

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

**Report to:** AUDIT COMMITTEE

**Report of:** Assistant Director, Audit & Risk Management

**Date of Meeting:** 18<sup>th</sup> June 2019

**Subject:** Birmingham Audit Annual Report 2018/19

**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 annual opinion on the adequacy and effectiveness of the systems of internal control. 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 2018/19, 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 2019/20.

#### 2. RECOMMENDATIONS

2.1 Members are asked to accept this report and the annual assurance opinion for 2018/19.

2.2 Members are asked to approve the 2019/20 Internal Audit Charter.

### **3. LEGAL AND RESOURCE IMPLICATIONS**

- 3.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

### **4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES**

- 4.1 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.
- 4.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

### **5. COMPLIANCE ISSUES**

- 5.1 Council policies, plans and strategies have been complied with.

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# Birmingham Audit Annual Report 2018/19

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18<sup>th</sup> June 2019

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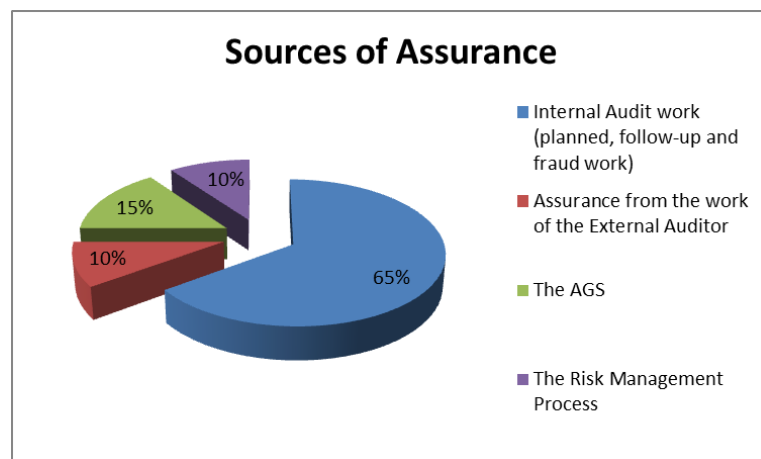
## **1. Background**

- 1.1 The 2018/19 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 go through significant change, the drivers for this change being both organisational and financial. 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 2018/19 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 2019/20 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 risk management, corporate governance and financial control). My opinion will form 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 to 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 2018/19 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. This opinion should be considered in light of the governance findings raised by the Birmingham Independent Improvement Panel and the value for money concerns and recommendations made under Section 24 of the Local Audit and Accountability Act 2014 (the Act) raised by the Council's External Auditor, which impact upon my overall assurance.

The BIIP stepped down on 31<sup>st</sup> March 2019. Within its final report the Panel acknowledge the meaningful progress that the Council has made since June 2018 and the huge amount of work that it is doing to tackle the problems. The Panel, and the Council within its Improvement Stock-take Report, recognise the ongoing risks and challenges that continue to be faced and the need to continue the improvement journey whilst seizing the significant opportunities available to the Council, notably the Commonwealth Games 2022.

Within their Audit Findings Report and Annual Audit Letter (July 2018) for the year ending 31<sup>st</sup> March 2018 the Council's External Auditors issued a number of Statutory recommendations under Section 24 of the Act and conclude that they are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and as a consequence give a qualified 'adverse' conclusion. Whilst recognising the significant progress that had been made External Audit issued additional recommendations under Section 24 of the Act in March 2019 as they concluded that the Council faced a number of significant governance challenges.

### **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:

- Our Schools' audit team has continued to work closely with the Education and Skills Directorate to support delivery of the improvement across Birmingham Schools.
- We have worked in partnership with the Education and Skills Directorate and Adult Social Care Directorate Leadership Teams to deliver effective solutions to a number of fundamental service delivery challenges, including establishing the processes for the Annual Review of the Children's Trust, undertaking a review of in-year school admissions, and helping in the development and strengthening of the governance framework surrounding the Better Care Fund.
- Supporting the Quality, Impact & Outcomes Sub Group of the Birmingham Safeguarding Children Board (now known as the Birmingham Safeguarding Children Partnership) in their work to safeguard and promote the welfare of Birmingham's children.

- We have contributed to the Serious and Organised Crime (SOC) in Procurement Project Group, and we have undertaken specific pieces of work to help assess the risk to the Council, and actions required to mitigate this risk, which include better liaison with external agencies.
- Developed an automated programme of data matching, which allows fraud and error to be detected within 24 hours. As a result services that are being provided incorrectly can be stopped quickly. This helps preserve resources and reduce the level of fraud and error.
- Supporting the IT Transition programme.

#### **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 PSIAS.

4.2 The PSIAS became effective from 1<sup>st</sup> 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 and internal quality standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

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”.*

During the year a PSIAS self assessment has been completed, this self assessment confirmed our ongoing compliance with the standards.

- 4.3.3 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 September 2018, the assessment concluded:

*‘...management systems continue to operate effectively and are well defined by a comprehensive set of well-established policy and procedure documents that have been published in an easily accessible manner. A culture of continual improvement is evident and this is well demonstrated in the Performance Dashboard that records improvements interventions as well as a defined set of key performance indicators for each of the service areas.’*

Additional, internal quality audits on our ISO processes are undertaken annually, most recently in March 2019. As in previous years, only minor issues were identified, actions have been taken to correct these.

