium	Level 3		✓		✓	✓		✓			✓
Equalities and Cohesion	Medium	Level 3		✓			✓		✓	✓		
Joint Strategic Needs Assessment	Medium	Level 3				✓	✓					✓
Carers Strategy	Medium	Level 3				✓	✓					✓
Ladywood Regeneration - Competitive Dialogue - Post Advert	Medium	Level 3		✓					✓			✓
Prevention Agenda	Medium	Level 3		✓		✓						✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Direct Payments Annual Review	Medium	Level 3		✓		✓					✓	✓
Adult Social Care Joint NHS Funding	Medium	Level 3				✓	✓				✓	✓
Impulse and CACI Hub	Medium	Level 3			✓		✓					✓
Review of Civic Catering	Medium	Level 3		✓	✓						✓	✓
Payroll - Overtime Payments	Medium	Level 3		✓							✓	✓
Construction Industry Scheme	Medium	Level 3		✓							✓	✓
Data Protection Impact Assessments	Medium	Level 3		✓					✓			✓
Review of Savings Plan	Medium	Level 3		✓	✓	✓	✓				✓	✓
Improvement Agenda - Corporate Improvement Plan	Medium	Level 3		✓	✓	✓	✓					✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓			✓	✓
Specialist Care Service (Implementation of Improved Practices)	Medium	Level 3			✓	✓						✓
Housing Repairs Contract Management	Medium	Level 2					✓					✓
IT Governance	Medium	Level 2		✓					✓			✓
Information Governance - Caldicott Guardian	Medium	Level 2		✓	✓	✓	✓	✓				✓
Three Conversations	Medium	Level 2			✓	✓	✓					✓
The Health and Social Care Network (HSCN)	Medium	Level 2			✓	✓	✓		✓			✓
Information Governance - Access to Information	Medium	Level 2		✓					✓			✓
Clean Air Zone	Medium	Level 2		✓	✓	✓	✓					✓
Public Service Network (PSN)	Medium	Level 2		✓								✓
Leaseholder Service Charges	Low	Level 4					✓				✓	✓
Risk Management Arrangements	Low	Level 3		✓	✓	✓	✓	✓		✓		
Control Accounts	Low	Level 3		✓							✓	
Waste Management Service - Fleet Services Vehicle Maintenance Recharges	Low	Level 3					✓				✓	✓
Agency - Contract Management and Compliance	Low	Level 3		✓								✓
Council Tax - Deceased Customers, use of Probate Register	Low	Level 3					✓				✓	
Schools PFI - Contract and Financial Management	Low	Level 3			✓		✓				✓	
Commercial Activities - Review of Corporate Digital Mail Centre	Low	Level 3		✓								✓
Ladywood Regeneration Competitive Dialogue - Selection Questionnaire Stage	Low	Level 3		✓					✓			✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Highways and Infrastructure Works Framework - Allocation of work packages to contractors	Low	Level 3		✓					✓			✓
House Sales	Low	Level 3			✓	✓	✓				✓	✓
Due Diligence of Bidders	Low	Level 3		✓					✓			
Integrated 3rd Sector Funding	Low	Level 2		✓							✓	✓
SAP Security Review	Low	Level 2		✓	✓	✓	✓					✓
Commissioning, Supported Living	Low	Level 2				✓	✓					✓
Information Technology and Digital Strategy	Low	Level 2		✓					✓			
Schools - Surplus Balances	Low	Level 2			✓						✓	✓
Northgate Housing	Low	Level 2				✓	✓					✓
Payroll - Wage Types Use of Delimited	Low	Level 2		✓							✓	
West Midlands Job Portal	Low	Level 2		✓								✓
IT Project Governance	Low	Level 2		✓					✓			
Car Parking - Civil Enforcement	Low	Level 2		✓							✓	✓
Accounts Receivable - Invoice and Receipt of monies	Low	Level 2		✓							✓	✓
Eclipse Project Assurance - Governance and Management arrangements	Low	Level 2			✓	✓	✓		✓			✓
Information Governance - Data Review - Education and Skills	Low	Level 2			✓		✓		✓			✓
Accounts Receivable - Invoicing and Receipt of Monies Crems/Cems	Low	Level 2		✓							✓	✓
Data Sharing	Low	Level 2		✓	✓	✓	✓	✓	✓			✓
Capita Transition - IT Procurement	Low	Level 2			✓	✓	✓	✓	✓			✓
IT Network	Low	Level 2		✓								✓
Birmingham Virtual School	Low	Level 2			✓		✓					✓
IT Infrastructure - Modern Workplace Window 10 and Office 365	Low	Level 2		✓	✓	✓	✓	✓				✓
Accounts Payable Substitution Process	Low	Level 2		✓							✓	✓
Northgate Housing - IT Review	Low	Level 2				✓	✓					✓
Implementation of Ombudsman Recommendations	Low	Level 2		✓	✓	✓	✓		✓			✓
Revenues and Benefits Information Systems (RBIS)	Low	Level 2				✓	✓				✓	
CareFirst-Eclipse IT Review	Low	Level 2			✓	✓	✓					✓
IT Infrastructure - Application Platform Modernisation	Low	Level 2		✓	✓	✓	✓					✓
Verify Earnings & Pensions (VEP) Service	Low	Level 1			✓	✓	✓				✓	✓
Payroll Monthly Reconciliation Report	Low	Level 1		✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
NNDR - Retail Reliefs	Low	Level 1		✓							✓	✓
Accounts Payable - Payments Above £75k	Low	Level 1		✓							✓	
Accounts Receivable - Creation of Business Partners	Low	Level 1		✓							✓	
Council Tax - Citizen Access Exception Reports	Low	Level 1				✓	✓				✓	✓
Benefits - New Claims in Suspend	Low	Level 1				✓	✓				✓	✓
Accounts Receivable - Raising of invoices within 10 days	Low	Level 1		✓							✓	✓
Rent Collection & Charges - Locality Managers	Low	Level 1				✓	✓				✓	✓
Rent Collection & Charges - Court Process	Low	Level 1				✓	✓				✓	✓
NNDR - Inspection Regime	Low	Level 1		✓							✓	
Benefit Service - Diary Events Monitoring of Claims	Low	Level 1				✓	✓				✓	✓
Multi Agency Engagement with the ICPC	N/A	N/A										
Improving Financial Management in Schools - Progress Report	N/A	N/A			✓	✓						✓
Supported Living	N/A	N/A				✓	✓					✓
Residential Care Centres	N/A	N/A				✓	✓					✓
SENAR Commissioning - Interim Progress Report	N/A	N/A			✓		✓			✓		✓
Transition to Adulthood - Progress Report	N/A	N/A				✓	✓					✓
Commonwealth Games Village - Progress Report	N/A	N/A						✓	✓			✓

