

**Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting**

**BIRMINGHAM CITY COUNCIL**

**AUDIT COMMITTEE**

**TUESDAY, 30 JUNE 2015 AT 14:00 HOURS**  
**IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE,**  
**BIRMINGHAM, B1 1BB**

**A G E N D A**

**1 NOTICE OF RECORDING**

Chairman to advise meeting to note that members of the press/public may record and take photographs except where there are confidential or exempt items.

**2 APOLOGIES**

To receive any apologies for non-attendance.

**3 APPOINTMENT OF COMMITTEE, CHAIR, DEPUTY CHAIR AND MEMBERS**

(I) To note the resolution of the City Council appointing the Committee, Chair and Members to serve on the Committee for the period ending with the Annual Meeting of the Council in 2016.

**Labour**

Councillors Afzal, Burden (Chair), Henley, Rice and Shah

**Conservative**

Councillors Robinson and Wood

**Liberal Democrats**

Councillor Tilsley

(ii) To elect a Deputy Chair, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2016.

**4 - 4**

4     **FUNCTIONS**

To note that the City Council has agreed this Committee's functions as set out in the attached schedule.

5     **DECLARATIONS OF INTEREST**

Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of that meeting.

**5 - 9**

6     **MINUTES**

To confirm the Minutes of the last meeting.

**10 - 39**

7     **BIRMINGHAM AUDIT ANNUAL REPORT 2014/15**

Report of the Assistant Director, Audit and Risk Management.

**40 - 46**

8     **BANKING SERVICES CHANGE PROJECT**

Report of the Director of Finance.

**47 - 50**

9     **ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEMS OF INTERNAL AUDIT**

Report of the Director of Finance.

**51 - 68**

10    **2014/15 ANNUAL GOVERNANCE STATEMENT**

Report of the Director of Finance.

**69 - 90**

11    **THE AUDIT PLAN FOR BIRMINGHAM CITY COUNCIL**

Report of the External Auditor.

12 **GRANT THORNTON AUDIT COMMITTEE UPDATE**

Report of the External Auditor.

13 **DATES AND TIME OF MEETINGS**

To approve a schedule of dates for the Committee's meetings during 2015/2016.

The Chairman proposes that the Committee meets on the following Tuesdays at 1400 hours in the Council House:-

**2015**

28 July  
29 September  
24 November

**2016**

26 January  
15 March

14 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chairman are matters of urgency.

15 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

'In an urgent situation between meetings, the Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

**P R I V A T E   A G E N D A**

## **AUDIT COMMITTEE**

The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance.

### **Functions**

- (a) To review the City Council's Annual Accounts and Annual Good Governance Statement (AGGS). This will include advising on significant changes throughout the year to financial regulations and policies.
- (b) To monitor progress in addressing control or governance issues identified in the AGGS.
- (c) To review and provide the executive with assurance on the embedding and maintenance of an effective system of corporate governance including the risk management framework and the associated control environment.
- (d) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.
- (e) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.
- (f) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
- (g) To consider reports from the Ombudsman and monitor management response in relation to these.
- (h) To consider, approve or make recommendations in respect of any other matters at the request of the Council.

# **BIRMINGHAM CITY COUNCIL**

## **MINUTES OF THE AUDIT COMMITTEE HELD ON TUESDAY 17 MARCH 2015, 1400 HOURS, COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

**PRESENT:** - Councillor Phil Walkling in the Chair;

Councillors Tristan Chatfield, Sybil Spence, Jess Phillips,  
Fergus Robinson & Randal Brew

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### **APOLOGIES FOR ABSENCE**

787 Apologies were noted on behalf of Councillors Paulette Hamilton, Paul Tilsley

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788 **DECLARATION OF INTEREST**

1. Councillor Randal Brew declared a non-pecuniary interest in relation to his directorship role at Acivico
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### **PUBLIC MINUTES**

789 **RESOLVED:-**

That the minutes of the Committee meeting held on 27<sup>th</sup> January 2015 were confirmed and signed by the Chairman.

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### **THE LOCAL GOVERNMENT OMBUDSMAN'S REPORT CONCERNING MISS 'X'**

A report of the Chief Executive & the Strategic Director for People was submitted:

Miranda Freeman, Chris Atkinson and Simon Wellman attended the meeting and in response to comments and questions by Members the following points were noted:-

- References were made to 3-3.1 to 3.2, 4-4.1 to 4.7, 5-5.1 to 5.3, 6-6.1 to 6.4 & 7-7.1 to 7.3
- General agreement that all future correspondence to parents relating to home to school transport should have the following:
  1. Clarity
  2. Prior Legal approval regarding the contents and layout
  3. Standard format in the main
- Concern over in excess of 700 remaining parents who did not complain
- Confirmed that claimants could only claim with a 12 month window effective from the date of receiving their letter

790

**RESOLVED:-**

- (i) That the report be noted; and
  - (ii) That relevant officers be instructed to seek prior Legal advice as a matter of course regarding written correspondence to parents; and
  - (iii) That advice be sought from Legal to with regards to practicality of providing support as detailed above; and
  - (iv) That a briefing paper be circulated to all Members of the Committee regarding the rights of 'Home to School Transport'; and
  - (v) That update/s be provided to the Committee at future meeting/s
- 

**CORPORATE RISK REGISTER UPDATE**

A report of the Assistant Director, Audit & Risk Management was submitted:

Cynthia Carran attended the meeting and in response to comments and questions from Members the following point was noted:

References were made to the following information:

- 2-2.1 to 2.6
- Risk 59 (Page 18)
- Risk 60 (Page 18)
- Risk 61 (Page 21)

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**RESOLVED:-**

- (i) That the Committee note the increased risks as detailed below:

**Risk 14b**-Failure to obtain investment into schools stock.

**Risk 45** - Loss of personal or sensitive data; and

(ii) That the Committee note the reduced risks as detailed below:

**Risk 40** - Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.

**Risk 47** - Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance: and

(iii) That the Committee approved three new risks as detailed below:

**Risk 59** - Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to; Subject Access Requests (SARs).

**Risk 60** - Insufficient resources or finance to agree the change programme and deliver what is needed.

**Risk 61** - Inability to respond to the improvement agenda for Children: and

(iv) That the Committee noted that there were no proposed re-wordings / amendments to risks; and

(v) That the Committee confirmed the addition of a risk regarding the implications of the outcome of the Kerslake review; and

(vi) That the Committee approved the revisions to the Council's Risk Management Policy, Strategy and Methodology documents at Appendices B, C and D respectively

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## **ANNUAL GOVERNANCE STATEMENT-PROGRESS**

A report of the Director of Finance was submitted:

Sarah Dunlavey attended the meeting and in response to comments and questions from Members the following points were noted:

- References made in relation to Appendix 1-pages 1 to 7

792

### **RESOLVED:-**

(i) That the report be noted; and

- (ii) That a briefing be provided to the Committee at a future meeting regarding equal pay claims including the implications of a European ruling about annual leave and overtime in relation to Birmingham City Council
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**INFORMING THE AUDIT RISK ASSESSMENT**

A report of the External Auditor & Director of Finance was submitted:

Richard Percival & Phil W Jones attended the meeting and in response to comments and questions from Members the following points were noted:

References made to the following:

- Page 4- items under 'Communication'
- Pages 5 to 8
- Pages 12 to 14
- Pages 21 to 24 (Group Accounts)

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**RESOLVED:-**

That the report be noted

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**GRANT THORNTON-AUDIT PROGRESS REPORT**

A report of the External Auditor was submitted:

Richard Percival & Phil W Jones attended the meeting and in response to comments and questions from Members the following points were noted:

References were made to the following:

- Pages 5 & 6
- Confirmation of 'Letter of electors relating to challenge to the 2013-2014 accounts' being circulated to Members of the Committee
- Page 13-Appendix 1 (Accounting for LA maintained schools)
- Pages 7 to 16

794

**RESOLVED:-**

That the report be noted

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

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**RESOLVED:-**

That the Chairman (or in his/her absence, the Vice-Chairman if appropriate) be and is hereby authorised to act until the next meeting of the Committee except in respect of the exercise of the Council's non-Executive functions, the appropriate Chief Officers are hereby authorised to act in consultation with the Chairman and that the Director of Legal and Democratic Services be authorised to affix the Corporate Seal to any document necessary to give effect to a decision of the said officers acting in pursuance of the power hereby delegated to them; further that a report of all action taken under this authority be submitted to the next meeting and that such report shall explain why this authority was used.

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**OTHER URGENT BUSINESS**

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Members of the Committee expressed their thanks for the support and guidance of the Chairman during the year.

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The meeting concluded at 15:01 hours.

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Chairman

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>30<sup>th</sup> June 2015</b>
<b>Subject:</b>	<b>Birmingham Audit – Annual Report 2014/15</b>
<b>Wards Affected:</b>	<b>All</b>

### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the annual assurance opinion on the adequacy and effectiveness of the systems of internal control in place. It also highlights significant issues that have arisen from internal audit activity during the year.
- 1.2 It gives members information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2014/15, and, in section 7, on compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 It also contains the detailed proposed Internal Audit plan for 2015/16
- 1.4 In addition it contains as appendix B, the Internal Audit Charter for 2015/16. The charter sets out the objectives, framework and services delivered by Birmingham Audit.

### 2. RECOMMENDATIONS

- 2.1 Members are asked to accept this report and the annual assurance opinion for 2014/15 that is contained in it at 4.5. Reasonable assurance is reported.
- 2.2 Subject to any amendments agreed in the discussion at Audit Committee, Members are asked to give their approval to the annual internal audit plan outlined in section 9 and shown in more detail in appendix C.
- 2.3 Members are asked to approve the Internal Audit Charter shown as Appendix B.
- 2.4 Members are asked to note the information on PSIAS compliance contained in section 7 and to determine whether any further action is required.

### **3. BACKGROUND**

- 3.1 The 2014/15 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the requirements of the Accounts and Audit Regulations (Amendments) 2011. It also complied with the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 3.2 The Council is going through a period of significant change. The drivers for change are both organisational (including the Kerslake Review, Le Grand's and Lord Warner's children's safeguarding review, and wider public sector reform) and financial (including the national austerity programme, and the Council's saving commitments). During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2014/15 audit plan reflected these changes by concentrating on those areas of highest risk. We have applied the same approach to our 2015/16 audit planning process where further and even more fundamental change is expected.

### **4. ASSURANCE**

- 4.1 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.
- 4.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide at best a reasonable rather than 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.
- 4.3 Our work is carried out to assist in improving control. However 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
  - Corporate policies, rules and procedures are adequate, effective and are being complied with.
- 4.4 A model has been used to formulate the end of year opinion. The model 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 and the formula will change from time to time as the intelligence we collect on

sources of assurance improves. The opinion for 2014/15 is based on the following sources of assurance and weightings:

Internal Audit Work	65%
Assurance from the work of the External Auditor	10%
The AGS	15%
The Risk Management Process	10%

- 4.5 **Based on the above I am able to provide a reasonable assurance.** As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Strategic Director during the year. A summary of significant findings from our work and a summary of our work on the main financial systems is included as Appendix A.

## 5. ADDED VALUE SERVICES

- 5.1 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:

- Data analytics works in a number of business areas (including in respect of main financial systems) resulting in the identification of opportunities for efficiency and effectiveness gains. We have also used our data analytics capabilities to provide management information that they were not able to obtain from other sources.
- Successful work on recovering inappropriately occupied Social Housing and on strengthening the gateway into both housing and for Social Housing Right to Buy applications. This has included embedding our anti-fraud data-warehouse in service areas to enable the proactive checking of applications to prevent lets and/or inappropriate sales.
- Input to the implementation project for the new banking contract
- Researching, scoping and project managing a supplier statement review which has resulted in significant financial benefits for the Council
- Providing audit support to the Birmingham Safeguarding Children Board

## 6. QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK

- 6.1 I am required to report to members on quality, performance and customer feedback issues. These are summarised below. The Director of Finance also draws upon this information to report to members on the adequacy of the systems of internal audit. His report is being considered elsewhere on the agenda for this meeting. He has concluded that the internal audit service provided is adequate and effective. It meets its aims and objectives, is compliant with the requirements of the PSIAS, meets both professional standards and internal quality standards, is efficient, effective and continuously

improving and adds value and assists the organisation in meeting its objectives.