#### 4.4 **Inputs**

- 4.4.1 The 2018/19 internal audit plan contained 4681 productive days. During the year 4527 days were actually delivered. The variance between planned and actual days has arisen due to a higher level of sickness than anticipated, the impact of saving proposals, and in year vacancies. I am satisfied that there were adequate staffing resources available to me to deliver the audit plan and form an assurance opinion.



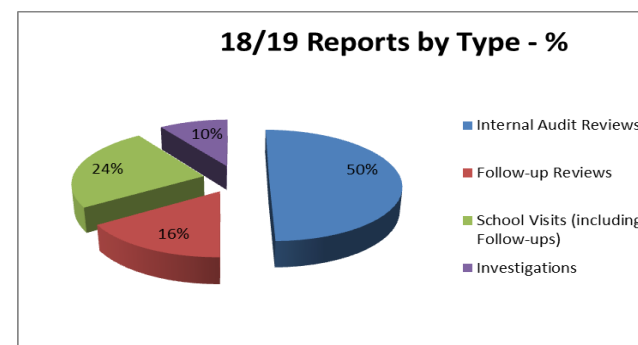
4.4.2 The actual days delivered in 2018/19 compared to those planned is detailed in the table below:

	18/19				
	Planned		Actual		Variance
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>4527</b>	<b>(154)</b>
Main financial systems	16%	730	15%	663	(67)
Business controls assurance	39%	1830	38%	1724	(106)
Investigations	18%	830	20%	904	74
Schools (Non Visits)	2%	105	2%	110	5
Schools (Visits)	15%	720	14%	639	(81)
Follow up work	3%	150	3%	141	(9)
Ad-hoc work	4%	186	5%	203	17
Planning & reporting	3%	120	3%	143	23
City initiatives	0%	10	0%	0	(10)

## 4.5 Outputs

4.5.1 During the year we issued 249 final reports, containing 2326 recommendations. For comparison purposes during 2017/18 we issued 296 final reports containing 2482 recommendations.

<b>Reports by Type</b>	<b>17/18</b>	<b>18/19</b>
Internal Audit Reviews	134	124
Follow-up Reviews	29	40
School Visits (including Follow-ups)	93	61
Investigations	40	24
<b>Total</b>	<b>296</b>	<b>249</b>

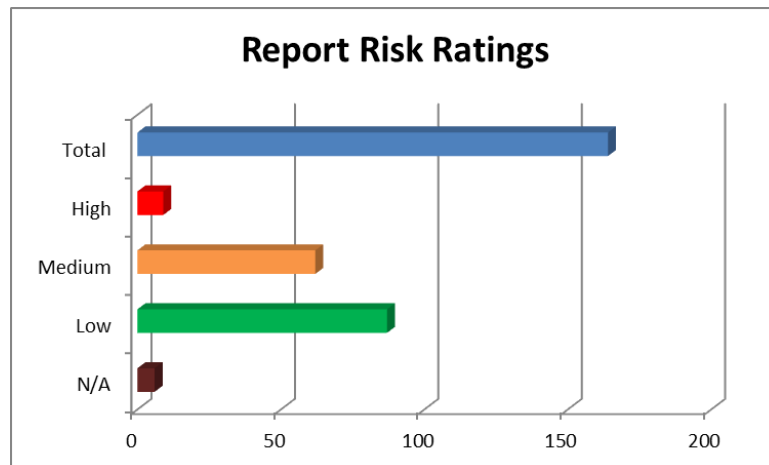


A full list of the audit reports issued during the year is detailed in Appendix B.

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 164 reports (124 Internal Audit and 40 Follow-up Reviews) issued during the year, 9 were given a high risk rating, 62 had an medium level rating, 87 had a low rating, and 6 related to non-assurance work.



4.5.4 On a monthly basis a list of all final reports issued, together with their Council risk rating, is sent to Members of the Audit Committee, Cabinet and the Council Management 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 31<sup>st</sup> March 2019 we had completed 98% of planned jobs 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:

*‘.....we cannot thank you enough for your assistance with this case, you’ve gone above and beyond.’*

*‘.....I just wanted to pass on my gratitude..... was professional throughout the process and conducted the audit in a manner that was challenging and supportive.’*

*‘.....I’d like to thank you for your cooperative and professional approach to this audit, which has been a useful exercise.....’*

#### 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. In response to legislative changes and reductions in resources we have re-prioritised our work to concentrate on the more material cases, 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.

	2017/18	2018/19
Number of outstanding investigations at the beginning of the year	10	28
Number of fraud referrals received during the year	115	109
Number of cases concluded during the year	97	123
Number of investigations outstanding at the end of the year	28	14

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 In addition to the above, the team have carried out proactive exercises looking at attendance and at serious and organised crime in procurement, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Data analytical techniques have also been used to review and identify any potentially fraudulent transactions. 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 64 properties and cancelled 212 housing applications prior to letting. The team also identified Housing Benefit overpayments totalling £858,202 and Council Tax changes of £559,534. 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 2019/20 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 and outlines the rationale behind the annual audit plan.

## **6. Internal Audit Plan**

- 6.1 The 2019/20 plan contains 4691 days (including a vacancy on the Schools Audit Team which we are currently attempting to fill). This compares to 4,681 in 2018/19. We have been able to maintain this level of productive resources as there was no requirement this year to make a specific allowance for maternity / paternity leave and the appointment of an audit apprentice.

- 6.2 The 2019/20 plan was approved by members at the March Audit Committee meeting. The table below shows a summary split of audit days over the different categories of work we undertake, previous year information is given for comparison purposes. A more detailed breakdown of the plan is given in Appendix D.