Follow Up Reports (30 Reports):

Title	Risk Rating Council	RAG
Travel Assist	High	
Data Protection Regulation - Procurement and Contract Management	High	
Safeguarding – Adults	Medium	
Housing Allocations	Medium	
Information Governance - Data Quality	Medium	
IT Emerging Issues IT Governance Housing Repairs	Medium	
IT Emerging Issues Fake E Mail Invoice Scam	Medium	

Title	Risk Rating Council	RAG
Insurance follow up	Medium	
Neighbourhoods Directorate Budget Management and Monitoring	Medium	
Third Party Governance - Information Security	Low	
IT Infrastructure Mobile Phones	Low	
Web Services	Low	
Corporate Payroll – Allowances	Low	
Council Tax Student Discounts	Low	
Wireless Network	Low	
Information Governance - Environmental Health	Low	
IT Emerging Issues Neighbourhoods Birmingham Wellbeing	Low	
IT Asset and Configuration Management	Low	
IT Infrastructure - DMZ	Low	
Information Governance - Local Government Transparency Code	Low	
Rent Collection and Charges - Arrears Recovery	Low	
Housing Rents - Former Tenancy Arrears	Low	
Appointee and Court Deputy	Low	
Information Governance - Public Health Secure Restricted Zone	Low	
Accounts Receivable - Aged Debts – Adults	Low	
Public Health - Compliance with Governance Requirements	Low	
Risk Management Arrangements	Low	
SEGWEB Neighbourhoods	Low	
Corporate Payroll – Exceptions	Low	
West Midlands Job Portal	Low	

Investigation Reports (26 Reports)

School Visits (38 Reports, 25 Follow-up Reports)

Internal Audit Charter 2020/21**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 of internal audit activities and role of Internal Audit in any fraud-related work; and
- includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

It also sets out the objectives, framework and services delivered by 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 Business Plan.