## **6.2 Quality Assurance**

The provision of a quality service continues to be important to us in Birmingham Audit. Internal quality audits on our ISO quality and information security processes are undertaken annually, most recently in April 2015. As in previous years only minor issues of non-compliance were identified and actions have been taken to correct these.

During the year, Birmingham Audit was recommended for registration to the internationally recognised and externally assessed information security standard ISO27001:2013, and recommended for continual assessment to the quality standard ISO9001:2008.

## **6.3 Inputs**

The 2014/15 internal audit plan contained 5,170 days. I am satisfied that there were adequate staffing resources available to me to deliver the agreed audit plan. At the end of the year we had completed 97% of the planned audits, against a target of 95%.

## **6.4 Outputs**

During the year we issued a total of 194 final audit reports, containing 897 recommendations. For comparison purposes during 2013/14 we issued 254 final reports containing 1,140 recommendations.

Audit 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. Green – Non material issues
2. Amber – High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance
3. 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.

Of the 194 reports issued during the year, 6 were given a red level 3 risk rating, 96 had an amber level 2 rating and 92 had a green level 1 rating.

On a monthly basis a list of all final reports issued is sent to members of the Audit Committee.

## **6.5 Performance and Customer Feedback**

As at 31<sup>st</sup> March 2015 we had completed 97% of planned jobs against an annual target of 95%.

Our customers (both internal and external) continue to provide positive feedback on the services provided.

## 6.6 Corporate Fraud Team

The Corporate Fraud Team is responsible for the investigation of financial irregularities perpetrated against the City Council. The team undertake reactive investigations into specific issues that are reported to them, as well as carrying out proactive projects to try and identify fraud and error. The team also raise awareness of fraud by producing fraud bulletins and issuing ad-hoc alerts, as well as contributing to corporate policies and procedures. The Application Fraud Team, a sub-team within the Corporate Fraud Team, is responsible for the investigation of Social Housing and Council Tax related fraud. A sophisticated data warehouse has been developed to provide intelligence to inform the investigative work, as well as assisting other City Council departments and external law enforcement bodies.

The team have continued to work with Directorate staff to implement the anti-fraud strategy for housing. This includes advising on records management, photo ID's, the new allocations policy, and 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 were successful in recovering 77 inappropriately let social housing properties, stopping 364 housing applications where incorrect, inaccurate or incomplete information had been supplied and preventing Right to Buy discounts amounting to £228,540, being claimed fraudulently. This shows that in addition to the obvious social benefits deriving from the work of the team there is also a real financial saving from preventing and/or terminating social housing fraud.

The table below summarises the activity of the Corporate Fraud Team during the year.

	2013/14	2014/15
Number of outstanding investigations at the beginning of the year	25	40
Number of fraud referrals taken on during the year	187	112
Number of investigations concluded during the year	172	133
Number of investigations outstanding at the end of the year	40	19

## 6.7 Benefit Counter Fraud

On 1<sup>st</sup> February 2015 the Benefit Counter Fraud Team, formerly a part of Birmingham Audit, transferred to the Department for Work and Pensions (DWP) as part of the Government's introduction of a Single Fraud Investigation Service. During the 10 month period prior to the transfer the team achieved 291 sanctions against a target of 250 and set up payment instalments arrangements to recover £715,832 against a target of £562,000.

Following the transfer of the function to the DWP, the Council no longer has any responsibility or authority for investigating allegations of welfare benefit fraud. Responsibility for fraud investigation in relation to Council Tax remains the responsibility of the Council and this is discharged by the Corporate Fraud Team.

## **7 Compliance with the Public Sector Internal Audit Standards**

7.1 With effect from 1<sup>st</sup> April 2013, new Public Sector Internal Audit Standards (PSIAS) were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

7.2 During the lead up to the implementation of the new standards a self-assessment was completed to assess Birmingham Audit's level of compliance with the new standards and where appropriate to review and revise practices to ensure full compliance. The self-assessment identified that Birmingham Audit's practices were generally in compliance with the PSIAS and only minor changes were necessary to ensure all requirements were met. The changes were all actioned. However, there is one specific areas of non-compliance that has not been addressed and under the requirements of the standards I must bring this to your attention for you to consider whether you believe any further action is required. This is as follows:

- (i) The standards require that the Chief Internal Auditor should report to an organisational level equal to or higher than the corporate management team and must be sufficiently senior and independent to be able to provide credible constructive challenge to senior management and influence the control environment. The standards also require that the Chief Internal Auditor is performance managed by the Chief Executive Officer.

Whilst I am a senior officer, my reporting line is to the Director of Finance rather than directly to a member of the Corporate Management Team. I do however have unrestricted access to other senior officers at all levels (including the Chief Executive and all Strategic Directors) and to Members. The reporting arrangements for Internal Audit adopted within the Council are in line with those operated in most other Local Authorities, including all of the Core Cities. The underlying principle of this requirement is around safeguarding my independence and ensuring my remuneration and performance management is not inappropriately influenced by those subject to internal audit. The safeguards within the (former) Personal Development

Review (PDR) process and the current My Appraisal process, which require countersigning and corporate moderation mitigate against this risk.

## **8. The Internal Audit Charter**

On an annual basis members are asked to approve the Internal Audit Charter. The charter for 2015/16 is attached as appendix B. 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.

## **9. Internal Audit Plan 2015/16**

9.1 The 2015/16 plan contains 4,692 days. This compares to 5,170 days in the 2014/15 audit plan. This further reduction is due to the full year effect of redundancies that occurred 'in year' during 2014/15 and the deletion of vacant posts caused as a result of resignations in year. In order to ensure that we can continue to deliver an effective Internal Audit and Counter Fraud service with a further reduced workforce we continually review and where appropriate revise our working practices and methodologies. Some of the key changes within recent years are:

- **Increased use of assurance mapping** – Greater reliance is placed on assurance provided by others, including importantly that provided by managers (though this is subject to a degree of independent verification to ensure it is robust). This enables an audit focus on risk in those areas where there isn't other suitable sources of assurance.
- **Increased use of data analytics** – We have further increased our data analytics capacity and capability and are now rolling out its use on the audit of main financial systems. This is far less time consuming and labour intensive than a traditional approach using manual transaction testing and gives a much wider view on the system and service as a whole. There is clearly a need to retain an emphasis on providing an assurance around the management of risk and control. However, we are also using our data analytics capability to identify opportunities to improve service delivery and efficiency by analysing actual performance against key business success criteria indicators. This new element to our work has been very well received by service managers.
- **Reviewing our audit reporting methods** – We have introduced a new style of audit report that is briefer, less wordy and with greater use of graphs/diagrams/charts etc. to illustrate the points we are seeking to make. The end result is a report that is more focussed on improvement and achieving outcomes rather than simply highlighting problems. The new style audit reports have also been well received.

- **The implementation of a new audit management system and of ‘Sharepoint’, a documentation management solution** – Both went live during the early part of 2014/15. Whilst neither implementation was without some problems both are now working relatively well and are stable. In the current year we plan to use the new audit management system to assist in the tracking of implementation of recommendations. It has in built reporting capability that we can use to tailor reports for specific managers or business area containing details of all recommendations in their area. Ultimately we will be looking to develop on line access to the system so managers can provide updates and use it to manage/monitor their performance relating to implementation of audit recommendations
- 9.2 As in previous years the annual audit plan is compiled using our professional judgement and is based on our assessment of risk.
- 9.3 When compiling our proposed plan we have taken into account the views of other key stakeholders throughout the organisation.
- 9.4 In order to meet the standards required of us and as contained within the legislative and professional framework surrounding the delivery of an internal audit service, there is a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management and corporate governance. A careful balance therefore has to be struck to achieve the optimum use of resources available. This plan will be subject to in year amendment and modification to reflect shifting priorities and emerging issues as policy changes are implemented.
- 9.5 As in the development of the previous year’s plan we have used our risking model to ‘score’ all potential ‘auditable’ areas. There are a number of factors that are considered as part of the risk model:
- Financial materiality
  - Assessment of the adequacy of the control environment
  - Strategic alignment to organisation priorities
  - Sensitivity/Reputational risk
  - Assessment of management
  - Assurance based on internal audit work/knowledge and how recent that was
  - Assurance based on external audit or other inspectorate work and how recent that was
  - Direct assurance gained from operational management
  - Inclusion in the corporate risk register, Council Business Plan or Council Promise

For each potential auditable area each of these factors is given a numerical value which feeds into a formula to arrive at an overall ‘score’. Using these scores we are then able to rank all potential auditable areas in order of priority based on our assessment of risk and on this basis to determine how best to deploy the resources available to us. The risk assessment is designed to be

dynamic and responsive to changing circumstances. We will review and update our assessment throughout the year and the ongoing changes across the organisation may result in in-year changes to the plan if circumstances demand.

- 9.6 The table below shows the proposed split of audit days over the different categories of work we undertake and for comparison purposes shows the same information for the previous year.

	14/15 %	14/15 Days	15/16 %	15/16 Days
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>5170</b>	<b>100%</b>	<b>4,692</b>
Main financial systems	21	1071	21	986
Business controls assurance	44	2258	44	2038
Investigations	16	840	17	800
Schools	4	235	3	140
Follow up work	5	264	5	250
Ad-hoc work	4.5	227	4.5	218
Planning & reporting	4	195	4.5	215
City initiatives	1.5	80	1	45

- 9.7 Appendix C contains the detailed annual plan.
- 9.8 As always the views of members on the overall content of the proposed plan and any suggestions for how specific elements of the plan should be used are welcomed.

## 10. 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 (Amendments) 2011. The work is carried out within the approved budget.

## 11. 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.

## 12. COMPLIANCE ISSUES

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

### **13. RECOMMENDATIONS**

- 13.1 Members are asked to accept this report and the annual assurance opinion for 2014/15 that is contained in 4.5.
- 13.2 Subject to any amendments agreed in the discussion at committee, members are asked to give their approval to the annual internal audit plan outlined in section 9 and contained in more detail in Appendix C.
- 13.3 Members are asked to approve the Internal Audit Charter as shown in appendix B.
- 13.4 Members are asked to note the information of compliance with the PSIAS requirements contained in section 7 and to determine whether any further action is required.

.....  
**Kay Reid**

**Assistant Director, Audit & Risk Management**

**Contact officer: Kay Reid, Assistant Director, Audit & Risk Management**

**Telephone No: 0121 464 3396**

**E-mail address: kay\_reid@birmingham.gov.uk**

## **14. SIGNIFICANT ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2014/15 AND A SUMMARY OF OUR WORK ON THE MAIN FINANCIAL SYSTEMS**

### **14.1 Red High Risk Reports**

During the course of the year we have issued 6 'red' high risk reports. Brief details of the issues of concern highlighted in these reports are shown below

#### **14.1.1 Quality of Child Protection Plans**

This audit work was requested by the Performance and Quality Assurance Board (a sub group of the Birmingham Children's Safeguarding Board), and was delivered by Birmingham Audit, working in partnership with the former Children Young People and Families Directorate, and where appropriate other partners. We have reviewed the methodologies used for producing effective CPPs and reviewing their quality, and for ensuring that lessons learned are fed back to all parties.

Overall the CPP forms reviewed were not consistent and the detail was not always focussed on the child concerned. In addition it was difficult to place reliance on who did, and should have, attended initial child protection conferences. This raised concerns as to whether the child was receiving appropriate care to ensure they were properly safeguarded.

We intend to undertake a follow up audit to assess progress in the 2<sup>nd</sup> quarter of 2015/16.

#### **14.1.2 Child Social Care – Quality and Appropriateness of Referrals**

At the time of our audit we found that a number of poor quality referrals were still being received, resulting in delays in determining what level of intervention was needed for potentially vulnerable children.

The Directorate responded to Ofsted criticism in this regard in a number of different ways including the introduction of the Right Service Right Time (RSRT) model for practitioners to use to inform a view on the type of intervention required and the establishment of a central Information Advice and Support Service (IASS) to deal with contacts, referrals and referral enquiries.

A high volume of enquiries are being received by the IASS team (around 3500 to 4000 e-mails each month) which have potential to turn into referrals. While the team is dealing with these effectively, the process of sifting enquiries that either should not have been referred, or are poor quality, is labour intensive.