	<b>18/19</b>	<b>18/19 Days</b>	<b>19/20</b>	<b>19/20 Days</b>
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>4691</b>
Main financial systems	16%	730	15%	725
Business controls assurance	39%	1830	38%	1770
Investigations	18%	830	18%	830
Schools (Non Visits)	2%	105	1%	60
Schools (Visits)	15%	720	15%	720
Follow up work	3%	150	4%	175
Ad-hoc work	4%	186	6%	286
Planning & reporting	3%	120	3%	120
City initiatives	0%	10	0%	5

- 6.3 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 2019/20 plan.

## 7. Grant Certification

- 7.1 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
Scambusters
Growth Hub
Highways Maintenance Challenge Fund
Integrated Transport Grant

- 7.2 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 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
Urban-Regen-Mix
TRIS – Transition Regions towards Industrial Symbiosis
SPEA – Supporting Public Procurement of Innovative Solutions

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

### **1. High Risk Reports**

During 2018/19 we issued 9 reports where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

#### **Appointee and Court Deputy Service**

**Council Risk Rating: High****Assurance: Level 4****RAG:**

The Council provides an Appointee and Court Deputy Service (ACDS) for vulnerable adults who are unable to manage or make decisions about their financial affairs and do not have any family or an appropriate person to handle their affairs on their behalf.

At the request of the Head of the Client Financial Services an audit to assess the adequacy and effectiveness of key processes was undertaken. We identified significant issues which impacted on the effectiveness of ACDS in ensuring the financial affairs and assets of all vulnerable adults are adequately and effectively managed at all times. The weaknesses meant that significant financial and reputational risks had arisen for the Council, and the potential for system abuse existed.

A subsequent follow-up review confirmed that appropriate action had been taken to strengthen processes and procedures and that these had been embedded. Management arrangements were found to be effective with appropriate segregation of duties.

#### **General Data Protection Regulation (GDPR) – Procurement and Contract Management**

**Council Risk Rating: High****Assurance: Level 4****RAG:**

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. The GDPR specifies that any processing of personal data, by a Processor, should be governed by a contract with certain provisions included. Therefore, changes need to be made to existing contracts in order to bring them in line with the new regulations.

Our review identified that the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with



the DPA 2018, were inadequate. Although some action had been taken to ensure the Council was compliant, there was still much work to do.

The Council has now established an information assurance programme. Third party supplier privacy risk is a specific work theme within this programme. Progress is reported through to the Information Assurance Board and the Senior Information Risk Officer on a regular basis.

### **Supplier Financial Risk - Embedding Risk Methodology**

**Council Risk Rating: High**

**Assurance: Level 4**

**RAG:**



The collapse of Carillion highlighted the need for organisations, including the Council, to have appropriate processes in place to continuously monitor the financial health of contractors and to be prepared if a supplier was to become insolvent. In 2014, Commissioning and Procurement Services (CPS) developed a Supply Chain Risk Methodology (SCRM), which includes a financial health check. The SCRM was due to be refreshed and relaunched in August 2018.

Although the revised SCRM was presented to the Commissioning and Contract Management Board in August 2018, we found that action had only recently started to take place across directorates to embed the methodology within existing contract management arrangements.

A follow-up review to assess progress with the implementation of the SCRM has been scheduled within the 2019/20 audit plan.

### **Early Years Health and Wellbeing Contract**

**Council Risk Rating: High**

**Assurance: Level 4**

**RAG:**



In January 2018 the Children and Young People Directorate entered into a contract with Birmingham Community Health Care NHS Foundation Trust (BCHT) for the delivery of its early years health and well-being services. This is a 5 year contract with an annual value of approximately £33M with BCHT sub-contracting services to 4 partners, with forecast savings of £10.1M. We identified significant concerns with the mobilisation and management of the contract, in particular:

- the late decision to second rather than TUPE staff;
- achievement of the forecast savings;
- lack of budget monitoring for the first 5 months;

- no ICF, or capacity in the directorate to monitor the contract;
- KPIs not fit for purpose; and
- the risk of claw back of grant funding from the DfE due to a change in the use of some properties.

### **Children's Trust Client – Complaints Management**

**Council Risk Rating: High**

**Assurance: Level 4**

**RAG:**



In April 2018, the Birmingham Children's Trust (BCT) was launched to provide children's social care services on behalf of the Council. BCT is a wholly owned company (WOC) and was created to deliver improvements in children's services in response to significant external criticism. Overall responsibility for children's services is still retained by the Council, and therefore a key priority for the Directorate is ensuring that BCT delivers the required improvements. It is therefore important that the Directorate has adequate processes in place to monitor, measure and manage the performance of BCT, which includes ensuring that all complaints are properly managed and resolved.

We identified a number of concerns in the processes for monitoring the resolution of complaints received regarding the BCT. In particular; there were no procedures covering the processes to follow within the Directorate, no KPIs to measure performance, inadequate reporting, and a lack of understanding and capacity by those managing this process.

Since issuing the draft report, the directorate has introduced additional controls. It has been agreed that a follow up audit will be undertaken in the new financial year to review the revised system which it is hoped will enable us to provide an improved assurance level and a lower risk rating.

### **IT Emerging Issues - Fake E Mail Invoice Scam**

**Council Risk Rating: High**

**Assurance: Level 3**

**RAG:**



Email fraud is the intentional deception made for personal gain or to damage another individual through email. Almost as soon as email became widely used, it began to be used as a means to defraud people. Scam emails are currently one of the most common cyber security threats with over 400,000 phishing emails being reported to Action Fraud every year.

