

## **BIRMINGHAM CITY COUNCIL**

### **PUBLIC REPORT**

**Report to:**           **AUDIT COMMITTEE**

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

**Date of Meeting:**   **20<sup>th</sup> November 2018**

**Subject:**            **Birmingham Audit - Half Year Update Report 2018/19**

**Wards Affected:**    **All**

#### **1. PURPOSE OF REPORT**

1.1 The attached report provides Members with information on outputs and performance measures in relation to the provision of the internal audit service during the first half of 2018/19.

#### **2. RECOMMENDATIONS**

2.1 Members are asked to note the level of audit work and assurances provided.

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

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**

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.

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

### **5. COMPLIANCE ISSUES**

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

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**Assistant Director, Audit & Risk Management**

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# **Birmingham Audit Half Year Report 2018/19**

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**20<sup>th</sup> November 2018**

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## 1. Background / Annual Opinion

- 1.1 The 2018/19 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 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 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 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). 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 2018/19 will be based on the following sources of assurance:



- 1.3 The 2018/19 audit plan was approved by the Audit Committee at the March 2018 meeting. This report provides a summary of the progress made in delivering the agreed plan.

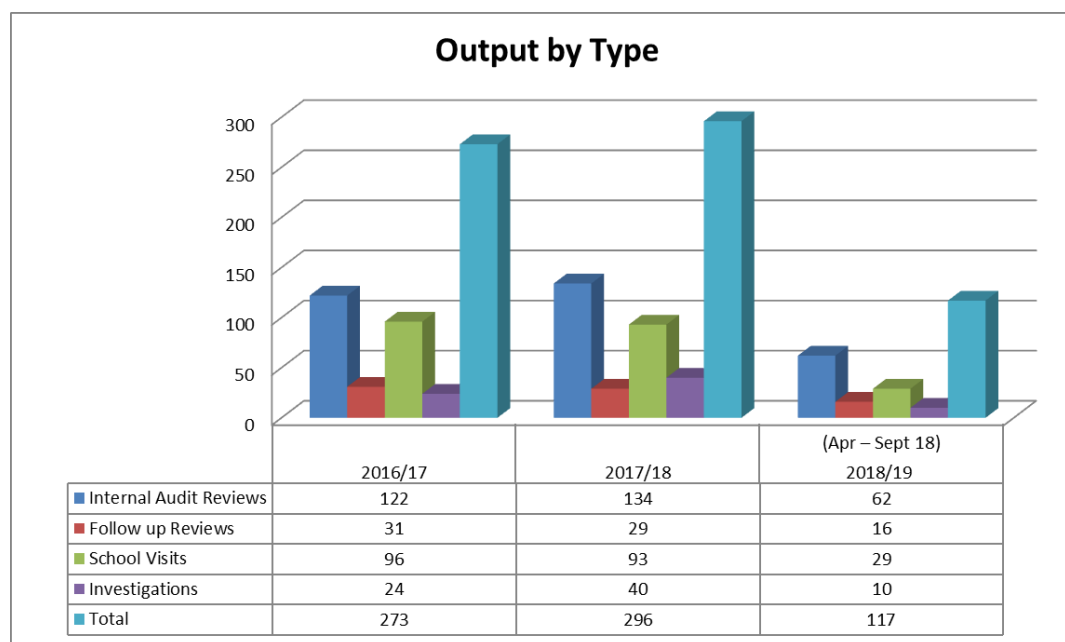
## **2. Added Value Services**

- 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 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 first half of 2018/19 include:
- Working with the Children's Directorate Finance & Governance Group to develop a more focussed approach to support the challenge of dealing with financial management in schools.
  - Working in collaboration with the Quality, Impact & Outcomes Sub Group (of the Birmingham Safeguarding Children Board) and the Birmingham Children's Trust to establish whether the multi-agencies involved with children subject to child protection provide their full engagement to safeguard and promote the welfare of these children.
  - Continuing to work closely with Adult Social Care and Health to ensure packages of care provided are appropriate, promote and support independence and provide a value for money service. This includes identifying areas of potential closer working with the NHS to improve discharge from hospital and identifying high cost care packages which could receive joint funding with health.
  - As a result of the Government's Serious and Organised Crime Strategy and Home Office pilots, we have undertaken a number of actions to review due diligence requirements/ processes, to better understand the threat to the Council, particularly in relation to procurement. 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. A report from the group was accepted by CMT in June.

