

## **BIRMINGHAM CITY COUNCIL**

### **PUBLIC REPORT**

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>29th November 2021</b>
<b>Subject:</b>	<b>Birmingham Audit - Half Year Update Report 2021/22</b>
<b>Wards Affected:</b>	<b>All</b>

#### **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 2021/22.

#### **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 2021/22 at the Audit Committee meeting held on 30<sup>th</sup> March 2021.
- 3.2 As at the end of September 2021 we had completed 33% 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 The Pandemic had a significant impact on Internal Audit, during 2020/21 we were unable to provide our full range of services. However, we have now recommenced school audit visits and Social Housing investigation visits.

#### **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 2021/22**

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**29<sup>th</sup> November 2021**

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## 1. Background / Annual Opinion

- 1.1 The 2021/22 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 continues to go through significant change and pursue an ambitious agenda. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. 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 2021/22 will be based on the following sources of assurance:



- 1.3 The 2021/22 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**

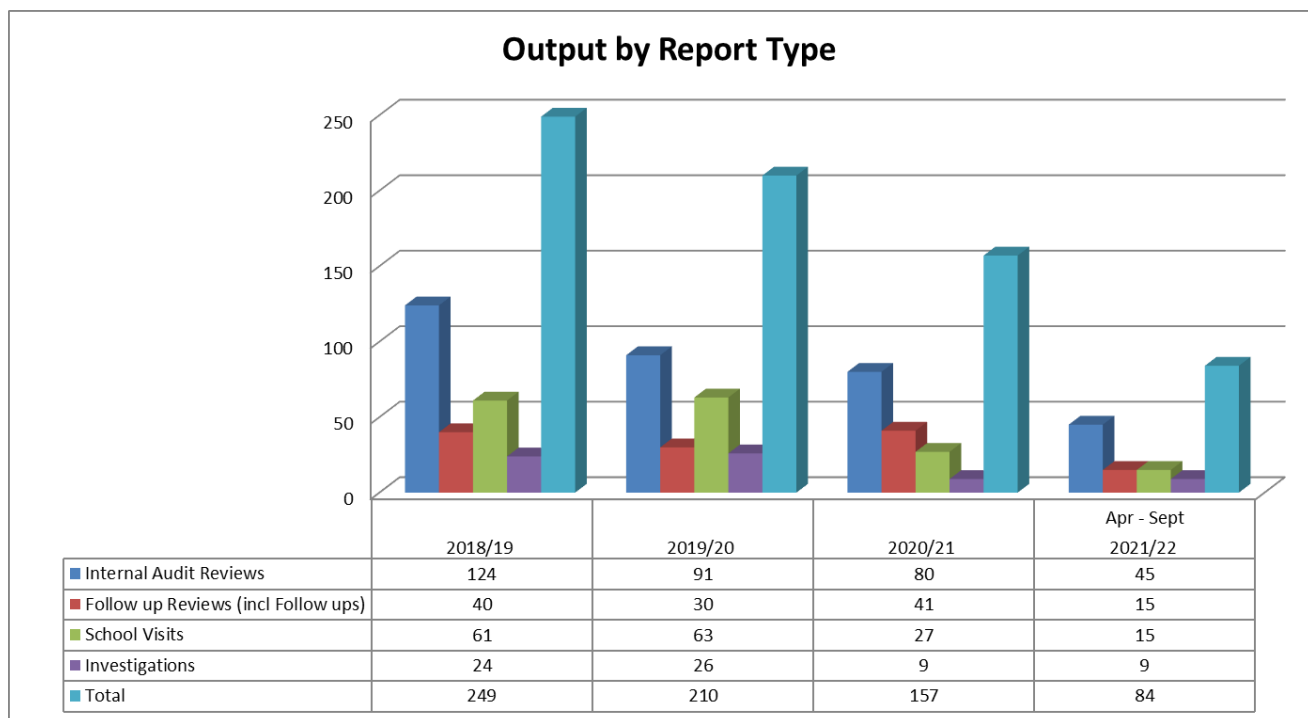
- 2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives. This 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 2021/22 include:

- Representation on the Safeguarding Stocktake Group, which is a cross service group looking at the safeguarding issues across the Education & Skills Directorate.
- Working with Housing, providing independent assurance on the implementation and impact of an invest to save Future Operating Model (FOM) and New Model Customer Journey.
- Working with the Children's Trust to deliver grant/funding certifications for Troubled Families and National Assessment and Accreditation Systems (NAAS).
- Continuing to attend and contribute to schools working groups within the Education & Skills Directorate Schools.
- Helping colleagues in Revenues review Single Person Discounts and identify new homes for charging purposes.
- Supporting the 'Tackling Serious and Organised Crime' Board.
- Developing a process to identify fraud within exempt accommodation and associated Adult Social Care records.
- Providing advice on the development of information that the Council can provide on a ward level basis.
- Direct support of West Midlands Police Regional Organised Crime Unit in county lines operations.
- Contributing to the management of Cyber risks, through participation at the Cyber Security Programme Board.
- Assisting in the improvements of the Information Assurance Governance Framework, through a programme of targeted GDPR/DPA compliance reviews
- Participation in the management of data breaches and ensuring that recommendations have been acted upon and implemented in a timely manner.
- Continuing support for the ERP Replacement Programme,

### 3. Performance

#### 3.1 Outputs

3.1.1 During the first half of 2021/22 we issued 84 final reports. A comparison to the last 3 years (full years) is given in the chart below:

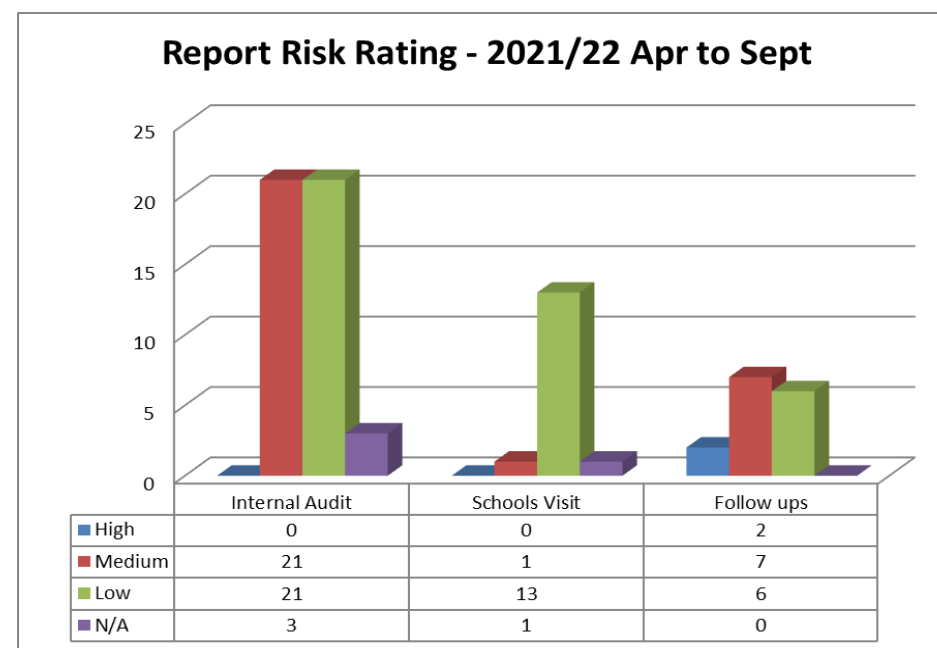
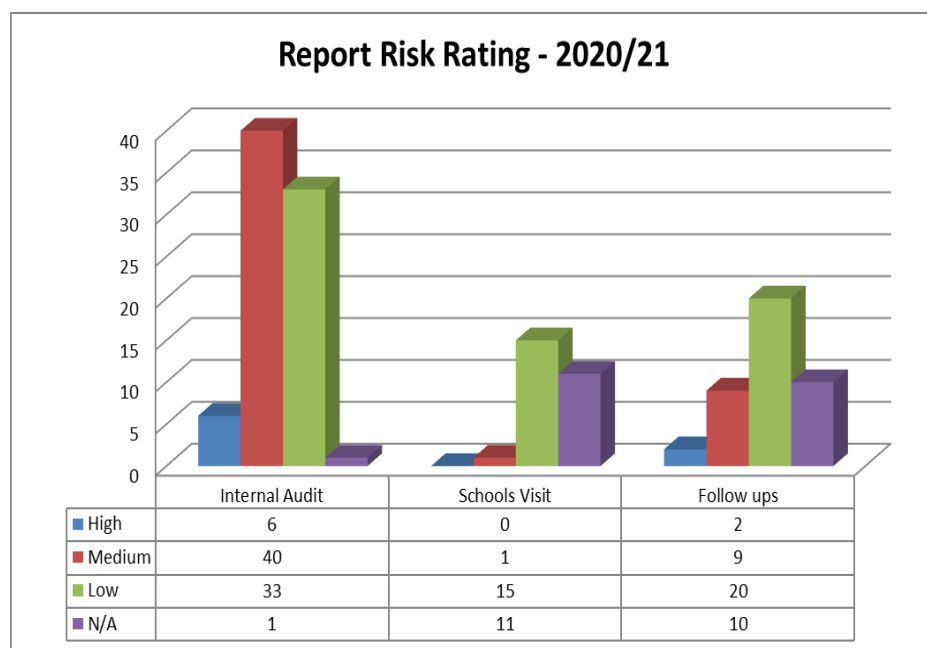