Notes:

1. *The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief 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 1.13 Internal Audit:

- each Chief Officer/Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and must make its services available as and when required for audit both internally and externally;
- Internal Audit will notify the results of internal reviews in writing to Chief Officers/Directors who must respond in writing to any recommendations contained in audit reports in accordance with the agreed protocol. Chief Officers/Directors must establish processes to ensure that recommendations are implemented within the agreed timescales. In line with good governance requirements the Audit Committee will monitor the implementation of recommendations.
- the Assistant Director Audit and Risk Management on the authority of the Chief Financial Officer, shall have authority to:
 - enter any Council premises or land at all reasonable times;
 - have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties;
 - require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination; and
 - require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

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

- 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 2020/21 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 Managers Network 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, section 1.15 Irregularities, Fraud and Corruption:

- the responsibility for prevention and detection of fraud rests with all employees;

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

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 – 2020/21

8.1 The Business Plan 2019+ sets out Birmingham Audits vision to be a highly respected and valued team for insight, analysis and advice.

8.2 Expected Strategic outcomes:

- A proportionate and effective internal control framework that secures effective governance and protects the organisation and its assets.
- Efficient, effectiveness and economic services, systems and processes.
- Robust and integrated risk management arrangements that are embedded into day to day management processes.
- Prevention, detection and reduction of fraud and error.

8.3 Objectives:

- To deliver an internal audit service that meets professional and mandatory standards, adds value and delivers suitable assurance to the Council.
- To 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.
- To embed risk management framework within the organisation and co-ordinate the production of the strategic risk register.
- To deliver a creditor statement reconciliation audit, maximising overpayment recoveries.

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 2020/21 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 to businesses of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."

Consulting services may include but are not limited to:

- 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.

Proposed Internal Audit Plan 2020/21

	Days	Total		Must	Should	Could
Financial Systems (including computer audits where appropriate)						
Accounts Payable	50			50		
Accounts Receivable	50			50		
Asset Management	50			50		
Audit Letter	5			5		
Benefits	50			50		
Carefirst / Eclipse	30			30		
Cash Income / Cashiers	30			30		
Direct Payments	30			30		
Housing Rents	25			25		
IT Related Financial Systems Work	85			85		
Main Accounting	50			50		
Payroll/HR	50			50		
Procurement, Contract Audit and PFI	140			140		
Revenue (Council Tax and NNDR)	60	705		60		
Business Controls Assurance						
Work in Progress b/fwd. from 2018/19	50			50		
IT Related Non-Financial Systems Work	360			235	70	55
Data Analysis	200			100	50	50
Corporate Risk Management Facilitation	50			50		
Chargeable Work - Acivico	40				40	
Chargeable Work - Birmingham Children's Trust	145				145	
Chargeable Work – Grant Certification	80	925			80	
Adults Social Care						
Assessment & Support Planning	25			25		
Transition to Adulthood	20					20
Day Centres	15				15	
Section 117	15				15	
Specialist Care Services	25					25
Independent Living	20				20	
Placements	20				20	
Commissioning	20	160		20		
Education and Skills						
Safeguarding Corporate Overview	30			30		
Home to School Transport	15				15	
Commissioning & Contract Management Framework	20			20		
SEND - Transition from Commissioning Independent	6				6	
Provision to LA School based Provision						
Birmingham Children's Trust – Annual Review	5			5		
Birmingham Children's Trust – Contract Management	20					20

	Days	Total		Must	Should	Could
Not in Education Employment or Training (NEETS)	10					10
Health & Safety in Community Libraries	12					12
Safeguarding and Statutory Education Entitlement for children in temporary accommodation	12			12		
Youth Employment Initiative – Implications post 2021	20					20
Responding to the Challenge of Improving Financial Management in Schools	20				20	
Elected Home Education	10				10	
Safeguarding & Development – BCSB	30	210				30
<u>Finance and Governance</u>						
Local Enterprise Partnership	15			15		
Governance	20			20		
Ethics	10			10		
Commercial Activities	30				15	15
Risk Management	10			10		
Self-Assessment - AGS Process	10	95		10		
<u>Inclusive Growth</u>						
Highways Management Contract	20			20		
Accountable Body	30	50		30		
<u>Neighbourhoods</u>						
Homelessness	20			20		
Waste Management	25			25		
The Active Wellbeing Society	15				15	
Housing Repairs – Contract Compliance / Assurance	200	260		100	100	
<u>Partnerships, Insight and Prevention</u>						
Public Health	30			30		
Resilience	20			20		
Project Management	30	80		30		
		1780				
Investigations						
Reactive investigations	430			430		
Proactive work	200			200		
Fraud Awareness	200	830		200		
Schools - Non-Visits						
Themed Work	30	30				30
Schools - Visits	720	720		300	210	210
Follow Up Work		175			100	75
Ad Hoc Work / Contingency		299		299		
Planning and Reporting		120		120		
City Initiatives		5				5
TOTAL		4664		3141	946	577