### 3. Performance

#### 3.1 Outputs

3.1.1 During the first half of 2018/19 we issued 117 final reports. A comparison to 2016/17 and 2017/18 (full years) is given in the chart below.

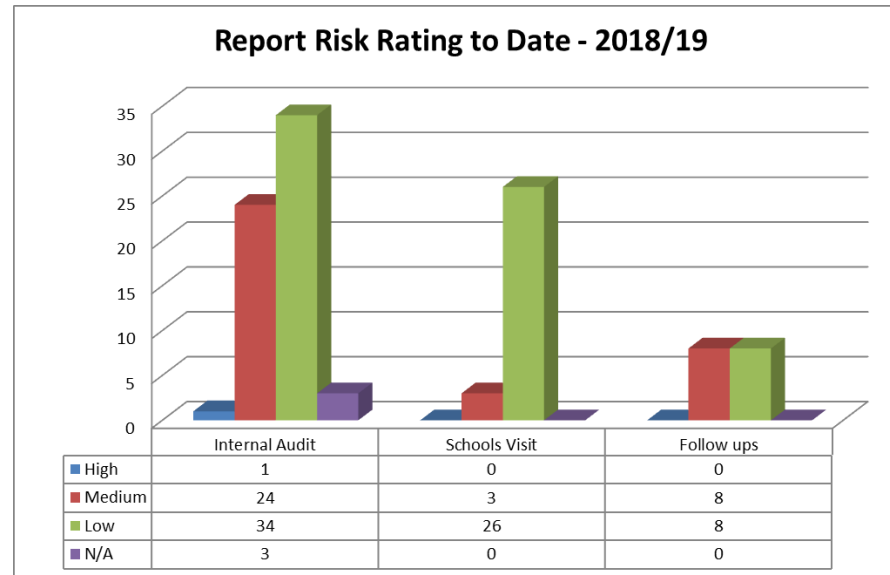
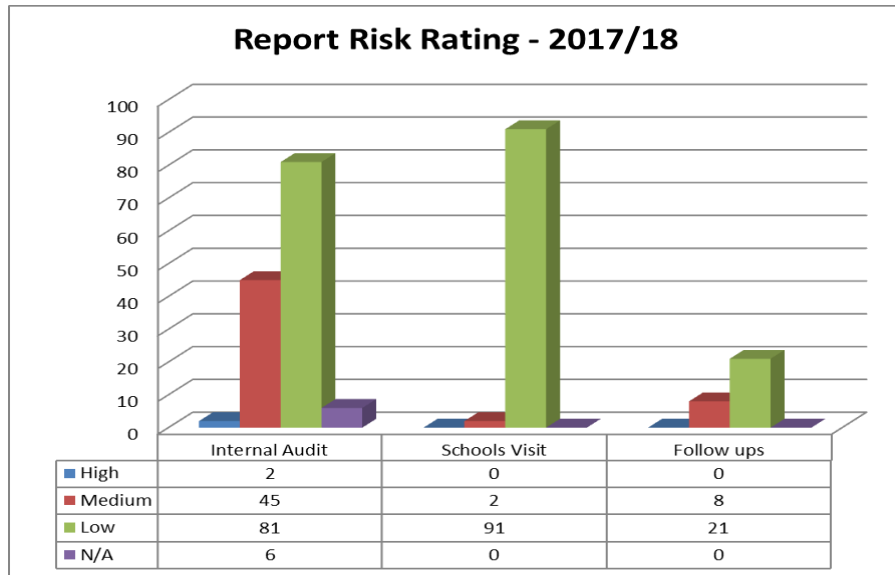


3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members are able to request copies of reports and receive further information. 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 - Non 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 reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