3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members can request copies of reports and receive further information. A full 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 Audit, school visit and follow up 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 75 reports issued (45 Internal Audit, 15 School Visits, and 15 Follow up reviews) , 2 Follow up reviews were given a high risk rating, 29 had a medium rating, 40 had a low rating, and 4 (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 2020/21 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:

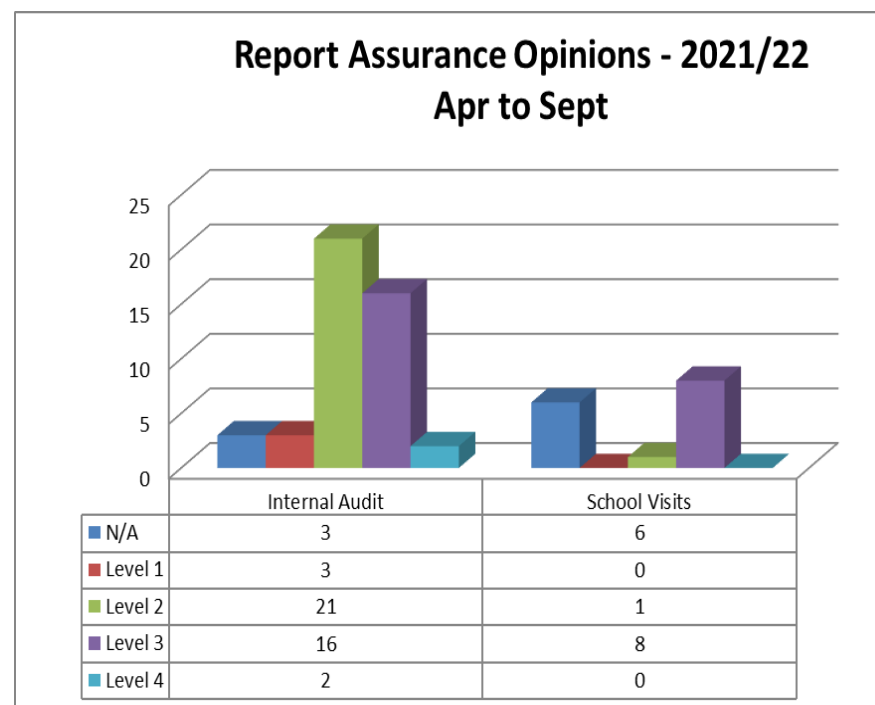
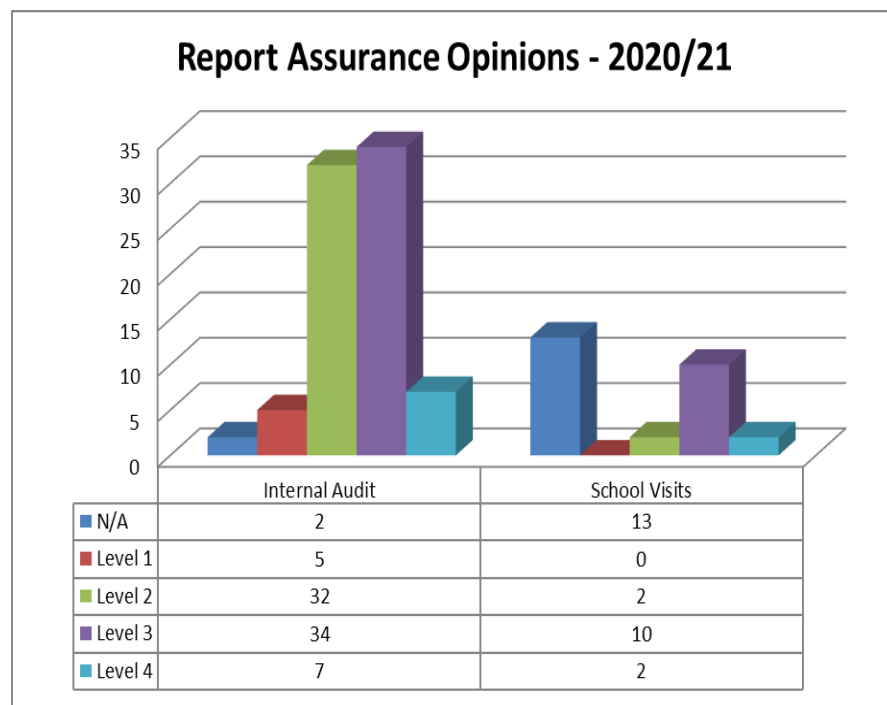
Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