Detailed procedures have been created by the Birmingham Safeguarding Children Board and these have been rolled out across all agencies. These include very clear guidance on 'what constitutes a good referral.'

Management information is collated on the volume and source of referrals, but other than the collation of poor examples as and when they arise, there is no collection of data specifically related to quality.

There are a number of informal networking/feedback arrangements in existence between the different agencies, but at the time of our audit there was no formalised approach to feed back issues of quality to all agencies so that action can be taken.

We are aware that since the issue of our report in July 2014, there has been a whole service transformation of the 'front door' with the implementation of the Multi – Agency Safeguarding Hub (MASH) in August 2014, which will have addressed many of the issues identified in our report. Rather than do a specific follow up of this audit, we will include the key issues from our report into a wider review we will be undertaking on MASH.

#### 14.1.3 Climate Change and Sustainability

Over recent years, we have undertaken a number of audits in relation to Climate Change and Sustainability, to reflect the high risks associated with this area. We have consistently reported significant concerns.

We reported on a further follow up review in July 2014. We concluded that a number of key issues relating to the overall management/governance arrangements for energy management within the Council and availability, and production of management information to monitor the Council's energy consumption need to be addressed as a matter of urgency.

Issues highlighted in our report included the following:-

- Due to a lack of management information and inadequate monitoring arrangements, at the time of the audit we were unable to obtain evidence as to whether the Council was on track to reduce its energy consumption by 50% by 2018.
- The service was unable to accurately monitor all on contract energy consumption as two out of the three largest utility suppliers to the Council were not providing regulation-compliant e-billing information.
- Since the previous audit, the STARK energy management system had been de-commissioned and the successor arrangements were not fully in place.

We subsequently planned to undertake a further follow up audit in November 2014. However, at that time, a Utilities Management Strategy had only recently

been approved by Cabinet. In view of this, we did not consider it appropriate to undertake a full audit at that stage.

The new strategy sets out the Council's vision for reducing its utility consumption through improved management, efficiencies, behavioural change and building disposals. An implementation plan has been produced but there is some work to do to refresh the plan, and business cases will need to be compiled and approved, to address each of the key deliverables. One of the key actions relates to establishing a Utility Management Team which will be responsible for taking forward the actions required to deliver the strategy.

We have been advised by management that regular and consistent utility costs and consumption information is now obtained via the Council's Utility Broker. There remains a lack of historical data for the period prior to the Utility Broker being in place (July 2013) and some issues with invoices from two suppliers, however these issues are reducing. We have also been informed that the replacement for the STARK system is now in place, this being the Utility Broker's self-service reporting tool. We intend to undertake a full review later in the year once the new team has been established.

#### 14.1.4 Third Party Service Provision – Information Security (follow up)

The purpose of this audit was to review whether standards and requirements were in place and are being consistently applied, in relation to the privacy and security of Council data that is processed or shared with third parties.

Our previous audit identified a number of areas of concern that required improvement. These included the potential for data breaches by third parties, the lack of a corporate record identifying who holds or has access to Council data, delays in implementing the agreed recommendations within a previous audit report about data sharing and the absence of any monitoring or assurance from some third parties in respect to the effectiveness of their information security policies, procedures and associated training.

This most recent audit has confirmed that progress has been made in implementing the original recommendations, for example: the Commissioning Toolkit was completed and a simplified document entitled 'Understanding Commissioning', which includes reference to data management, was published on Intranet in early May 2015. In addition, staff within Corporate Procurement Services (CPS) have now reviewed all contracts to establish if personal data is being shared. However, many of our recommendations have still not been fully implemented. It is of concern that the requirement for annual assurance in relation to IT governance arrangements has not been progressed and the Contract Management training has not yet been finalised / delivered. We will undertake a further review later in the year.

#### 14.1.5 Younger Adults – Re-provisioning

2014/15 was the first year of an extremely ambitious project seeking to align the proportion of younger adult clients receiving community services whilst

achieving maximum value for money. The Directorate have reported challenges/difficulty with achieving the savings target attributed to this project, both in the first year and moving forward.

Since the savings from the project form part of the overall savings plan for the City Council it is critical that the Directorate robustly evaluate if the planned benefits can be realised. We recommended that the Directorate established predicted outcomes, and evaluated if these could realistically be achieved.

We recognised that a significant amount of progress had been made with regard to the assessment/re-assessment of client care packages, however at the time of our audit this had not resulted in outcomes that delivered significant financial savings. We were encouraged to see that in addition to new governance and monitoring arrangements a review panel process had been introduced to evaluate the re-assessments and speed up the process. The next phase of the challenge will be to change the service provision for each service user, a task which cannot be underestimated. We also appreciate the complexities and barriers that come with this challenge.

We have been advised that since the issue of the audit report, we note that the Directorate senior management have reported and gained support from the Deputy Leader's Performance Star Chamber process, the Effectively Managed Council Business (EMCB) group and, held at the end of March, a very helpful open-learning event to reflect, learn and re-plan the governance, processes and targets around this key programme. At the time of writing, a further report on this was scheduled to be going to EMT in June.

Given the importance of this work area a follow up audit review is currently underway.

#### 14.1.6 Subject Access Requests

A 'Subject Access request'(SAR) is a written request made by an individual for information being held by an organisation about them that he or she is entitled to ask for under the Data Protection Act. There are requirements governing the timescales within which requests should be responded to.

BCC is at risk of enforcement action from the Information Commissioner's Office (ICO) for failing to respond to subject access requests (SARs) within the prescribed timescales. The Council has been the subject of a number of recent ICO complaints regarding the length of time it has taken to respond to SAR's. There have been particular concerns within Children's Services. Given these concerns we reviewed arrangements in place with Children's Services to respond to this issue. We identified a number of areas for improvement:

- the process for the receipt and allocation of SARs is inefficient.

- some staff involved in the process do not hold the necessary knowledge and require re-training in the completion of searches and DP requirements;
- duplication of information resulting in inconsistencies and the inaccurate reporting of SAR performance;
- monitoring of SARs needs to be enhanced; and
- the security of children's files and data needs improvement, there is a risk that sensitive data could be compromised.

A follow up review to confirm that progress is being made in relation to the implementation of our recommendations is underway.

## **14.2 RISK MANAGEMENT**

Risk management continues to be embedded within BCC. The revised risk management policy, strategy and methodology have been placed on the Council's website, and advice and support is provided as requested and necessary. The Corporate Risk Register is reviewed at the monthly Governance Group meetings and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee. The draft version is reviewed by the Effectively Managed Corporate Business (EMCB) Corporate Management Team (CMT) sub-group. This provides challenge and is a forum for routine discussion of risks facing the council. In addition business plans at directorate and divisional level include key risks.

## **14.3 CORPORATE GOVERNANCE**

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. During 2014/15 the Council was subject to several external reviews due in part to the lack of progress in improving children's safeguarding and issues in schools. This included the Kerslake review of the council's governance and organisational capabilities which was jointly commissioned by the Leader of the Council and the Secretary of State for Department for Communities and Local Government (DCLG). This review was conducted by Sir Bob Kerslake and his report contained 11 recommendations. The council has developed an action plan to respond to the Kerslake recommendations. Delivery of the action plan is an integral part of the Council's "Future Council Programme" which commenced in March 2015 to deliver the significant change that is necessary. Delivery of the Future Council Programme will feature in our audit plan for the current year.

We carried out several audit reviews in 2014/15 covering governance in specific service areas such as the governance arrangements for housing related services (which are provided across all three directorates), the financial

governance arrangements within the Birmingham Community Safety Partnership, and the development of governance arrangements within Acivico for the deferred services. As in previous years we also critically reviewed the process used to produce the Annual Governance Statement which forms part of the Council's Accounts. Our work showed that generally, in the areas examined, the governance arrangements were adequate.

#### **14.4 FINANCIAL CONTROL**

14.4.1 The requirement to give an assurance on the adequacy and effectiveness of financial control is a key responsibility for us. During 2014/15 we reviewed each of the main financial systems. A summary of our work in these areas is contained below

##### **14.4.2 Payroll and Human Resources (HR)**

The performance indicators for the payroll service have been met with 99.53% of staff being paid accurately and on time against a target of 99.5%. The amount of salary overpayments due to payroll errors is very low at 0.20% of the payments made.

The corporate payroll system is stable and functioning well in the main and the introduction of HMRC's real time information has meant that data quality has improved.

We did find some areas of weakness relating to overtime payment and allowances in payment to some staff employed at Birmingham schools; these have now been addressed. A review of information held on digital personnel files for staff appointed in the last few years was generally sufficient; however it is largely incomplete for staff appointed earlier than this. Consideration on how to capture key data such as Right to Work information for these longer serving staff is on-going.

We continued to find non-compliance and errors by staff and line managers in the use of People Solutions to record absences or other events which affect pay (e.g. reduction in hours worked) which have given rise to overpayments. Where these are substantial our Fraud Team have investigated the circumstances and made recommendations for management action as appropriate.

##### **14.4.3 Accounts Payable**

Our annual review of the Accounts Payable (AP) function covers controls within the Shared Service Centre (SSC), Corporate Procurement Services (CPS) and also at a directorate level, where many of the controls are actually implemented.

Based upon work carried out during the year, we have concluded that arrangements are in place to ensure creditors are being paid accurately and in a timely manner. 98.99% of invoices by volume have been paid to terms or

within 30 days. This is well above the target of 95%. Our examination of master file data did identify some areas for improvement and appropriate recommendations in respect of this were made.

#### 14.4.4 Procurement

Our work this year on contracts and procurement has covered all directorates. It has included work where CPS is the primary client, and other areas, such as Acivico and schools. In the main the procurement activity is adequately controlled however we did have some specific concerns in a few areas where we felt controls should be strengthened or where controls were not being applied consistently:

- Contract management remains an area where we have continued to identify weaknesses across the council. Improving contract management is a priority for CPS, which restructured during the year to establish a contract management team. The work of the team is still in its infancy but the methodology appears adequate. The continued development of contract management plans is an important mechanism in setting out the foundations for good contract management. As more services continue to be delivered externally, the need for robust contract management is greater.
- Some compliance failures in relation to a procedure introduced in September 2013 to regulate the engagement of 'off payroll' individuals. We are working with colleagues across the council to bring about improvement in this area.
- A follow up review, of externalised leisure centres also showed progress on implementing key recommendations (regarding profit share information, performance indicators and contract management) was slower than anticipated.
- Corporate guidance on tendering evaluation has still not been reviewed, updated and communicated.

#### 14.4.5 Accounts Receivable (AR)

Our work this year within AR has been a combination of individual audit reviews of processes along with data analysis. Overall we found that controls are adequate in managing risks within this area of activity. We also found that the Shared Services Centre is effective in monitoring sundry debt recovery. From our data analytical work we did identify potential issues and opportunities for efficiency gains. Examples are high numbers of credit notes issued, duplicate master data and inefficiencies within some income collection methods. The detailed results were submitted to management to address.

#### 14.4.6 Revenues, Benefits and Rents

Council Tax & Business Rates

At the time of writing Council Tax (CT) in year collection was just below its target rate of 98% (by 0.74%). Our data analytical work in this area identified some delays in progressing CT debt through the debt recovery process and a high number of different codes / stages which could be streamlined to make managing this process easier and more efficient. Single Person Discounts remain a problematical area with pro-active anti-fraud work identifying potentially fraudulent claims. Details of these have been passed to management for action.

The in year collection rate for Business Rates was being exceeded (by 0/24%).

#### Benefits Service

This area is subject to major change with welfare reform remaining high on the government's agenda. Our work has shown that the service is generally performing well and is well managed. We have been working closely with the business areas on specific projects such as Risk Based Verification, the introduction of Universal Credit and being PCI compliant.

#### Rents

Rents are below their collection rate by 0.57% but in the main this is attributed to the changes with welfare reforms. We have undertaken data analysis to review the management of older debt. This has identified areas of delay in the debt collection process. We have passed our detailed findings on this to management for their attention.

### **14.5 Information Technology (IT) Issues**

Information and Information technology are key business assets that underpin service delivery. The failure of an IT system or inaccurate information can have devastating effects. Advancing technologies, such as cloud, social media and mobile devices together with alternative service delivery vehicles introduce new challenges and risks that need to be managed.