3.1.4 From the 107 reports (62 Internal Audit, 29 School Visits and 16 Follow up reviews) issued, 1 was given a high risk rating, 35 had a medium rating, 68 had a low rating, and 3 (relating to advice and guidance) had no risk rating. An analysis of the report risk ratings, together with a comparison to 2017/18 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:

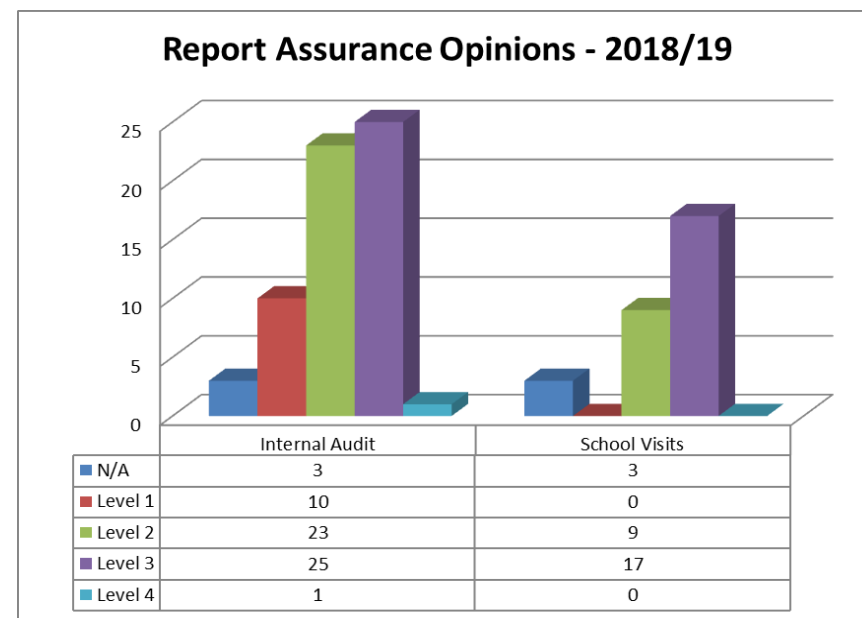
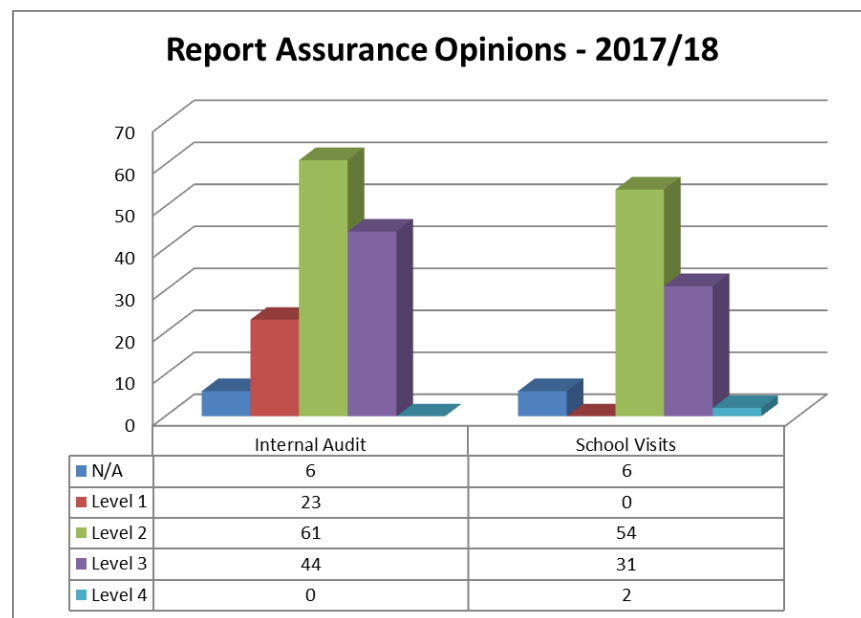
Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

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, together with a comparison with 2017/18 is given in the charts below. To date 51% of reports issued this year have contained a negative assurance (Level 3 or 4) this compares to 36% for the whole of last year.