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 2020/21, is given in the charts below. To date 40% 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. 51%).



### 3.2 Plan Completion

3.2.1 The approved 2021/22 plan contains 4,427 productive days. The table below details completion as at 30<sup>th</sup> September 2021 and provides a comparison to 2020/21 (full year).

	2020/21					2021/22				
	Planned Days	%	Year Actuals	%	Variance Days	Planned Days	%	Half Year Actuals (Apr – Sept)	% (Apr – Sept)	Variance Days (Apr – Sept)
<b>Number of audit days in approved plan @ 1<sup>st</sup> April.</b>	<b>4664</b>	<b>100%</b>	<b>3813</b>	<b>100%</b>	<b>(851)</b>	<b>4427</b>	<b>100%</b>	<b>1855</b>	<b>100%</b>	<b>(2,572)</b>
Main financial systems	705	15%	601	16%	(104)	705	16%	260	14%	(445)
Business controls assurance	1780	38%	1381	36%	(399)	1711	39%	672	36%	(1,039)
Investigations	830	18%	843	22%	13	830	19%	305	16%	(525)
Schools (Non-Visits)	30	1%	5	0%	(25)	42	1%	2	0%	(40)
Schools (Visits)	720	15%	332	9%	(388)	540	12%	238	13%	(302)
Follow up work	175	4%	172	5%	(3)	175	4%	111	6%	(64)
Ad-hoc work	299	6%	237	6%	(62)	289	6%	158	9%	(131)
Planning & reporting	120	3%	238	6%	118	130	3%	104	6%	(26)
City initiatives	5	0%	4	0%	(1)	5	0%	5	0%	0

3.2.2 As at 30<sup>th</sup> September 2021 we had completed 33% of the original planned jobs to draft report stage, which is slightly below our target of 40%. 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 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:

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 (Apr – Sept)</b>
Number of outstanding investigations at the beginning of the year	14	30	53
Number of fraud referrals received during the year	105	124	35
Number of cases concluded during the year	89	101	31
Number of investigations outstanding	30	53	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:

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 (Apr – Sept)</b>
Properties Recovered	59	14	15
Applications Cancelled	667	591	350
Council Tax Change	£429,144	£332,000	£184,451
Housing Benefit Overpayment	£473,794	£265,000	£177,639

3.3.5 The restrictions imposed during the Pandemic impacted on many aspects of our anti-fraud work, in particular the investigation of social housing fraud, which by its very nature, requires investigators to spend a large proportion of their time visiting Council properties and interviewing tenants. We have now been able to recommence investigation visits and in person interviews.

#### 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.

<b>Grant Certificates Issued</b>
Troubled Families
Scambuster
Local Transport Capital Grant
Collaborative Fund Grant: Teaching School Core Grant Funding
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.

<b>European Grants – First Level Controller</b>
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
TRIS – Transition Regions towards Industrial Symbiosis
BETTER
REMIX – Urban Regeneration Mix

## Appendix A

### Reports Issued During the First Half of 2021/22

#### 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
The Active Wellbeing Society - Service Changes During the Pandemic	Medium	Level 4			✓	✓	✓						✓
Waste Management Procurement Compliance	Medium	Level 4					✓						✓
Assessment and Support Planning	Medium	Level 3			✓	✓	✓				✓		✓
Information Governance - Data Loss Prevention	Medium	Level 3		✓	✓	✓	✓	✓	✓				
VAT Improvement Plan	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
Waste Management Services - Independent Review	Medium	Level 3					✓						✓
Ethics	Medium	Level 3		✓	✓	✓	✓	✓	✓	✓			
Financial Savings Plan	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Implementation of Corporate DBS Policy	Medium	Level 3			✓	✓	✓						✓
Direct Payments - Embedding Operational Practice (Stage Two)	Medium	Level 3											✓
Accounts Payable - Vendor Changes	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
IT Project Governance	Medium	Level 3		✓	✓	✓	✓	✓	✓				✓
GDPR Compliance - Education and Skills Directorate	Medium	Level 3			✓						✓		✓
Rent Service - Current and Former tenancy arrears	Medium	Level 2					✓					✓	
Revenues Payments and Posting Delays	Medium	Level 2			✓	✓	✓					✓	
IT Procurement	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
IT Projects - Capita Retained Services	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
IT Projects - Application Platform Modernisation	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Homelessness - HOC Prevention Model	Medium	Level 2				✓	✓						✓
Hospital Discharges, Pathway 2, Rehabilitation Beds	Medium	Level 2				✓							✓
Pupil Premium Free School Meals Data Issues	Low	Level 3			✓								✓
Public Health Procurement	Low	Level 3			✓	✓	✓						✓
Management of Reservoirs	Low	Level 3		✓			✓						✓
City Operations - Section 106 Funding	Low	Level 3		✓									✓
IT Policies	Low	Level 2		✓	✓	✓	✓	✓	✓				✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
CareFirst IT Review	Low	Level 2			✓	✓	✓						✓
Perry Barr Regeneration Scheme - Project and Contract Management	Low	Level 2		✓				✓					✓
IT Applications - Decommissioning Applications	Low	Level 2		✓	✓	✓	✓	✓	✓				✓
Accounts Receivable - Instalment Plans	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Corporate Payroll Temporary Changes to Contracts Allowances	Low	Level 2		✓								✓	
Accounts Payable - Fuel Cards	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
SAP Security	Low	Level 2		✓	✓	✓	✓	✓				✓	✓
Flood Risk Management	Low	Level 2		✓			✓						✓
Corporate Payroll - Starters & Leavers	Low	Level 2		✓								✓	
Benefit Service - Procedures	Low	Level 2			✓	✓	✓					✓	
Health and Safety Community Libraries - Controls Assurance	Low	Level 2			✓	✓	✓						✓
Fixed Assets IT Systems	Low	Level 2		✓	✓	✓	✓	✓	✓				✓
Birmingham City Laboratories	Low	Level 2			✓	✓	✓						✓
Corporate Payroll - Recovery of Overpayments for Leavers	Low	Level 1		✓								✓	
Housing Benefit Accuracy Awards (DWP)	Low	Level 1			✓	✓	✓					✓	
Accounts Payable - Payments over £75k	Low	Level 1		✓	✓	✓	✓	✓	✓			✓	
Enablement Second Progress Review	N/A	N/A			✓	✓	✓						✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
In-Year School Admission Progress Update	N/A	N/A			✓								✓
Revenues and Benefits Recruitment	N/A	N/A			✓	✓	✓						✓