An incident occurred in June 2018 where a genuine Council invoice, which had been scanned as a PDF document and attached to an email was intercepted. The attacker used phishing techniques to convince the customer to pay the invoice into a rogue bank account, which ultimately resulted in

the loss of their funds. This was a very sophisticated fraud where the attacker convinced the customer that they were corresponding with a genuine Council email address. The incident has been reported to Action Fraud. It is believed that the attacker targeted the customer's Office 365 account, where poor user authentication controls had been adopted, placing rules to intercept relevant emails. There is no evidence that the Council's systems have been compromised.

### **Adult Education IT Systems replacement**

**Council Risk Rating: High**

**Assurance: Level 3**

**RAG:**



The Council provides a range of accredited and non-accredited training programmes at entry level, level 1 and level 2 through the Birmingham Adult Education Service (BAES). The objective of the training is to improve learners' employment prospects through the development of appropriate skills, health and well-being, and social and community cohesion. As part of an improvement programme their management information system and associated IT Infrastructure is being replaced and upgraded. We identified weaknesses within the project and budget management processes.

We have worked closely with the project to strengthen key processes in order to drive the project forward on a successful footing. The new system went live at the end of January.

### **Children's Trust Client – Service Delivery and Financial Performance Framework High Level Review**

**Council Risk Rating: High**

**Assurance: Level 3**

**RAG:**



A contractual framework has been established to monitor the work of the BCT which includes the setting of KPIs and the establishment of the Operational Commissioning Group (OCG) to review its progress on delivering rapid improvements in children's services. However, we did identify some governance concerns, in particular; no permanent senior capacity within the directorate to undertake an ICF; the absence of retained knowledge and expertise of children's social work within the directorate; no requirement for the Council to quality assure BCT's KPIs; the arrangements in place for the Council to access BCT's data, and out of date financial reporting.

**Improving Financial Management in Schools****Council Risk Rating: High****Assurance: Level 3****RAG:**

With a backdrop of continuing budgetary pressures, the number of schools with deficit budgets is increasing year on year. If this trend continues there will be a severe challenge to the directorate's capacity to manage this issue and could become a significant risk both financially and in terms of delivering high quality education. This has been recognised by the directorate and they have identified the need for a coherent and effective approach to improving financial management, and awareness, in schools.

We identified that the directorate has taken positive action to improve financial management within schools. This includes the establishment of the schools causing concern group, the requirement for schools to provide additional financial reports to improve monitoring and changes to the work of Schools Financial Services at individual schools. However, these have largely concentrated on managing schools already in financial difficulty rather than preventing them going into deficit. We identified that a significant number of schools were forecast to be in deficit if current spending patterns are maintained, the lack of regular strategic financial forecasting/modelling of LA schools as a whole.

**2. School Visits**

Throughout 2018/19 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of maintained schools. In response to feedback and changing priorities our programme of work was revised in November 2018 with increased emphasis on financial management systems and controls. We have also moved to a risk based plan as the original visiting programme had been completed. As a result we have seen an increase in higher risk rated reports.

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. Where concerns have been raised these have been appropriately escalated and support provided. No significant concerns were identified from the surveys.

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

The main issues identified are:

- Financial Governance – weaknesses continue to be identified in the delegation framework in a proportion of schools. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities. Despite the re-launch of the updated Schools Financial Procedures Manual (SFPM) in November 2017, which includes revised model templates, we are still finding areas for development. Throughout the year we have seen an improvement in financial reporting to Governors and scrutiny and challenge by Governing Boards. The correct completion of pecuniary interest forms remains an ongoing issue in a number of schools, again new templates and guidance has 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. Also there is still a high proportion of schools that are not completing a statement of internal control, completing it incorrectly or not recording its approval.
- Budget Planning – whilst day to day financial management is well established a high proportion of schools are relying on their carry forward surplus to set a balanced budget. This poses a risk for future years when the surplus has been utilised unless action plans to reduce expenditure / increase income are developed. It is not surprising that this continues to be an area of significance as the financial challenges in schools grow. We continue to see an increase in schools forecasting deficits in future years. There is a need for Governors and Senior School Leadership to establish and agree mitigation action plans to address this risk.
- Purchasing – Compliance with the schools financial procedures manual purchasing procedures is an area of concern. There is a need for greater compliance procedures relating to the ordering and receipting of goods. Improvements are also required in respect of establishing appropriate divisions of duty.
- 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 of cumulative expenditure to ensure value for money is always obtained.
- Attendance – We continue to review the destination of pupils who leave schools in year. A small number of schools have not sought advice from the Children Missing in Education (CME) team when forwarding addresses are not provided for pupils moving abroad. When referrals are made to the CME team schools are not always waiting for confirmation that the pupil can be removed from roll before doing so.

- Safeguarding – Overall schools were well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. There remains the need for improvement in respect of monitoring IT and internet use and undertaking due diligence prior to lettings to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements.

### **3. Risk Management**

Risk management continues to be embedded across the Council. The Corporate Risk Register is reviewed and challenged by the Council Management Team on a monthly basis. The register is also reported to the Audit Committee on a quarterly basis.

During the year the risk management policy, strategy and toolkit was reviewed and consolidated into a single risk management framework and a supporting e-learning module developed. Risks are currently being transferred into the new format that places greater emphasis on the actions needed to manage risks to their target level.

### **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. We carried out several audit reviews in 2018/19 covering governance in specific service areas.

As in previous years, we also reviewed the process used to produce and monitor the AGS which forms part of the Council's accounts.