### 3.2 Plan Completion

3.2.1 As at 30<sup>th</sup> September 2018 we had completed 36% of planned jobs which is slightly below the September target of 40%. We are aiming to complete 95% of the plan by 31<sup>st</sup> March 2019.

### 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:

	2016/17	2017/18	2018/19 (Apr – Sept)
Number of outstanding investigations at the beginning of the year	14	10	28
Number of fraud referrals received during the year	111	115	61
Number of cases concluded during the year	115	97	51
Number of investigations outstanding	10	28	38

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>2016/17</b>	<b>2017/18</b>	<b>2018/19 (Apr – Sept 18)</b>
Properties Recovered	45	87	40
Applications Cancelled	194	152	79
Housing Benefit Overpayment	£589,110	£826,748	£508,177
Council Tax Change	£324,974	£1,077,096	£347,843

(Note: 2017/18 increase in Council Tax due to a proactive exercise on exemptions)

#### **4. Resources**

- 4.1 The Council continues to face a number of financial challenges and has identified the need to make significant financial savings. Birmingham Audit is required to contribute to these savings and manage its resources within the budget that is available. In year staff reductions, together with the current recruitment freeze, will result in a plan reduction of 217 days (full year effect 365 days).

<b>Plan Reduction</b>	<b>In Year Days</b>	<b>% of Total Plan</b>	<b>Full Year Days</b>	<b>% of Total Plan</b>
Staff Reduction	82	2%	170	4%
Vacancy	135	3%	195	4%
<b>Total</b>	<b>217</b>	<b>5%</b>	<b>365</b>	<b>8%</b>

- 4.2 In order to accommodate this reduction in days we have reduced the amount of time we intend to spend auditing the main financial systems, placing greater emphasis on our data analytical work / management assurance and reduced the number of school visits undertaken.

- 4.3 We are continually reviewing our working practices, methodologies and structure to ensure they remain appropriate and support the organisation. Any further reduction in resources and planned audit coverage will be carefully considered to ensure that I can continue to provide an effective service and an annual audit opinion.

## 5. Completion of the Internal Audit Plan 2018/19

- 5.1 The approved 2018/19 plan contains 4,681 days. The table below details completion as at 30<sup>th</sup> September 2018 and provides a comparison to 2017/18.

	2017/18				2018/19			
	Planned Days	%	Actuals	%	Planned Days	%	Half Year Actuals (Apr – Sept 18)	% (Apr – Sept 18)
<b>Number of audit days in approved plan @ 1<sup>st</sup> April.</b>	<b>5113</b>	<b>100%</b>	<b>4684</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>2201</b>	<b>100%</b>
Main financial systems	905	18%	893	19%	730	16%	482	22%
Business controls assurance	1735	34%	1647	35%	1830	39%	754	34%
Investigations	830	16%	803	17%	830	18%	365	17%
Schools (Non Visits)	155	3%	129	3%	105	2%	36	2%
Schools (Visits)	945	19%	773	17%	720	15%	336	15%
Follow up work	200	4%	159	3%	150	3%	67	3%
Ad-hoc work	178	3%	168	4%	186	4%	93	4%
Planning & reporting	125	2%	103	2%	120	3%	68	3%
City initiatives	40	1%	9	0%	10	0%	0	0%

(Note: variance between planned and actual days for 2017/18 due to reduction in audit resources and vacancies)

## 6. Grant Certification

- 6.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grant that have been awarded to the Council.

<b>Grant Certificates Issued</b>
Troubled Families
Scambusters
Growth Hub
Highways Maintenance Challenge Fund
Integrated Transport Grant

- 6.2 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
TRIS – Transition Regions towards Industrial Symbiosis
SPEA – Supporting Public Procurement of Innovative Solutions

## Appendix A

### Reports Issued During the First Half of 2018/19

#### Audit Reviews (62 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.

#### Assurance Type

6. Good Governance.
7. Corporate Risk Register.
8. Financial Assurance.
9. Business Control Assurance.

Title	Council Risk Rating	Assurance	1	2	3	4	5	6	7	8	9
Responding to the Challenge of Improving Financial Managem't in Schools	High	Level 3		✓					✓	✓	
Combined Heat and Power Scheme - Contract Management	Medium	Level 4	✓					✓			✓
Financial Control Review	Medium	Level 3	✓	✓	✓	✓	✓	✓		✓	
IT Emerging Issues - Use of Shared Drives	Medium	Level 3	✓						✓		✓
IT Governance Housing Repairs	Medium	Level 3				✓					✓