**Follow up Reviews (15 Reports):**

Title	Risk Rating Council	RAG
GDPR - Procurement and Contract Management	High	
Supplier Financial Risk - Embedding the Methodology	High	
The Birmingham and Solihull Youth Promise Plus Funding Programme Management Arrangements	Medium	
Information Assets Register	Medium	
Information Governance - Data Privacy Impact Assessments	Medium	
Anti Virus - Malware	Medium	
Information Governance - Remote Working GDPR Compliance and Security	Medium	
Information Governance - Article 33 Breach Notification	Medium	
Use of IT Shared Drives	Medium	
Northgate Data Quality	Low	
Corporate Payroll - IR35 Compliance	Low	
IT Governance - Housing Repairs	Low	

Title	Risk Rating Council	RAG
IT Applications - Impulse and CV Hub	Low	
Logotech Treasury Management System	Low	
Information Governance - Access to Information	Low	

#### Investigations (9 Reports)

#### School Visits (15 Reports, including 6 school follow up reports)

## Summary of Significant Findings

### Red High Risk Reports

During the first half of 2021/22 we issued 2 follow up 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:

#### GDPR - Procurement and Contract Management

**Council Risk Rating: High**

**Follow up**

**RAG:**



At the time of our review work was still ongoing to implement the agreed recommendations and ensure that the Council is compliant with GDPR in relation to procurement/contracts. Training of Information Asset Owners was underway but training on GDPR for procuring officers and contract managers had still not been delivered; this training is particularly necessary in order to ensure Legal Services are engaged early on when goods and services are procured, and to ensure Data Protection Impact Assessments (DPIA) are properly completed. Work had also not been completed to review the Data Processing Agreements (DPA) or Data Sharing Agreements (DSA) to ensure they are compliant.

#### Supplier Financial Risk - Embedding the Methodology

**Council Risk Rating: High**

**Follow up**

**RAG:**



Whilst our recommendations to strengthen the methodology and the associated Financial Toolkit have been implemented. We identified that further work is required across directorates to embed the methodology. As such, there is a risk that contract managers are unaware of the supplier's financial position.

These follow-up reports are being tracked and the action taken monitored through the Council's Leadership Team (CLT).

### School Visits

The school audit visit programme recommenced in April 2021 following the 3rd national lockdown. We were able to complete audits throughout the summer despite the challenges faced by schools due to the Pandemic. The approach to each visit was agreed with the school and included the opportunity for remote auditing and on-site work where appropriate.

Our approach includes progress reviews for schools that have received a Level 3 Assurance/High risk rating in the last academic year. This process is having a positive and helping to secure the implementation of recommendations and the ability of schools to manage risk effectively.

We continue to work with the Education & Skills Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools. Visits are selected through a risk-based plan and our work programme is constantly reviewed to meet key priorities and issues.

The outcomes from the audits completed this financial year continue to reflect the general trends from previous years. This is not unexpected as our work focuses on those schools with the greatest challenges.

Overall, we continue to find schools have effective systems of control in place, and staff and Governors are complying with key processes. However, there are still areas for development which would improve strategic and operational delivery - notably financial governance, budget planning, financial management and purchasing. There are known financial challenges across the maintained school sector resulting mainly from reduced funding and increased staffing costs and we have therefore identified a continued increase in schools relying on previous years' carry forward surplus balances to achieve balanced budgets along with predicted deficits in future years for a majority of the schools visited.