Our work during the year has been targeted in order to provide assurance over the areas of greatest risk. The findings of our work have been summarised below. Responsibility for resolving the issues identified cut cross the Council and Service Birmingham.

#### Service Birmingham

Our work identified that more robust processes have been put in place to prevent attacks on the Council's main website. This includes filtering internet traffic through a third party security solution. These processes now need to be extended to other relevant websites.

Service Birmingham has robust change management processes. Changes to SAP need to be brought into the scope.

Throughout our work we identified the need for Service Birmingham to update and maintain the accuracy of its configuration database. The configuration database provides a record of all IT assets and how they are configured. An accurate database helps ensure that critical IT asset are effectively managed and all dependencies identified.

#### Council

Information governance has continued to be a key feature of our work. Issues identified include:

- control of 3rd party access (as detailed in 14.1.4 above);
- problems responding to Data Protection Subject Access Requests (as detailed in 14.1.6 above);
- ensuring all staff have received appropriate information security training;
- the quality of data held; and
- information security concerns.

Our IT security reviews have continued to identify ongoing problems with the management of users and their access privileges. It is essential that staff leaving the Council have their access to systems removed on a prompt and timely basis.

#### Council / Service Birmingham

We identified a need to strengthen the arrangements surrounding the management of IT assets, in particular ensuring that old and obsolete computers are disposed of on a timely basis.

Whilst robust operational controls are in place to reduce cyber risks, there is a need to increase knowledge and awareness of potential cyber threats and introduce an overarching cyber security policy.

**Internal Audit Charter 2015/16****1. Introduction**

- 1.1 This charter sets out Birmingham Audits (BAs) purpose, authority and responsibilities; establishes BAs 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 BA. The detailed actions to deliver the charter are contained within the BA Business Plan.

**2. Purpose, Authority & Responsibilities**

- 2.1 BAs 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 the AD ARM on the authority of the Director of Finance 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.
  - 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 (eg: voluntary aided schools, wholly owned companies, voluntary organisations or other agents acting on behalf of the Council) where the City 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 BAs 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 BA 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;
- 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 BA will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. BA 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 BA lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by BA will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.
- 3.3 The AD ARM will report the results of audit work in accordance with the protocol for working with BA to senior managers and the board.

Note: The term ‘senior managers and the board’, can refer to one or all of the following: Audit Committee, Chief Executive & Director of Economy, Deputy Chief Executive or Director of Finance.

### **4. Resourcing**

- 4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. BA has achieved the Investors in People (IIP) Standard, ISO9001:2008 Quality Standard and the ISO27001:2013 Information Security Standard. The Quality & Information Security Standards are subject to regular external review.

- 4.2 During 2015/16 we will seek more efficient and effective ways to deliver the audit service, provide assurance to Members and help improve value for money and quality of Council services. The data warehouse will continue to 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 AD ARM 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 BA, or prejudice the ability of BA 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 BCC. 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 AD ARM will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.
- 5.3 BA 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 BA will take this into account. Where the results indicate that insufficient work has been done then BA may undertake a separate review.
- 5.4 The scope of audit work extends to services provided through partnership arrangements. The AD ARM will decide, in consultation with all parties, whether BA conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the AD ARM will agree appropriate access rights to obtain the necessary assurances.
- 5.5 BA will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.

5.6 BA 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 BA will make provision within the plan for:-

- The review of key systems or key services provided by the Council on behalf of other organisations.
- The review of key systems or services provided by others on behalf of the Council. In order to achieve this BA will require access to partner records, systems and staff. This access should form part of any partnership contract between BCC 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 Strategic Director must ensure that the Director of Finance, AD, ARM 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 Director of Finance 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 Strategic Director must report this to the Director of Finance, who may refer the matter to the appropriate Cabinet Member or Committee.
- Each Strategic Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting (Whistleblowing) Code and Public Interest Disclosure Act 1998.

BA 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, BA 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 BA will adhere to all Council policies.

Where Directorates require BA to attend disciplinary hearings as a management witness, sufficient notice, i.e.: 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.

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

## **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.
- 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 An annual internal audit report will be produced and 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 - 2015/16**

- To deliver an internal audit service that meets professional and mandatory standards and delivers suitable assurance to the Council.
- To deliver an effective counter fraud service to prevent, detect and deter fraud and error.

## **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 BA working in partnership with a number of external bodies. The AD ARM

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 (Amendments) 2011
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 1998
- Criminal Procedures Investigation Act 1996
- Data Protection Act 1998
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 1972
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2002
- Regulation of Investigatory Powers Act 2000
- 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
- Department for Work & Pensions (DWP) Performance Standards Framework
- Quality - BS EN ISO9001:2008
- Information Security - BS EN ISO27001:2013

9.3 BA reports to the Section 151 Officer under the Local Government Act 1972. The legislative driver for internal audit and counter fraud continue to evolve.

9.4 The Council adopted the CIPFA / SOLACE code of corporate governance in July 2002. This code together with the Statement of Recommended Practice (SORP) 2002 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 / SOLACE Framework - Delivering Good Governance in Local Government. This means that the Chief Executive & Director of Economy, Leader, Section 151 Officer and Director of Legal & Democratic Services (& Monitoring Officer) 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 in relation to the four key roles and six core principles, 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, Risk Management & Scrutiny processes and SSM input. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.
- 9.7 We give an opinion on assurance which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by BA 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

## **10. The Annual Audit Plan**

- The Council is going through significant change to its structure, systems, processes and service delivery. This has presented new risks as well as opportunities. We will continue to contribute to driving forward the change agenda whilst continuing to operate as a critical friend.
- The audit plan for 2015/16 has been compiled based on a number of factors, i.e.:
  - the level of risk associated to each entity.
  - the level of assurance associated to each entity.
  - any reviews that fall under the 'must do' categorisation, i.e.: those which are required to be undertaken as part of the minimum internal audit standard.

On an annual basis each entity will be reassessed based on the results of the previous year's internal audit work and other assurance gained regarding the control environment.

There is no allocation for undertaking programmed school visits. Assurance on schools expenditure will be obtained through a series of themed audits which may include visiting a number of schools about specific issues.

- All of the risks contained within the Corporate Risk Register are included within the BCC 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 suggested checklist 'Protecting the Public Purse' which is published by the Audit Commission. In addition we will comply with 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 NFI 2014.
- Follow up audits will be undertaken in accordance with the agreed policy.
- Consultancy work will be undertaken within the limitations of existing resources.
- 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.

## Proposed Internal Audit Plan 2015/16

	Days	Days
<b>Financial Systems (including computer audits where appropriate)</b>		
Main Accounting	92	
Housing Rents	52	
Accounts Payable	78	
Accounts Receivable	80	
Carefirst	70	
Payroll/HR	80	
Benefits	80	
Revenue (Council Tax and NNDR)	81	
Asset Management	78	
Grants and Contributions	15	
Cash Income	15	
Procurement, Contract Audit and PFI	155	
IT Related Core Systems Work	110	<b>986</b>
<b>Business Controls Assurance</b>		
Work in progress b/fwd from 2013/14	80	
IT Related Non Financial Systems Work	342	
Data Analysis	250	
Corporate Risk Management Facilitation	75	
Contingency	81	
Acivico	40	<b>868</b>
<b>People</b>		
Social Letting Agencies	10	
Admissions and Appeals	20	
Appointee & Receivership	20	
Assessment & Support Planning	25	
Blue Badge Scheme	15	
Child Protection - The Case Conference Process	20	
Children in Care Placement Services	5	
Children's Services (including Social Care)	60	
Delivery of Improvement Plan	10	
Education and Commissioning	60	
Homeless - Temporary Accommodation	20	
People Commissioning	40	
Prevention Strategy and Implementation	20	
Public Health	40	
Safeguarding	20	
Safeguarding & Development - BCSB	50	
Safeguarding Corporate Overview	50	
The Strategy for Supporting Carers	20	
Troubled Families Programme	20	
Careline	15	

Adoption	20	
Fostering	20	
		<b>580</b>
<b>Place</b>		
Accountable Body	50	
Local Enterprise Partnerships	15	
Birmingham Resilience	20	
Car Parking Service - Policy and Delivery	15	
Environmental Health	15	
Highways Management	30	
Housing Repairs	10	
Independent Living	20	
Leisure Facilities	20	
Leisure Facilities - externally operated	10	
Licensing	20	
Management of Localisation Agenda	25	
Management of Voids - service redesign	15	
Housing Visiting Programme	15	
Neighbourhood Advice and Information Service	10	
Tenancy Management Services	20	
Trading Standards	15	
		<b>325</b>
<b>Economy</b>		
Annual Audit Letter	5	
Business Development Plan	10	
Acivico Contract Monitoring	50	
Councils Savings Plan – Delivery	20	
Customer Services	10	
Ethics	5	
New Service Delivery Vehicles	10	
Risk Management - Contribution to Improvement Agenda	5	
Section 106 funding	20	
Workforce Planning	20	
Climate Change & Sustainability	20	
Compliance with new legislation - policy changes	30	
Project Management	40	
Governance - Implementation of the Kerslake recommendations	10	
Governance - Overall governance structure for Group Interests	10	
		<b>265</b>
<b>Investigations</b>		
Reactive investigations	580	
Proactive work / Fraud Awareness	220	<b>800</b>

<b>Schools</b>		
Themed Work	100	
School Funding	20	
Schools Consortium	20	<b>140</b>
<b>Follow Up Work</b>		<b>250</b>
<b>Ad Hoc Work</b>		<b>218</b>
<b>Planning and Reporting</b>		<b>215</b>
<b>City Initiatives</b>		<b>45</b>
<b>TOTAL</b>		<b>4692</b>

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to: AUDIT COMMITTEE</b>
<b>Report of: Director of Finance</b>
<b>Date of Meeting: 30<sup>th</sup> June 2015</b>
<b>Subject: BANKING SERVICES CHANGE PROJECT</b>
<b>Wards Affected: All</b>
<b>1. Purpose of Report:</b>
1.1. This report provides an update on the successful delivery of the project to change the Council's bankers from The Co-op to Barclays with effect from 1 <sup>st</sup> April 2015. It also provides an update on the work being undertaken with Barclays to deliver Council priorities and other innovative transactional banking solutions to support service reviews and efficiency savings.
<b>2. Recommendation:</b>
2.1. To note the successful delivery of the project and the continuing development work with Barclays.

### Contact Officers:

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### **3. Compliance Issues:**

#### **3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?**

The delivery of this project supported the following objective of the Council:

A prosperous city, built on an inclusive economy – by ensuring the contract offers the latest banking facilities to support the financial activities of the Council and which meets the requirements of its customers both internal and external to the Council.

Birmingham Business Charter for Social Responsibility.

Barclays has signed up to the principles of the Charter. A detailed action plan of activities has been put in place and is subject to review as part of the on-going contract management process. Officers are working closely with Barclays to develop additional activities to align Council priorities and Directorate and service requirements.

Treasury Management Policy and Strategy.

The decision to appoint Barclays and the changes being implemented as a consequence, align with the Council's Treasury Management objectives and activities.

#### **3.2 Relevant Ward and other Members /Officers etc. consulted on this matter.**

The Deputy Leader, Cabinet Member for Commissioning, Contracting and Improvement, Deputy Chief Executive, Director of Finance and Assistant Directors of Financial Services, Procurement, Revenues and Benefits, Shared Services Centre and Legal Services have been consulted during the various stages of the delivery of this project.

#### **3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any).**

Section 151 of the Local Government Act requires the Director of Finance (as responsible officer) to ensure proper administration of the City Council's financial affairs.

#### **3.4 Will decision(s) be carried out within existing finances and resources?**

Yes.

#### **3.5 Main Risk Management and Equality Impact Assessment Issues (if any).**

This transition to a new bank was recognised as a significant risk to the

Council and as a consequence was reflected in the Council's Corporate Risk Register as follows:

- Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1<sup>st</sup> April 2015.

Regular reviews of project risks were undertaken and mitigating action taken where appropriate to minimise any impact, especially during the go-live phase of the project.

#### **4. Relevant background/key tasks and issues:**

- 4.1. A report setting out the background, tender process and governance arrangements was presented to the Committee on 29<sup>th</sup> July 2014 and a subsequent progress report was presented to the Committee on 27<sup>th</sup> January 2015.