Title	Council Risk Rating	Assurance	1	2	3	4	5	6	7	8	9
Non HRA Property Transactions	Medium	Level 3	✓								✓
Housing Allocations	Medium	Level 3		✓							✓
Children with Disabilities/Children's Direct Payments annual summary	Medium	Level 3		✓							✓
Public Services Network Audit Report	Medium	Level 3	✓					✓			✓
Independent Living Service	Medium	Level 3			✓						✓
Centenary Square - Open Book Accounting	Medium	Level 3	✓			✓		✓			
Direct Payments	Medium	Level 3			✓						✓
Information Governance	Medium	Level 3	✓					✓			
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		✓					✓		
Schools Themed Work - HR Management	Medium	Level 3			✓						✓
CareFirst IT	Medium	Level 2		✓	✓	✓					✓

Title	Council Risk Rating	Assurance	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			✓	✓					✓
Children's Residential Homes - Contract Management	Low	Level 3		✓						✓	✓
Enterprise Zones	Low	Level 3	✓					✓			✓
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			✓						✓
Revenues Refunds	Low	Level 2				✓				✓	
Children's Advice and Support Service	Low	Level 2		✓		✓					✓
Council Tax - Exemptions and Discounts	Low	Level 2		✓		✓				✓	✓

Title	Council Risk Rating	Assurance	1	2	3	4	5	6	7	8	9
Northgate Housing	Low	Level 2				✓				✓	✓
IT Projects - PIR - Revenues and Benefits replacement scanning system	Low	Level 2				✓				✓	✓
Children in Care External Placements	Low	Level 2		✓							✓
Government Grant Claims	Low	Level 2	✓					✓		✓	✓
Bus Lane Enforcement	Low	Level 2				✓					✓
RBIS	Low	Level 2				✓					
Wireless Network	Low	Level 2	✓								✓
Work Initiation Process ICT Projects	Low	Level 2	✓	✓	✓	✓	✓	✓			✓
Information Governance - Public Health Service Restricted Network	Low	Level 2		✓	✓	✓					✓
Attendance Management	Low	Level 2	✓								✓
Corporate Payroll – Allowances	Low	Level 2	✓							✓	
Non Invoiced Income Birmingham Community Libraries	Low	Level 2				✓				✓	
Corporate Payroll – Exceptions	Low	Level 2	✓							✓	
Council Tax - Student Discounts	Low	Level 2	✓	✓						✓	
Council Tax Discretionary Hardship Payments	Low	Level 1	✓			✓				✓	



Title	Council Risk Rating	Assurance	1	2	3	4	5	6	7	8	9
Account Receivable Output Tax	Low	Level 1	✓							✓	
IT Project Governance	Low	Level 1	✓	✓	✓	✓	✓	✓			✓
CareFirst Overview of Implementation of New System	Low	Level 1		✓							✓
Instalment Recovery Drop Off Report	Low	Level 1	✓							✓	
NNDR Enforcement Agents Management and Monitoring Arrangements	Low	Level 1	✓							✓	
Accounts Payable The Substitution Process	Low	Level 1	✓							✓	
NDR Local Discretionary and Public House Relief	Low	Level 1	✓							✓	
Accounts Payable Vendor Control	Low	Level 1	✓	✓	✓	✓				✓	
Exceptions to Sales Billing	Low	Level 1	✓	✓	✓	✓				✓	
Project Management - Roles and Resources	N/A	N/A	✓	✓	✓	✓	✓	✓			✓
Supplier Financial Risk	N/A	N/A	✓					✓	✓	✓	
Markets - Lease	N/A	N/A	✓								✓