The AGS 2018/19 identifies eight significant issues: Financial Resilience; Major Projects; Improvement Agenda; Homelessness and Safety Implications for Tower Blocks; Asset Condition and Sufficiency; Commonwealth Games; Workforce and Contract Management.

## **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 2018/19 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 the key ledger controls did not find 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 a lack of supporting evidence as to how the proposed savings had been calculated and how the required level of savings are becoming increasingly difficult to achieve without transformational change; together with a number of significant budget pressures.

Within their Audit Findings Report and Annual Audit Letter (July 2018) the Council's External Auditor gave an unqualified opinion on the Council's financial statements for the year ending 31st March. However, they did raise a number of statutory recommendations under Section 24 the Act. Whilst recognising that significant progress that had been made, they issued a number of additional statutory recommendations in March 2019. This included the need to:

- continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements;
- broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks
- keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
  - continuing to strengthen its level of reserves; and
  - completing the development of contingency plans to minimise the effects of these risks should they crystallise.

As part of the improvement agenda the Council has commissioned CIPFA to help in strengthening financial management across the whole council.

**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 are correct. 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 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 2018/19 15,895 vendors were paid by AP including feeder file transactions totalling £2.66bn. Purchase card spend across the City Council was approximately £14.8m.

95 % of invoices were paid within 30 days of receipt into AP. 86% of invoices sent directly to directorates, rather than AP, 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**

Contract governance arrangements set the foundations for achieving a robust contract management environment that is efficient, innovative, good value and achieves continuous improvement in supplier performance. Our work during the year has continued to find weaknesses in governance arrangements, this has included a lack of contract management plans, and risk registers.

A contract management audit of the Early Years Health and Wellbeing contract identified significant concerns with the mobilisation and management of the contract. In particular, the late decision to second rather than TUPE staff, delays and mobilisation issues mean the forecast savings of £10m are unlikely to be achieved. Other issues identified included a lack of budget monitoring and Intelligent Client Function, unfit KPIs, front line staff dealing directly with children that had not had DBS checks, and the risk of claw back of grant funding from the DfE due to a change in the use of some properties.

A review requested by management into the Special Educational Needs Assessment and Review service's (SENAR) commissioning arrangements confirmed that the arrangements in place to commission and place children and young people with independent providers, are not robust or working effectively. Despite spend on independent providers being significant (£12m in 2018/19), a contractually based commissioning framework is not in place. Instead, spot purchases are made which increases the likelihood of a wide variation in charges, as well as providing the opportunity for providers to charge inflated prices. We also identified that the quality assurance and safeguarding checks of providers is inadequate.

Our review of progress in embedding the corporate Supply Chain Risk Methodology (SCRM) identified very little progress. The methodology, which includes an annual financial health check of contractors, is not widely embedded within contract management arrangements despite it being re-launched at Commissioning and Contract Management Board in August 2018. We will be undertaking further work in 2019/20 to review progress.

Our 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 they are currently inadequate. Although some action has been taken to ensure the Council is compliant, there is still much work to do, including revising procurement and contract management tools and templates. 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.

**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 2018/19 was £698m (excluding Housing Benefit Overpayment debts Debts). Overdue sundry debts (over 90 days old) as at 02/04/2019 was £31.3m, including Housing Benefit overpayments.

The invoicing and recovery of debt is an essential part of the council's budget process and reliance is placed on income targets being met. Processes were found to be operating effectively, with appropriate system in place for raising bills and recovering debt.

**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 has to be accurate as a 1% error could cost the Council £3m reduction from Government. The Housing benefit caseload in March 2018 was 104,866 and at the end of March 2019 was 91,107 a reduction of approximately 12%. This 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 reduced from March 2018 to March 2019 from approximately £21.5 m to £16.1m, with approximately £18.5m being recovered against a target of £15.4m at the end of March 2019. HBOs for citizens migrating over to Universal Credit can no longer be recovered via Housing Benefit but via the Universal Credit payments.

Council Tax Support (CTS) applications have remained at a static level during 2018/19 at approximately 123,000.

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

## **Council Tax & Non-Domestic Rates**

Council Tax is one of the ways Birmingham City Council (BCC) receives money to provide local services. The amount paid is based upon the value of the property. Reductions (discounts and exemptions) in the amount paid are applicable to certain people. In 2018/19 properties with a full year liability were raised totalling £391m with a year-end collection target of £365m (93.48%). The total amount collected as at 31/03/19 was £364m (93.19%), down by 0.29%. This is believed to be attributed to the roll out of Universal Credit and claimants not submitting CTRS claims. It is also believed that the waste dispute had an effect on council tax collection with residents withholding payments. The year-end collection target for 2019/20 is still set at 93.48%.

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 2018/19 properties with a full year liability were raised of £450,359,819 with a year-end collection target of £430m (95.52%). The total amount collected as at 31/03/19 was £429m (95.30%), down by 0.22%. The year-end collection target for 2019/20 is still set at 95.52%.

## **Rents**

At March 2019 there were 58,031 city tenancies with 17,973 arrears cases (30.97%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 6,474 accounts totalling approximately £6.4m (36.02% of the total arrears figure). The current tenancy arrears are approximately £16m.

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**

Adequate and effective information technology (IT) and information governance controls need to be in place to ensure that the Council's information systems safeguard assets, maintain data integrity, and operate effectively to achieve the Council's goals or objectives. The Council has embarked on a major change programme which involves the transition of IT services from Capita back to the Council. Alongside this is a major undertaking, the Council is 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 the BRUM account for online citizen services, a new Social Care system and a refresh of the technical infrastructure.