The contract with The Co-op bank ended 31 March 2015, having been extended for 12 months from 1 April 2014. During the re-tendering exercise The Co-op informed the Council that it was withdrawing from providing banking services to the public sector, but would honour existing contracts.

Following a detailed tendering exercise and evaluation process Barclays were appointed as the Council's (and Acivico's) new banking services provider with effect from 1 April 2015, although the majority of services and transactions actually transferred on a phased basis before this date.

The Council's project team worked closely with Barclays colleagues to develop a detailed implementation plan to enable banking transactions and services to transfer successfully in a controlled and phased way. This was closely monitored on a weekly basis and managed through the Project Board in conjunction with Service Birmingham to ensure a smooth transition.

#### **4.2. Switching of Key Transactions.**

The switch to Barclays was managed in such a way as to minimise the overall risk to the Council and phased to best meet the business needs of different Council services. The majority of transactions transferred to Barclays during the month of February with the full co-operation of The Co-op and well in advance of the new contract start date.

Key tasks delivered successfully by the project team for the Council and Acivico include:

- new Barclays main bank accounts set up
- new Barclays school and non-school petty cash accounts set up, operational and new cheque books issued
- old Co-op school and non-school petty cash accounts reconciled and closed

- new paying in books and other stationery distributed to all sites including schools
- salaries paid via BACs from Barclays
- notification to 3<sup>rd</sup> parties and other customers who pay the Council, of the new Barclays bank details
- all outgoing cheque, BACs and direct debit payments made from Barclays
- the issuing of sundry debtors invoices / reminders with Barclays account details
- re-direct facilities put in place for various incoming payment methods, for example, BACS, direct debits and standing orders, so that any payments that continue to go to The Co-op will automatically be re-directed to Barclays
- all financial systems, for example, SAP, Northgate and RBIS, re-configured via Service Birmingham to allow payments to be received or made from the new Barclays accounts
- bank reconciliation completed and dual running of both Barclays and Co-op accounts for a period
- Barclays online banking solution, Barclays.net, is in place and configured to meet our day to day treasury management requirements
- annual billing process changes made, for example Council Tax and Housing Rents, to include new Barclays bank details
- ability for all sites to pay in monies via Barclays branches and the Council's cash collection service via G4S
- transfer of G4S cash collection deliveries from Co-op to Barclays processing centres
- significant levels of communication both internally and externally to the Council and Acivico to inform services, residents, 3<sup>rd</sup> parties and customers of the move to Barclays and the action needing to be taken

#### 4.3. The Co-op position.

The majority of Co-op accounts were effectively closed by 15<sup>th</sup> May ahead of the scheduled date of 31<sup>st</sup> May. Only a small number of trust accounts remain open and these will be transferred and closed shortly.

As a consequence of closure there remain a number of payments still being made to the Co-op either via online banking or paper giro credits. For example some customers are continuing to make online payments to the Council using the old Co-op bank details which will be rejected. The onus is on the customer to change the bank details to Barclays using the details provided on their bills. The project team are working with individual Council services to remind specific customers of the need to change.

The Co-op are providing regular details of customers paying by old Co-op giro credit via a branch and again these are being targeted so that future payments are made using the Barclays giro slips.

Any payments still being made to the Co-op are being transferred to the Council so there are no debtor account or cashflow implications.

#### 4.4. Impact on Customers.

Details of the new Barclays bank account were sent to residents and businesses affected through our official correspondence such as council tax bills, invoices, reminders, rent or service charge notifications. Information was also included on the Council's website. Reminder inserts were also included with a range of documentation to help the transition.

It is important to note that payments to the Council can still be made at the Post Office, in addition to any Barclays branch, although for Acivico it is through Barclays branches only.

For the majority of Birmingham residents and businesses there was little impact as a consequence of the move to Barclays. Only those who pay the Council through standing order, BACS or online through their own bank needed to make a change by ensuring they use the new Barclays Bank account details. Likewise residents or businesses that currently pay for a service using a giro credit slip need to ensure they use the new Barclays giro documents sent to them.

A significant number have made the required changes and customers continuing to pay the Council via the Co-op are being communicated with directly.

#### 4.5 Transition Issues.

Due to the size and complexity of the project it was always envisaged there would be a number of "teething" problems during the transition process. However these have not been major and the majority were resolved quickly without any major impact on either outgoing or incoming transactions.

Examples include:

- incorrect stationery dispatched or not received by sites.
- revised procedures and processes not being followed by sites / services e.g. arrangements for banking cash
- missed / timings of cash collections for existing and new sites
- monies being paid out of / into the incorrect bank account
- giro credit slips for Acivico being incorrect
- missing information from automated bank files
- outgoing direct debits being cancelled or not automatically switched.
- customers continuing to make payments to The Co-op accounts rather than the new Barclays accounts.

The last example remains a key issue as we need to ensure that residents, businesses and other customers make the necessary changes to their bank details so that future payments to the Council are processed through the

Barclays bank account rather than The Co-op. In particular this relates to online and BACS payments and the old Co-op giro credit slips and we are working closely with Barclays, The Co-op and service areas to identify and contact customers to ask them to make the change.

The recent closure of The Co-op accounts will force customers making online payments to change to Barclays as any payments to The Co-op will be rejected.

## **5. Developing work with Barclays:**

### **5.1. Transactional developments.**

Having successfully transferred transactional banking services the Council is continuing to work closely with Barclays to develop a number of “Phase 2” projects to help deliver further efficiencies in transactional processing and innovative digital solutions.

Discussions are at an early stage but include:

- extended roll-out of Barclays.net to schools for managing financial transactions online. A pilot project is underway
- consideration of mobile technology “Pingit” for paying the council via smart phones, for example, Council Tax, Car parking fees.
- supporting the Council to reduce the use of cheques and cash using other cashless payment alternatives such as payment cards etc.
- provision of basic bank accounts and savings accounts for specific client and vulnerable groups, for example, children in care or leaving care.

### **5.2. Business Charter developments.**

Linked to the Business Charter for Social Responsibility, work is continuing with Barclays to align their Charter action plan to the Council’s key strategic priorities to enable us to work together to help support the delivery of these priorities.

Barclays already undertake a significant amount of work in the local community providing a range of training and advice working with schools and community organisations. Their Citizenship aim is to contribute to and deliver growth in local communities by aligning their community investment with their skills and expertise.

Their programmes help empower people with skills to achieve financial independence and security. Supporting local business start- ups and employment is a key priority and initiatives include:

- money skills
- life skills
- apprenticeships

- mentoring
- “Digital Eagles”
- “Get Ready for Business”

In developing the charter action plan the Council needs to build on existing Barclays activities and link it to emerging needs in local communities. Work is already underway on developing employment initiatives and requests have already been made for support linked to community libraries and sports facilities. Barclays have already secured significant investment in their “Spaces for Sports” programme.

The Council will also be discussing with Barclays the possibility of providing additional sponsorship of key events.

### **Signatures:**

Jon Warlow, Director of Finance.....

Dated: .....

### **List of Background Documents used to compile this Report:**

Banking Services Contract Update Report 29<sup>th</sup> July 2014  
Banking Services Change Project update report 27<sup>th</sup> January 2015

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>The Audit Committee</b>
<b>Report of:</b>	<b>Director of Finance</b>
<b>Date of Meeting:</b>	<b>30<sup>th</sup> June 2015</b>
<b>Subject:</b>	<b>Annual review of the effectiveness of the systems of internal audit</b>
<b>Wards Affected:</b>	<b>All</b>
<b>1. Purpose of Report</b>	
<p>1.1 The purpose of this report is to assist members in meeting the requirement of the Accounts and Audit Regulations (Amendments) 2011 for the City Council to conduct an annual review of the effectiveness of its systems of internal audit, and for a committee of the City Council to consider the findings from that review. The review outlined in this report covers the 2014/15 financial year.</p>	
<b>2. Recommendations</b>	
<p>2.1 Members are asked to consider the findings from the review detailed in this report and the conclusion reached that the systems of internal audit are adequate and effective and meet their objectives.</p>	

### **3. BACKGROUND**

- 3.1 It is a requirement of the Accounts and Audit Regulations (Amendments) 2011 that the City Council conducts an annual review of the effectiveness of its systems of internal audit, and that a committee of the City Council considers the findings from that review.
- 3.2 At the meeting of the Audit Committee held on 19<sup>th</sup> December 2006, members agreed a mechanism for discharging this responsibility. It was agreed that a holistic approach would be adopted, and that the Director of Finance would bring together and consider, in a report for the committee, a number of measures that are already in place.
- 3.3 These measures include
- The view of the Assistant Director, Audit & Risk Management on the adequacy and effectiveness of the internal audit service and a review of quality, performance and customer feedback on the internal audit service as detailed in the Birmingham Audit annual report
  - The view of the Council's external auditors
  - The day to day overview of the service I have as the line manager for the Assistant Director of Audit & Risk Management
  - The 'oversight' of the Internal Audit function from the Audit Committee as they consider the development and delivery of the audit plan and the quality of the audit work that is delivered.

### **4. THE REVIEW**

- 4.1 The review outlined in this report covers the financial year 2014/15. The Birmingham Audit Annual Report 2014/15 is being considered elsewhere on the agenda for this meeting. It shows that the target for the delivery of the internal audit plan was met and 97% of audits completed – against a target of 95%. It also shows that the service retained its ISO9001 2008 quality assurance accreditation and its ISO27001 2013 Information Security Standard and continued to receive positive feedback from its customers.
- 4.2 The annual audit plan is prepared using a risk based methodology, and in such a way that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). A careful balance therefore has to be struck to achieve the optimum use of resources available and to ensure that the control environment is adequately covered. Potential areas for audit are identified from various sources including both corporate and directorate business and service plans, corporate and directorate risk registers and from the professional knowledge auditors have of the council's services, objectives and the risks that may prevent them from being achieved. All of these potential audit areas are then assessed using a risking formula in order to compile the annual plan. As part of this process the views of other key stakeholders including the external auditor, senior officers throughout the organisation and those of members are taken into account.

This methodology for compiling the plan has regard for the adequacy of the overall assurance framework. Internal Audit provides a part of the assurance but other internal and external inspections also contribute to the assessment. Examples are through internal health and safety inspections and that provided by external sources such as Ofsted or CSCI.

All of this assurance (provided by the work of internal audit or through other sources) feeds into the Annual Governance Statement, which itself is a key focus for planned audit work. The emphasis of internal audit provision is now about reviewing the controls around the risks that may prevent the council from meeting its objectives. Within this there remains a need to ensure that financial controls are sound and that legislative and regulatory requirements and professional standards are met.

Taking all of the above into account, I am satisfied that the annual audit plan adequately covers the control environment.

- 4.3 In the past External Audit undertook a detailed triennial review of Internal Audit. The last of these was undertaken in 2007/08 with an updated assessment being undertaken in 2009/10. Since then there has been no detailed/formal assessment of Internal Audit by the External Auditors. However, there continues to be regular liaison between Internal Audit and their External Audit colleagues. Plans are shared to ensure the best overall use of audit resources and to avoid duplication of effort. The External Auditor continues to place reliance on relevant aspects of Internal Audit's work. Within the External Auditor's report outlining their 2014/15 audit plan, being considered elsewhere on the agenda for this meeting, they comment:

"We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention."

and

"Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach."

- 4.4 Internal Audit has presented reports to the Audit Committee throughout the year. Members of the Audit Committee have also been provided with lists of all internal audit reports issued on a monthly basis. This information has been used to monitor progress against the audit plan and to challenge performance

in respect of reducing risk in those areas where audit reports had been given the highest risk rating.

- 4.5 Based on the above, and on my own knowledge of the service through day to day line management of the Assistant Director, Audit & Risk Management, I am satisfied that the Internal Audit Service is adequate and effective and meets its objectives.

## **5. Legal and Resource Implications**

- 5.1 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 (Amendments) 2011. The work is carried out within the approved budget

## **6. Risk Management & Equality Analysis Issues**

- 6.1 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.
- 6.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

## **7. Compliance Issues**

- 7.1 City Council strategies, policies and plans have been complied with

## **8. Recommendations**

- 8.1 Members are asked to consider the findings from the review detailed in this report and the conclusion reached that the systems of internal audit are adequate and effective and meet their objectives.