**Follow up Reviews (16 Reports):**

<b>Title</b>	<b>Risk Rating Council</b>
Disabled Facilities Grant - VAT Coding 2nd Follow up	Medium
Child Permanence Report Follow up	Medium
Museums Management Arrangements Follow up	Medium
Contract Management - Provision of Transport Services Follow up	Medium
GDPR Follow up	Medium
Information Governance - Data Sharing Follow up	Medium
Network Management Follow up	Medium
Third Party Service Provision - Information Security Follow up	Medium
SAP Security Follow up	Low
Information Assurance Framework Follow up	Low
PALS Follow up	Low
Council Tax Suppressions Follow up	Low
IT Asset and Configuration Management Follow up	Low
Egress - Secure Email Follow up	Low
RBIS Batch Processing Follow up	Low

Title	Risk Rating Council
Education Infrastructure - Project Management Follow up	Low

**Investigations (10 Reports)**

**School Visits (29 Reports including 3 school follow ups reports)**

**Summary of Significant Findings****Red High Risk Reports**

During the first half of 2017/18 we issued 1 red report, where we identified a 'high' risk rating for the Council and 1 report where we allocated a Level 4 assurance. Brief details of the issues highlighted in these reports are detailed below:

**Responding to the Challenge of Improving Financial Management in School      Council Risk Rating: High      Assurance: Level 3**

With continuing budgetary pressures, the number of schools with deficit budgets is increasing year on year and if this trend continues there will be a severe challenge to the directorate's capacity to manage this issue. The directorate has recognised the potential risks of failing to improve financial management in schools and has strengthened the control environment. However, further action is required, particularly in relation to improving forecasting, management information, training and a greater emphasis on preventative work, through earlier and increased intervention into those schools forecast as likely to be in deficit.

We identified a need to:

- formalise risk management arrangements;
- undertake strategic "stress testing" to assess the financial position and the capacity of schools to withstand budget pressures;
- establish deficit repayment plans;
- closely control spending on schools subject to a Directive Academy Order (DAO); and
- strengthen the training provided to schools.

Our recommendations have been agreed, a follow up review is scheduled for March 2019.

**Combined Heat and Power Scheme - Contract Management****Council Risk Rating: Medium****Assurance: Level 4**

In late 2006 the Council entered into a contract with Birmingham District Energy Company to deliver Combined Heat and Power (CHP) schemes in the City Centre and Eastside in order to provide a discounted supply of energy (electricity, hot water for heating and chilled water for air conditioning) to various council buildings and non- Council buildings in the City Centre and Eastside over a 25 year contract period.

We identified that contract management arrangements require significant improvement. Contract governance, performance and financial management were not considered sufficient. The contract requires reviewing as it contains contract conditions which place significant risk on the Council e.g. it places liability upon the Council if other occupiers fail to pay their energy bills. Additionally it was not possible to determine if best value is being achieved.

Our recommendations have been agreed, a follow up review is scheduled for January 2019.

**School Visits**

We have continued to work with directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools and support the new measures implemented by the Council in their monitoring and oversight role. We have also developed a risk based schools audit plan, and a work programme that focuses on financial management, that will be introduced from November.

We have found that school Governors and senior management are generally striving to lead schools effectively in very challenging circumstances; however there is much to be done in respect of financial planning and responding to financial pressures. Whilst day to day financial management is well established, a high proportion of schools are relying on carried forward surpluses to set balanced budgets and are forecasting future year budget deficits. This poses a significant threat for both the individual schools and the Council. Governors and senior school leadership need to be more proactive in establishing and agreeing plans to address this issue.

Schools have generally performed well in respect of managing attendance and safeguarding, though there is still room for some improvement. In terms of Governance and Financial Management areas for development include clarity regarding financial responsibilities, improvement in financial reporting to governors, better management of pecuniary interest declarations and the recording and reporting of gifts and hospitality. In addition,

we have noted a reduction in the number of schools completing a statement of internal control and ensuring that governor pecuniary interests are correct on the schools website, and little improvement in respect of compliance with key controls for ordering and receipting of goods and establishing appropriate divisions of duty. Schools continued to be well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. However, 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. Schools are rolling out Prevent training but need to improve the mechanisms for recording that the training has been undertaken.