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

- Concerns over the management of system user accounts persist. 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 requires improvement to ensure data is protected and value for money is achieved.
- Our work in respect of management and security of the IT infrastructure (network, directory service, data centres) continues to provide a reasonable assurance.
- The success of a number of projects has been impacted by poor project governance and management; it is important that lessons learnt are shared across the Council and robust processes established to ensure expected benefits are realised.
- Whilst progress is being made against the ICT Strategy, the individual themes are maturing at differing speeds. A number of themes have not matured as originally envisaged e.g. Insight and Innovation. There is a need to complete an annual review of outcomes to continue to drive the strategy forward on a successful basis.
- 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 activities are covered by appropriate Data Sharing Agreements and Data Processing agreements. This continues to be a theme of activity within the Council Information Assurance Plan.
- There continues to be a need to reinforce and ensure compliance with the ICT Acceptable Use policy.

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 and through the development of an action plan to assist the Council in its GDPR compliance.

### Final Reports Issued During 2018/19

#### Audit Reviews (124 Reports, including 6 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
Appointee and Court Deputy Service	High	Level 4				✓					✓	✓
General Data Protection Regulation (GDPR) – Procurement and Contract Management	High	Level 4		✓			✓		✓	✓		
Supplier Financial Risk - Embedding Risk Methodology	High	Level 4		✓			✓	✓	✓		✓	
Early Years Health and Wellbeing Contract	High	Level 4			✓		✓		✓	✓	✓	
Children's Trust Client – Complaints Management	High	Level 4			✓		✓					✓
IT Emerging Issues - Fake E Mail Invoice Scam	High	Level 3		✓					✓	✓		
Adult Education IT Systems replacement	High	Level 3				✓	✓					✓
Children's Trust Client – Service Delivery and Financial Performance Framework High Level Review	High	Level 3			✓		✓		✓		✓	✓
Improving Financial Management in Schools	High	Level 3			✓					✓		
Combined Heat and Power Scheme - Contract Management	Medium	Level 4		✓					✓		✓	
Enablement Service	Medium	Level 4				✓	✓					
Funeral & Property Protection Section - Service Delivery Review	Medium	Level 4			✓		✓		✓		✓	✓
Non HRA Property Transactions	Medium	Level 3		✓			✓				✓	✓
Independent Living Service	Medium	Level 3			✓		✓					✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Children With Disabilities / Direct Payment Summary Report	Medium	Level 3			✓							✓
Financial Control Review	Medium	Level 3					✓				✓	
IT Emerging Issues IT Governance Housing Repairs	Medium	Level 3					✓					✓
Housing Allocations	Medium	Level 3					✓					✓
IT Emerging Issues - Use of Shared Drives	Medium	Level 3		✓	✓	✓	✓		✓			✓
Public Services Network	Medium	Level 3			✓	✓			✓			✓
Information Governance - Access to Information	Medium	Level 3		✓	✓	✓			✓			
Schools Themed Work – Human Resource Management	Medium	Level 3			✓							✓
Centenary Square - Open Book Accounting	Medium	Level 3		✓					✓		✓	
Direct Payments	Medium	Level 3				✓					✓	
Public Health - Compliance with Governance Requirements	Medium	Level 3			✓	✓	✓				✓	✓
Review of Savings Plan	Medium	Level 3		✓			✓			✓	✓	
Company Assets and Relationship Management	Medium	Level 3		✓					✓		✓	
Information Governance - Data Quality - Place	Medium	Level 3					✓		✓		✓	
Special Education Provision and Travel Needs Review	Medium	Level 3			✓						✓	✓
External Payroll Reconciliation Process	Medium	Level 3		✓			✓				✓	
Private Sector Leasing - Contract Management	Medium	Level 3				✓						✓
Air Quality	Medium	Level 3		✓			✓					✓
Insurance Arrangements	Medium	Level 3		✓			✓		✓		✓	
Enhanced Assessment Beds	Medium	Level 3			✓	✓						✓
Delayed Transfer of Care - Discharge Hubs	Medium	Level 3				✓	✓				✓	✓
Seven Day Working	Medium	Level 3				✓					✓	✓
Third Party Governance - Information Security	Medium	Level 3		✓					✓			
Council Tax - Debt Monitoring and Recovery	Medium	Level 3		✓							✓	
NDR - Debt Monitoring and Recovery	Medium	Level 3		✓							✓	
Ethics	Medium	Level 3		✓			✓		✓			
Direct Payments - Annual Reviews	Medium	Level 3										
Interim Executive Board	Medium	Level 3			✓	✓					✓	
Strategic Management of Non HRA Property Assets	Medium	Level 3		✓								
Transition to Adulthood	Medium	Level 3										✓
PARIS Income Receipting IT Review	Medium	Level 3		✓			✓		✓		✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Public Health Checks	Medium	Level 2			✓	✓	✓					✓
NDR Recovery and Enforcement Levels	Medium	Level 2		✓							✓	
Council Tax Recovery and Enforcement levels	Medium	Level 2		✓							✓	
Deprivation of liberty safeguards	Medium	Level 2				✓	✓					✓
Direct Payment - Hospital Discharges	Medium	Level 2				✓					✓	
Delivery of the Improvement and Business Plan	Medium	Level 2		✓	✓	✓	✓	✓	✓	✓	✓	✓
IT Infrastructure DMZ	Medium	Level 2		✓					✓			
Information Governance - Birmingham Wellbeing	Medium	Level 2				✓	✓		✓			
Parks - Use of On Site Residential Properties	Low	Level 4					✓					
Children's Residential Homes - Contract Management	Low	Level 3			✓						✓	✓
Enterprise Zones	Low	Level 3		✓					✓		✓	
Preparation for IFR 16	Low	Level 3		✓							✓	
Treasury Management	Low	Level 3		✓							✓	
Careline	Low	Level 3				✓	✓		✓		✓	✓
DCFM Outline Evaluation	Low	Level 3					✓		✓			✓
The Active Wellbeing Society - Monitoring Arrangements	Low	Level 3					✓					✓
Children's Advice and Support Service	Low	Level 2			✓							✓
Children in Care External Placements	Low	Level 2			✓		✓				✓	✓
Revenues Refunds	Low	Level 2		✓							✓	
Council Tax - Exemptions and Discounts	Low	Level 2		✓			✓				✓	
Northgate Housing	Low	Level 2					✓		✓			
CareFirst IT	Low	Level 2			✓	✓	✓		✓			
Government Grant Claims	Low	Level 2		✓							✓	
IT Projects - PIR - Revenues and Benefits replacement scanning system	Low	Level 2		✓					✓			
Bus Lane Enforcement	Low	Level 2					✓					✓
Information Governance - Public Health Service Restricted Network	Low	Level 2			✓	✓			✓			
Work Initiation Process ICT Projects	Low	Level 2		✓					✓			✓
Wireless Network	Low	Level 2		✓					✓			✓
RBIS	Low	Level 2		✓					✓			
Attendance Management	Low	Level 2		✓			✓					✓
Corporate Payroll - Allowances	Low	Level 2		✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Non Invoiced Income Birmingham Community Libraries	Low	Level 2		✓			✓				✓	
Corporate Payroll - Exceptions	Low	Level 2		✓							✓	
Council Tax - Student Discounts	Low	Level 2		✓							✓	
Corporate Payroll - Employee Loans	Low	Level 2		✓							✓	
Information Governance - Data Review - Place	Low	Level 2		✓			✓		✓			
IT Remote Access	Low	Level 2		✓					✓			
Non Invoiced Income Birmingham Parks	Low	Level 2		✓			✓				✓	
Information Governance Data Review	Low	Level 2		✓					✓			
Sufficiency of Child Care Places - Early Education (0-5)	Low	Level 2			✓		✓					✓
Fuel Cards	Low	Level 2		✓							✓	
Information governance Data Sharing - Environmental Health	Low	Level 2		✓			✓		✓			
Employee Related Debts	Low	Level 2		✓							✓	
Information Governance Tenant Management Organisations	Low	Level 2					✓		✓			
BRUM Account	Low	Level 2					✓		✓		✓	✓
Firewalls	Low	Level 2		✓					✓			
Appointee & Court Deputy Service (ACDS) - Cash Processes and Procedures	Low	Level 2				✓	✓				✓	
Accounts Receivable (AR) - Aged Debts – Markets	Low	Level 2		✓			✓				✓	
Accounts Receivable (AR) - Aged Debts – Adults Social Care & Health (ASC & H) – Client Financial Services (CFS)	Low	Level 2				✓					✓	
Local Government Transparency Code	Low	Level 2		✓			✓		✓			
CareFirst IT Review	Low	Level 2			✓	✓	✓		✓			✓
Rent Collection & Charges - Arrears Recovery	Low	Level 2		✓			✓				✓	
RBIS IT Review	Low	Level 2		✓					✓			
Rent Collection & Charges - Former Tenancy Arrears	Low	Level 2		✓			✓				✓	
Schools Financial Value Standard	Low	Level 2			✓				✓		✓	
CareFirst Overview of Implementation of New System	Low	Level 1			✓	✓	✓		✓			✓
Account Receivable - Output Tax	Low	Level 1		✓							✓	
Council Tax Discretionary Hardship Payments	Low	Level 1		✓			✓				✓	
IT Project Governance	Low	Level 1		✓					✓			
Instalment Recovery Drop Off Report	Low	Level 1		✓							✓	
NNDR Enforcement Agents Management and Monitoring Arrangements	Low	Level 1		✓							✓	



Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
NDR Local Discretionary and Public House Reliefs	Low	Level 1		✓			✓				✓	
Accounts Payable The Substitution Process	Low	Level 1		✓							✓	
Accounts Payable Vendor Control	Low	Level 1		✓							✓	
Exceptions to Sales Billing	Low	Level 1		✓							✓	
Billing Activities - Viscount House	Low	Level 1		✓			✓				✓	✓
Benefit Service - Transitional Arrangements	Low	Level 1		✓			✓				✓	
Benefit Service - Diary Events	Low	Level 1		✓							✓	
NDR - Diary Events Notepad	Low	Level 1		✓							✓	
Council Tax - Diary Events Notepad	Low	Level 1		✓							✓	
Vendor Payments - Homeless Service	Low	Level 1		✓			✓				✓	✓
Single Persons Discount Call Credit Contract	Low	Level 1		✓			✓				✓	
Aged Debts - BPS	Low	Level 1		✓							✓	
Markets Lease	N/A	N/A		✓							✓	
Project Management - Roles and Resources	N/A	N/A		✓					✓			✓
Supplier Financial Risk	N/A	N/A		✓							✓	
Serious and Organised Crime - Procurement	N/A	N/A		✓			✓		✓			✓
Commercialism and Trading Approach to Services for Schools	N/A	N/A		✓	✓						✓	
Centenary Square - Project Governance	N/A	N/A		✓			✓		✓			