.....  
Jon Warlow  
Director of Finance

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## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to: AUDIT COMMITTEE**

**Report of: Director of Finance**

**Date of Meeting: 30<sup>th</sup> June 2015**

**Subject: 2014/15 ANNUAL GOVERNANCE STATEMENT**

**Wards Affected: All**

### **1. Purpose of Report**

The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2014/15 and reports on the Council's internal control regime.

Section 6 of the AGS includes 7 key issues for the Council which may impact on the organisation's governance arrangements.

### **2. Recommendations**

2.1. To approve the Annual Governance Statement, which will be included in the 2014/15 Statement of Accounts.

2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee in November 2015 and March 2016.

### **3. Background**

- 3.1 Annual Governance Statement (AGS) has been developed as part of local government's response to the corporate governance agenda.
- 3.2 The AGS forms part of the Council's annual Statement of Accounts and, as such, is formally approved by Cabinet and Audit Committee at the end of June. The evaluation and development of Internal Control within the Council forms a core function of the Audit Committee. The Statement of Accounts will be available, post audit, at the September meeting.
- 3.3 The significant issues raised in the Assurance Statement and audit processes are summarised in section 6 of the AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

### **4. Legal and Resource Implications**

- 4.1 The AGS is a requirement of the Accounts and Audit Regulations 2011, regulation 4 (3) and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

### **5. Risk Management & Equality Impact Assessment Issues**

- 5.1 The Statement forms part of the Council's risk management approach and the relevant issues are those considered in the attached schedule.

### **6. Compliance Issues**

- 6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.
- 6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of the Future Council's objectives.

### **7. Recommendations**

- 7.1 To approve the Annual Governance Statement, that will be included in the 2014/15 Statement of Accounts.
- 7.2 To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee in November 2015 and March 2016.

.....

**Jon Warlow – Director of Finance**

**Contact officer: Sarah Dunlavey**

**Telephone No: 0121 675 8714**

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## **Annual Governance Statement 2014/15**

### **1. Scope of responsibility**

- 1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.
- 1.3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available as part of the Council's Constitution on the website. This statement explains how the Council has complied with the code and also meets the requirements of *Accounts and Audit (England) Regulations 2011*, regulation 4 (3) which requires all relevant bodies to prepare an annual governance statement (AGS).

### **2. The purpose of the governance framework**

- 2.1. Governance is about the Council ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 2.2. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.3. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.4. The governance framework has been in place at the Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

### 3. The governance framework

- 3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

#### The Council's purpose and vision for Birmingham

- 3.2. In a Policy Statement to Council in July 2014, the Leader set out a core mission to “work together for a fair, prosperous and democratic city”.
- 3.3. The Council Business Plan and Summary Budget 2015+ (The Plan) sets out the Council's priorities in terms of the Council's contribution to strategic outcomes as shown below:

Primary goal	Key Themes	Outcomes we seek
<b>A Fair City</b>	Safety	People are safe, especially the most vulnerable – from crime, violence and abuse.
	Health and wellbeing	Health and wellbeing, housing quality and life expectancy are at national levels for all. Older people are able to stay in their own homes and communities.
	Children and young people	Children are protected and young people are able to access opportunities regardless of background or special needs.
	Tackling poverty	Poverty amongst children and families is down to national averages – Birmingham has an ethical approach as a ‘Living Wage City’ and no social groups or local areas are blighted by extreme levels of unemployment and low incomes.
<b>A Prosperous City</b>	Learning, skills and local employment	People have the qualifications they need for work, including school leavers and the working age population. Young people are exposed to the world of work and career options. Skill levels are high and all young people are in employment, education or training. Everyone has access to the digital economy.
	Enterprise City	The economy is growing, business start-ups are the highest in the core cities and good jobs are being created.
	Infrastructure, development and Smart City	There is a sufficient affordable and low energy use housing supply to meet needs, provision for employment land and high levels of investment in transport and other infrastructure, including cycling and walking, digital technologies and district energy systems.
	A Green and sustainable City	Birmingham is more environmentally sustainable, with higher levels of recycling, lower energy use and cleaner neighbourhoods. There is a thriving green economy.
	Regional capital and reputation	The city fulfils its role as the regional capital and provides a quality of life that attracts more investors, visitors and also employees.
<b>A Democratic City</b>	Engagement, influence and contribution	Local people from all backgrounds are engaged in local democracy and have more influence on local decisions and localised services. Communities and individuals are able to make their contribution to the life of the city and governance is based on openness and transparency.
	A New Model of City Government	The government of the city will be transformed to match modern needs.
	Modern services that serve our citizens	Services work together, make use of new technologies and modern ‘hub’ facilities and are focused on ‘whole people’ and ‘whole places’. Citizens, businesses and agencies can co-create new services

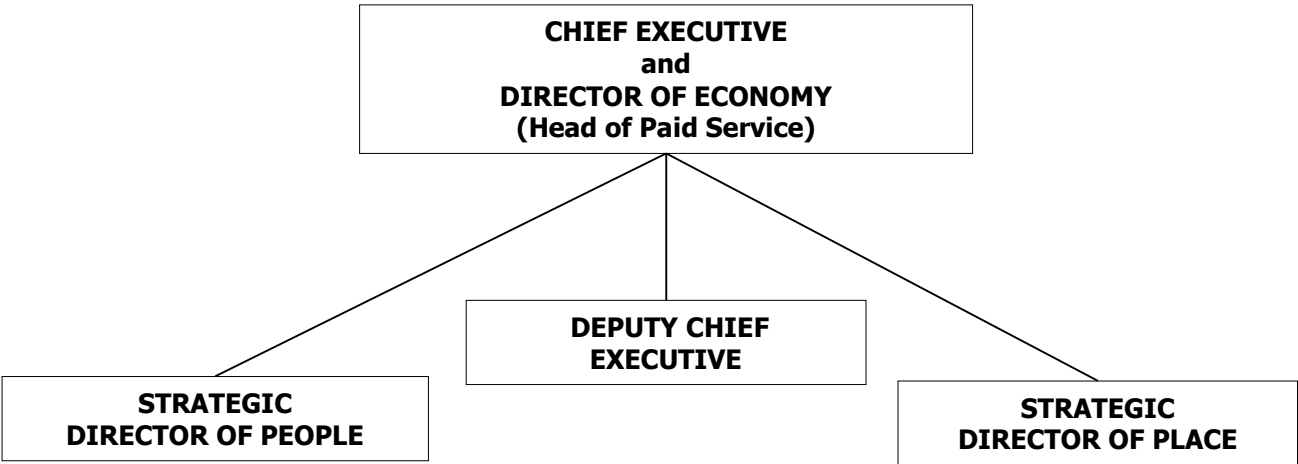
- 3.4. The Plan is updated each year and is available on the Council's web-site.
- 3.5. The Council has a strong public, third sector, and business engagement role. There is an established Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements is led by Overview and Scrutiny.
- 3.6. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.
- 3.7. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with the public and reflect the vision articulated in the Leader's Policy Statement 2014. Progress against these priorities is monitored through a set of Council Business Plan measures, which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and quarterly reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.
- 3.8. The Plan also includes a summary of high level actions for each Directorate to achieve the Council's priorities. These are supported in turn by more detailed Directorate and Service Plans which are also regularly monitored and reviewed against a set of performance indicators.
- 3.9. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is central to the Plan and the Council's long term financial strategy.

#### Roles of Members and Officers

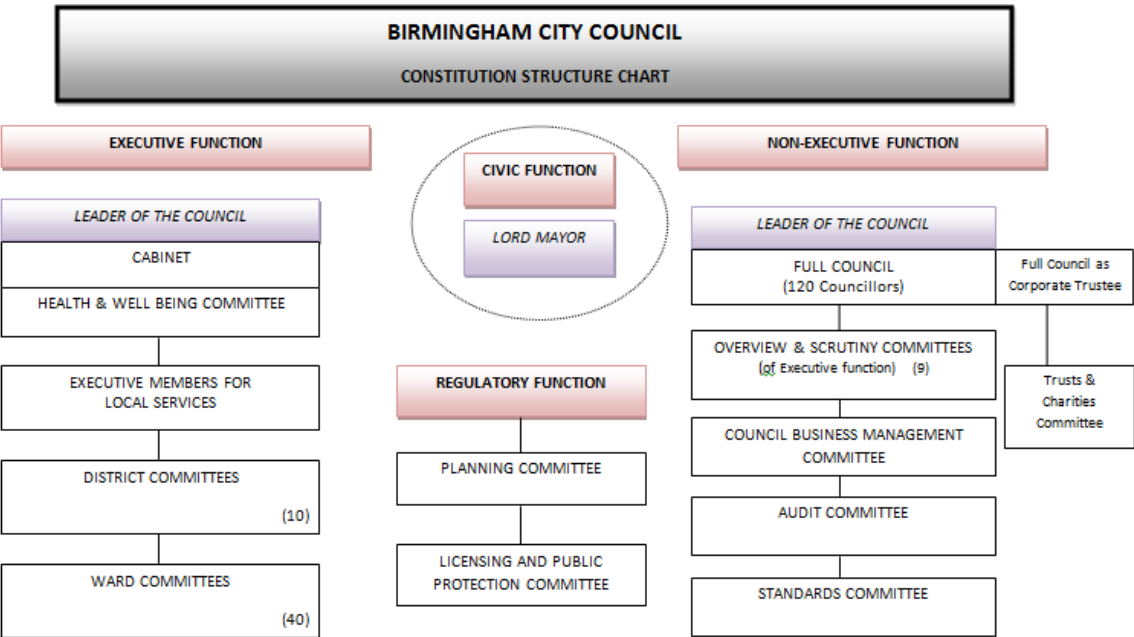
- 3.10. The Council's Constitution is codified into one document which is available on the intranet and the City's website. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by the Director of Legal and Democratic Services and any amendments are agreed at the Annual General Meeting. A revised and updated Constitution was agreed in May 2014. Further amendments were made during the year with the latest amendments made in March 2015. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee.

3.11. The Council operates within three Directorates, Economy, People and Place.

Management Structure



3.12. The Council facilitates policy and decision-making via an Executive Structure. There were nine members of Cabinet for the 2014/15 financial year: The Leader, Deputy Leader and seven specific Cabinet Member Portfolios based on a thematic structure. The Constitution Structure Chart is set out below:



- 3.13. Constitutional changes in May 2015 resulted in an eighth specific Cabinet Member Portfolio and revisions to the role of district committees and to the role and number of Overview and Scrutiny Committees.
- 3.14. The Council Business Management Committee (CBM) agrees the management of City Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.
- 3.15. CBM also oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBM submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.
- 3.16. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the annual accounts.
- 3.17. The Council's Constitution sets out the responsibilities of both Members and senior managers. In particular the Council has identified four statutory posts as follows:-
- Head of Paid Service - Chief Executive  
Chief Finance Officer - Director of Finance  
Monitoring Officer - Director of Legal & Democratic Services  
Scrutiny Officer - Head of Scrutiny Services
- 3.18. Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Strategic Directors.

#### Financial Management Arrangements

- 3.19. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

#### Role of the Chief Financial Officer:

The Chief Finance Officer (CFO) is a key member of the Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications,

opportunities and risks are fully considered, and alignment with the Council's financial strategy.

The CFO leads the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Director of Finance as the Council's CFO:

- leads and directs a finance function that is resourced to be fit for purpose; and
- is professionally qualified and suitably experienced.

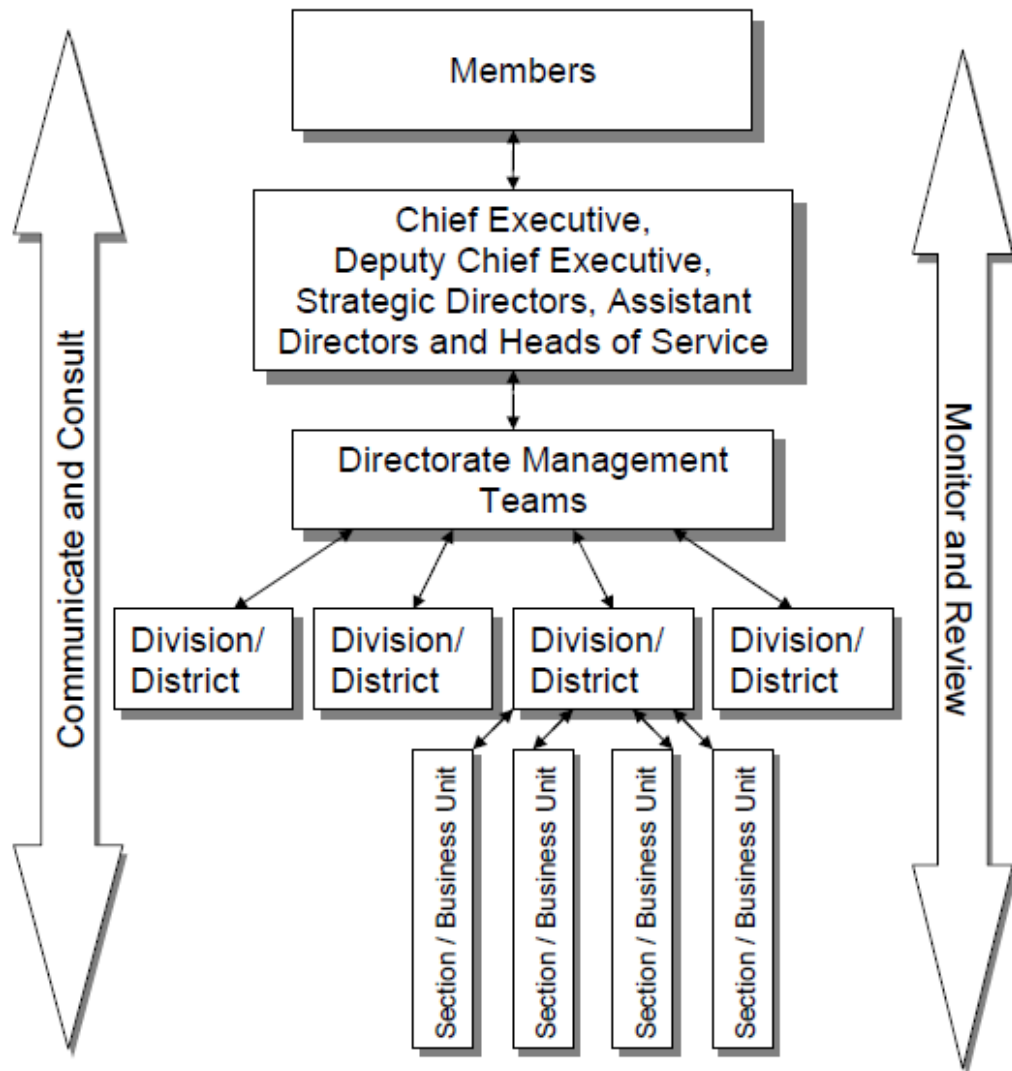
#### Values and standards of conduct and behaviour

- 3.20. The Council has a Code of Conduct for Members and a Code of Conduct for Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received. All Council employees participate through work groups in developing actions based on these values which assist in ensuring effective service delivery and the development of the whole organisation.

#### Scrutiny, Accountability and Risk Management

- 3.21. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.
- 3.22. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.
- 3.23. The Council ensures compliance with established policies, procedures, laws, and regulations – including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts are required to include governance information relating to: Council Policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.
- 3.24. Risk management continues to be embedded within the Council. The following diagram illustrates how risk is managed:

## Managing risk in Birmingham City Council



- 3.25. The revised Risk Management Policy, Strategy and Methodology have been placed on the Council's website, and advice and support is provided as requested - an example of this was the series of risk workshops ran in relation to the change in banking providers. The Council Business Plan 2015+ Budget Report and Resource Plan, includes a summary risk register which is supported by the Corporate Risk Register. The Corporate Risk Register is reviewed at the monthly Governance Group meetings and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee. The draft version is reviewed by the Effectively Managed Corporate Business (EMCB) Corporate Leadership Team sub-group. This provides challenge and is a forum for routine

discussion of risks facing the Council. In addition business plans at directorate and divisional level include key risks.

- 3.26. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Communications Technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The City Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

#### Capacity and Capability

- 3.27. The financial reductions facing the Council are impacting on workforce capacity and having a flexible, skilled and mobile workforce will be critical to enable the Council to effectively respond to increasing demand and reducing resources.
- 3.28. The Council has in place a strategy for facilitating the implementation of the Service Reviews including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects. In addition there are number of work streams focused on immediate performance priorities which include the improvement agenda in Children's Services, improving attendance across the Council and ensuring a robust framework for terms and conditions and pay are in place to eradicate any potential for further equal pay risks.
- 3.29. The Future Council sub programme, Forward: The Birmingham Way will work to provide a framework that will support the workforce to be the right people doing the right things in the right way.
- 3.30. There is a dedicated area of the intranet for Member issues and a newsletter, City Councillor, is produced and circulated by Democratic Services, by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. Regular monthly "market places" and briefing sessions are held to keep Councillors up-to-date with Council Services or services provided by Partner Organisations. Group Offices encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative.
- 3.31. The Governance, Resources and Customer Services Overview and Scrutiny Committee carried out a review of Member training and a new approach to Member Development was agreed. The starting point for this approach was the May 2014 elections. A programme of training and development options including outlining the Council's services, the Members' Code of Conduct and

Council Governance, one to one sessions, legislative training and further development opportunities has been developed.

- 3.32. During 2014/15, the Personal Development and Review Process for all staff ensured that individual's targets were aligned with those of the organisation and enabled a consistent means of assessing and rewarding performance. It also provided a way of developing tailored training and development programmes for staff in a changing environment and managing the Council's system of competence based pay progression. The process has been reviewed for 2015/16 and the Council has launched the 'My Appraisal' process.

#### Engagement with the community and other stakeholders

- 3.33. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Business Plan 2015+ consultation process included consultation via online webcast question and answer sessions with Cabinet Members, consultation via post, mail, text and through the City's website, public meetings, community workshops, consultation with business representatives, delivery partners and third sector group; via a workshop for voluntary organisations organised in partnership with the Birmingham Voluntary Services Council, meetings with staff, Trade Unions and web chat sessions with the Leader of the Council.
- 3.34. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.
- 3.35. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. Directorates have extensive programmes of consultation and engagement activity for specific services.

#### **4. Review of effectiveness**

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Leadership Team within the Council who have responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review

process uses the Key Roles and Core Principles included in this guidance and this Statement sets how the Council meets these roles and principles in its control and governance arrangements.

- 4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. This requires each Directorate and Service area to produce an Assurance Statement to the Chief Executive highlighting significant governance issues to be brought to his attention and the control procedures and mechanisms the Directorates have in place.
- 4.4. The Council's review of the effectiveness of the system of internal control is informed by:
  - Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
  - the work undertaken by Birmingham Audit during the year;
  - the work undertaken by the external auditor reported in their annual audit and inspection letter;
  - other work undertaken by independent inspection bodies.
- 4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Director of Finance is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2011. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.
- 4.6. As in previous years the Birmingham Audit plan was compiled using professional judgement and a risking model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.
- 4.7. The resulting work plan is discussed and agreed with the Strategic Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the City Council and the Service Area. These are submitted to Members, Strategic Directors and service managers as appropriate.
- 4.8. From the work undertaken by Birmingham Audit in 2014/15 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. All

significant issues have also been brought to the attention of the Audit Committee, and where appropriate to EMCB. The more significant of these are set out in the section entitled '**Significant governance issues 2014/15**' below.

- 4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the Annual Governance Statement and in implementing recommendations made in significant, high risk audit reports.
- 4.10. The Council's Governance, Resources and Customer Services Scrutiny Committee received reports on key control issues throughout 2014/15 including budgetary monitoring, risk issues including the Localisation of Council Tax Support and direct reports from The Leader and Deputy Leader.
- 4.11. The Council Plan is monitored through the Council Business Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.
- 4.12. The Director of Legal and Democratic Services advises that there were 46 whistleblowing complaints in the 2014/15 financial year. On 12<sup>th</sup> January 2015, a revised whistleblowing policy was implemented and members of the public as well as staff may now use the procedure. This has resulted in a greater number of complaints. Each complaint will be reviewed and investigated where appropriate.

## **5. Review of 2013/14 governance issues**

- 5.1. During 2014/15, the significant 2013/14 governance issues were considered by Audit Committee in June, with updates in November 2014 and March 2015. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience and organisational change issues.
- 5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues raised within Lord Warner's Report and governance in schools.
- 5.3. Monthly Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.
- 5.4. Lord Kerslake's report reviewing governance arrangements within the Council was published on 9<sup>th</sup> December 2014. Action plans in response to the comments made were initiated between January and March 2015 and continue into 2015/16.
- 5.5. Ian Kershaw completed his review into the issues that related to the anonymous Trojan Horse letter in July 2014. The Council continues to act

upon the recommendations made into this report and has reviewed the governance arrangements within schools and training for governors.

## 6. Significant governance issues 2014/15

- 6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Corporate Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	<p>Safeguarding children remains a priority.</p> <p>Work will include implementing action plans as a result of the review by Commissioner Lord Warner, producing a robust Business Plan for 2015/16 and future years and evaluating the strength of Senior Management arrangements.</p> <p>The Care Act 2014 sets out the legal requirements for adult safeguarding.</p>	<p>The Council has worked with the Children's Commissioner, Lord Warner, to produce a Children's Social Care Improvement Plan 2014-17 (published 7<sup>th</sup> July 2014) in order to take forward the key and fundamental changes that are urgently required to improve safeguarding and protection of children. Increased funding of £21.5m has been allocated in the 2015/16 financial year.</p> <p>The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.</p>
2	<p>The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council, the potential for significant organisational upheaval as well as workforce reductions and compulsory redundancies.</p> <p>The Council's Business Plan sets medium term strategies for business changes, the</p>	<p>7 Member-led service reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. Recommendations from the reviews were considered as part of the Business Plan 2015+.</p> <p>In its future year's business planning, by focusing on the position at 2020/21 and changes required to</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
	<p>management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years.</p> <p>Given the Council is in the fifth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high.</p>	<p>meet the budgetary position at this time, the Council is able to ensure that sustainable plans are put in place for its services and its assets, and the full on-going consequences of these taken into account, rather than just concentrating on short-term and, potentially, sub-optimal solutions.</p>
3	<p>The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for external auditors and increasing demands to evidence Going Concern.</p>	<p>The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.</p>
4	<p>Lord Kerslake reviewed the governance arrangements of the City Council during 2014/15. Taking on board the comments made in Lord Kerslake's report, work on the Future Council Programme continues. This includes:</p> <ul style="list-style-type: none"> <li>• Clear values, purpose and vision for the future Council, along with its future operating model;</li> <li>• A medium term outcomes-driven council and financial plan to take the Council to 2020/21;</li> <li>• Strategic alignment of outcomes, resources, policy-making, service delivery, governance and roles and responsibilities; and</li> <li>• Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.</li> </ul>	<p>Develop the Future Council Programme to:</p> <ul style="list-style-type: none"> <li>• Define the vision for the Council.</li> <li>• Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model.</li> <li>• Create an agile and adaptive organisation.</li> <li>• Deliver the actions set out in the Organisation Improvement Plan, developed in response to Lord Kerslake's review.</li> </ul>

Issue No	Governance Issue	Mitigation Action / Proposed Action
5	<p>The Council is increasingly using or considering alternative delivery vehicles and innovative solutions in the delivery of Council services to facilitate the Future Council agenda.</p> <p>This includes the Council created wholly owned company, Acivico into which services such Building Cleaning, Birmingham City Laboratories and Civic Catering have been transferred.</p> <p>Other options may include:</p> <ul style="list-style-type: none"> <li>• The potential transfer of Specialist Care Services to a Mutually Owned Social Enterprise (MOSE) during 2015/16.</li> <li>• Outsourcing of services.</li> <li>• Commissioning services</li> </ul>	<p>Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.</p> <p>The business cases are being developed with the full engagement of City Finance, Corporate Procurement, clients and third parties and will seek to address and gain agreement on issues such as income targets, surpluses and cost of transfer.</p> <p>Services should only transfer when there is a mutual benefit to both the Council and the third party</p>
6	<p>Sir Mike Tomlinson was appointed by the Secretary of state as Education Commissioner to oversee the Council's actions to address the fundamental criticisms in the Kershaw and Clarke reports. Sir Mike Tomlinson's review is on-going, however initial discussions and actions were brokered to ensure a strong future in Education.</p>	<p>Sir Mike Tomlinson's role will continue to 2016.</p> <p>Proposals have been brought forward on the role of the Birmingham Education Partnership (BEP) and how the Council will align with new roles for schools.</p> <p>Action is concentrated on completing the final shape of future partnership arrangements, and setting a commissioning plan showing how resources will be utilised to meet needs.</p>
7	<p>The risk of the Information Commissioners Office (ICO) imposing financial penalties for failure to comply with statutory obligations in responding to information requests under Freedom of Information (FOI) &amp; Data Protection (DPA) legislation, or loss of significant personal or other sensitive data.</p>	<p>Strengthened procedures.</p> <p>All staff to be aware of their responsibilities to manage data effectively and be appropriately trained.</p> <p>Improved response rates to Subject Access Requests (SARs).</p>