**Follow Up Reports (40 Reports):**

Title	Risk Rating Council	RAG
Disabled Facilities Grant - VAT Coding 2nd Follow Up	Medium	
Child Permanence Reports follow up	Medium	
Museums Management Arrangements	Medium	
Contract Management - Provision of Transport Services	Medium	
GDPR	Medium	

<b>Title</b>	<b>Risk Rating Council</b>	<b>RAG</b>
Information Governance - Data Sharing Follow Up	Medium	
Network Management Follow Up	Medium	
Third Party Service Provision - Information Security Follow Up	Medium	
Residential Care Centres Follow up	Medium	
Accounts Payable Fees at Independent Schools Follow up	Medium	
SAP Interface files and reconciliation Follow-up	Medium	
IT Governance Housing Repairs Follow-up	Medium	
Due Diligence Follow-up	Medium	
Council Tax Recovery and Enforcement Levels Follow-up	Medium	
Assessment & Support Planning - Section 117	Medium	
IT Emerging Issues Use of Shared Drives	Medium	
Independent Living Service Follow Up	Medium	
IT Emerging Issues - Access to Information Follow Up	Medium	
SAP Security	Low	
Purchased Annual Leave Scheme Follow up	Low	
Information Assurance Framework Follow Up	Low	
Council Tax Suppressions Follow Up	Low	
IT Asset and Configuration Management	Low	
Egress - Secure Email	Low	
RBIS Batch Processing Follow up	Low	
Education Infrastructure - Project Management	Low	
Safeguarding Corporate Overview - Section 11 Follow up	Low	
Information Governance - SEGWEB Follow up	Low	
Rent Refunds Follow up	Low	
Web Services Follow up	Low	
NDR Recovery and Enforcement levels Follow-up	Low	
Public Service Network (PSN) Follow Up	Low	
Wireless Network Follow Up	Low	
Residential Placements	Low	
Disabled Facilities Grant - VAT Coding 3rd Follow Up	Low	
Network Management Follow Up	Low	
Third Party Service Provision	Low	

Title	Risk Rating Council	RAG
Accounts Payable - Fuel Cards Follow up	Low	
Combined Heating and Power Scheme - Contract Management - Follow-up	Low	
Information Governance - Data Sharing	Low	

**Investigation Reports (24 Reports)**
**School Visits (50 Reports, 11 Follow-up Reports)**

## **Internal Audit Charter 2019/20**

### **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 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 Councillors, 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.

2.2 In accordance with section 12 of the Financial Regulations:

- each 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;
- Directors must respond in writing to any recommendations contained in audit reports in accordance with agreed protocols; and
- 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 into 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 or implement the advice and recommendations or reject it. 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 2019/20 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.
- 6.3 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

Section 14 of the Financial Regulations states the following:

- 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 to minimise 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, ie: 10 working days, should be given.

## **6. Avoiding Conflicts of Interest**

Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

Birmingham Audit will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.

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. Business Plan Objectives - 2019/20**

- 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 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
- 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 drivers 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 has been introduced 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**

- We will continue to contribute to driving forward the change agenda ensuring our planning process is future focused.
- The audit plan for 2019/20 has been compiled based on a number of factors, ie:
  - the level of risk associated to each entity;
  - the level of assurance associated to each entity; and
  - any reviews that fall under the 'must do' categorisation, ie: 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.

There is also an allocation for undertaking programmed school visits as part of the school improvement agenda.

- All of the risks contained within the Corporate Risk Register are included within the Council's Assurance Map, 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.
- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.

- 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.
- 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).
- Follow up audits will be undertaken in accordance with the agreed policy.
- 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:

- School financial health checks;
- 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 pay e.g. grant claim certification.

**Proposed Internal Audit Plan 2019/20**

	Days	Total
<b>Financial Systems (including computer audits where appropriate)</b>		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	<b>725</b>
<b>Business Controls Assurance</b>		
Work in Progress b/fwd. from 2018/19	50	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	<b>940</b>
<u>Adults Social Care</u>		
Assessment & Support Planning	25	
Commissioning	20	
Placements	20	
Enablement	15	
Specialist Care Services	25	<b>105</b>
<u>Assistant Chief Executives</u>		
Public Health	30	
Resilience	20	
Improvement Agenda	20	
Project Management	30	<b>100</b>
<u>Education and Skills</u>		
Contract Monitoring - Birmingham Children's Trust	40	
Safeguarding & Development – BCSB	30	
Safeguarding Corporate Overview	30	
Commissioning & Contract Management Framework	20	
Pupil Premium	10	

	Days	Total
Not in Education Employment or Training (NEETS)	10	
SEND - Working with Health & Tri-partite Funding	20	
Management of Properties	25	
Children without a School Place	15	
Exclusions process	5	
Youth Provision Outcomes	15	220
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		
Accountable Body	30	
Flood Management	10	40
<u>Neighbourhoods</u>		
Leaseholder Service Charges	10	
House Sales	15	
Homelessness	20	
Waste Management	25	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	270
		<b>1770</b>
<b>Investigations</b>		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	<b>830</b>
<b>Schools - Non Visits</b>		
School Improvement (BEP) - Contract Management/Delivery	5	
Pupil Placements: Alternative Provision	10	
Virtual School	10	
Admissions and Appeals	5	
Themed Work	30	<b>60</b>
<b>Schools - Visits</b>	720	<b>720</b>
<b>Follow Up Work</b>		<b>175</b>
<b>Ad Hoc Work / Contingency</b>		<b>286</b>
<b>Planning and Reporting</b>		<b>120</b>
<b>City Initiatives</b>		<b>5</b>
<b>TOTAL</b>		<b>4691</b>