- 6.2. These matters are monitored through the Corporate Risk Register, Corporate Management Team and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.
- 6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....  
Councillor Sir Albert Bore  
Leader of the Council

Signed .....  
Mark Rogers  
Chief Executive  
(& Head of Paid Service)

Signed .....  
Jon Warlow  
Director of Finance  
(& Chief Finance Officer)

Signed .....  
David Tatlow  
Director of Legal and Democratic  
Services (& Monitoring Officer)

# The Audit Plan for Birmingham City Council

**Year ended 31 March 2015**

May 2015

**Phil W Jones**

Director

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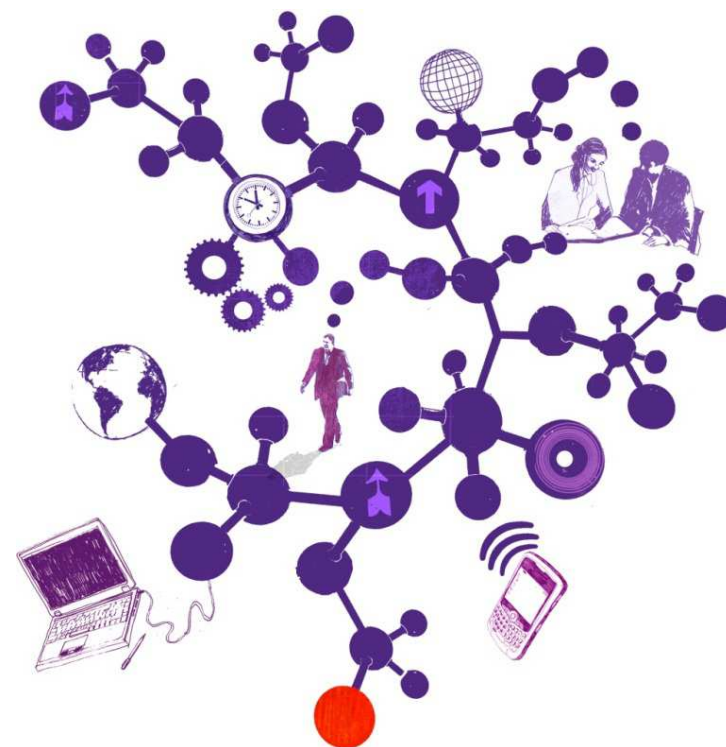
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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12. Communication of audit matters with those charged with governance

## **Appendix**

- A. Action plan

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities					
<b>1. Reductions in Central Government Funding</b> Central government funding continues to fall year on year, placing continued pressure on the Council to deliver savings. In addition to the £462m per annum savings made over the last 4 years. The savings requirement is £105.4 million for 2015/16 with a further £253.3 million needed by 2017/18	<b>2 Meeting the Equal Pay liability</b> The Council's Equal Pay liability is a continuing challenge with £638 million included in the 2013/14 accounts. The Council is continuing to develop proposals to fund Equal Pay settlements.	<b>3. LG Reorganisation</b> <ul style="list-style-type: none"> <li>Regional devolution plans</li> <li>Combined authorities</li> <li>Confederations</li> <li>Triple devolution and partnership issues. Moves toward greater collaboration and the creation of new decision making structures</li> </ul>	<b>4. LG Finance Settlement</b> <ul style="list-style-type: none"> <li>The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.</li> <li>At the same time local authorities are facing increasing demands for school places and adult social care services.</li> </ul>	<b>5. Collaborative working with the NHS</b> <ul style="list-style-type: none"> <li>Development of new working arrangements to deliver the Better Care Fund</li> <li>NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.</li> </ul>	<b>6. The Councils future role.</b> <ul style="list-style-type: none"> <li>The council will have to overcome the recognised obstacles of historical approach and culture, as recognised in the Kerslake report, to achieve a modernised and effective delivery model going forward.</li> </ul>
Our response					
We will <ul style="list-style-type: none"> <li>assess the Councils financial resilience and financial plans as part of our Value for Money and 'going concern' assessments.</li> <li>report our findings to the Director of Finance and the Audit Committee.</li> </ul>	We will <ul style="list-style-type: none"> <li>audit the Equal Pay estimation as part of our accounts audit.</li> <li>assess the impact of this financial commitment and the proposed methods of funding as part of our Value for Money and 'going concern' assessments.</li> </ul>	We will <ul style="list-style-type: none"> <li>discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.</li> </ul>	We will <ul style="list-style-type: none"> <li>review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.</li> </ul>	We will <ul style="list-style-type: none"> <li>discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.</li> </ul>	We will <ul style="list-style-type: none"> <li>review the plans and progress through regular meetings with senior management and those charged with governance providing a view where appropriate.</li> </ul>

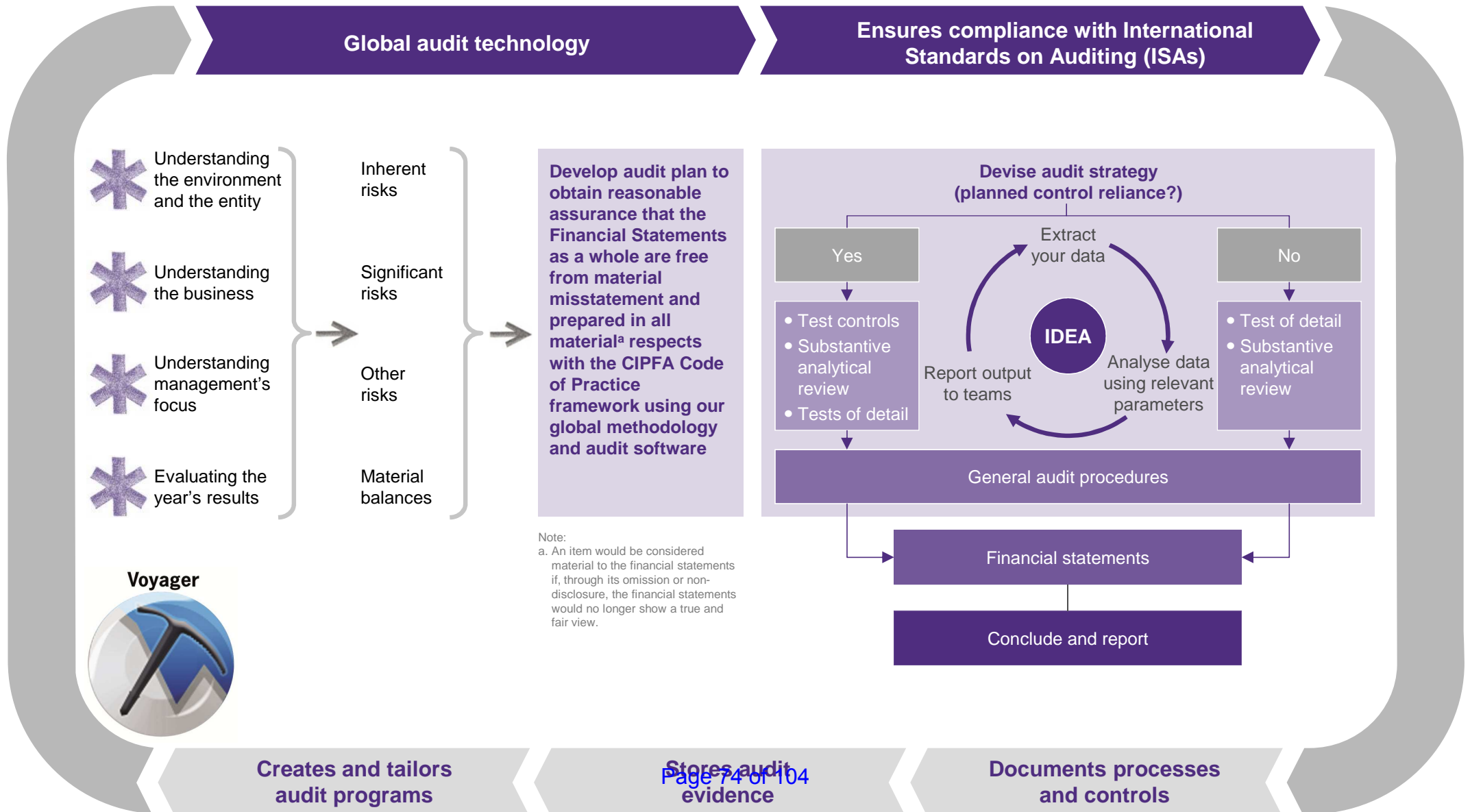
# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10, 11 and 12)</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<b>4. Better Care Fund</b> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul>	<p>We will</p> <ul style="list-style-type: none"> <li>discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<p>We will</p> <ul style="list-style-type: none"> <li>review the arrangements the Council has in place for the production of the AGS</li> <li>review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge of the Council</li> </ul>	<p>We will</p> <ul style="list-style-type: none"> <li>consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required</li> </ul>	<p>We will</p> <ul style="list-style-type: none"> <li>review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>undertake a review of Financial Resilience as part of our VfM conclusion</li> </ul>	<p>We will</p> <ul style="list-style-type: none"> <li>carry out work on the WGA pack in accordance with requirements</li> <li>certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd.</li> </ul>

# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• We have reviewed the revenue cycles and have rebutted the presumption of fraud in revenue recognition for all revenue streams other than Council Tax Income NNDR and Housing Rents.</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Substantive testing of material revenue streams</li></ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Review of the control environment for preparation and authorisation of journal entries</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

## Significant risks identified (cont'd)

Significant risk	Description	Substantive audit procedures
Equal Pay Provision	Under ISA 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty gives rise to a significant risk.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of the assumptions on which the estimate is based.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Consider events or conditions that have occurred that could change the basis of estimation.</li> <li>Check the calculation of the estimate.</li> <li>Check that estimate has been determined and recognised in accordance with accounting standards.</li> <li>Determine how management have assessed estimation uncertainty</li> <li>Consider the impact of subsequent transactions</li> </ul>
Sale of the NEC.	Risk that complex accounting entries required are not correctly performed.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of proposed accounting treatment of sale proceeds.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting treatment of sale proceeds.</li> <li>Substantive testing to ensure the lease /investment arrangements have been correctly eliminated from the accounts.</li> <li>Accounting treatment of sale proceeds. Assurance will be gained from substantive testing</li> </ul>
Cash	BCC have undertaken a transfer of all bank accounts during the financial year. This is a complex process which raises a significant risk that all accounts have not been identified or correctly transferred.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of the project and actions to date in relation to bank account transfers.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Substantive testing of accounts within the cash cycle.</li> <li>Consider events or conditions that have occurred that could have affected the transfer process.</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"><li>• updated our documentation of the operating expenditure system</li><li>• undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period.</li><li>• carried out substantive testing of the expenditure incurred in the first 10 months of the financial year.</li></ul> <p><b>Further work planned:</b></p> <p>We will</p> <ul style="list-style-type: none"><li>• review the application of the year end closedown process for capturing creditor accruals</li><li>• undertake substantive testing of year end creditors including after date payments</li><li>• test Goods Received Not Invoiced listings and Purchase Orders raised after the year end to confirm appropriate accruals</li><li>• review control account reconciliations covering the agreement of creditor payments to the ledger and bank accounts.</li></ul>

## Other risks identified (cont'd)

Other risks	Description	Audit Approach
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>• updated our documentation of the payroll system</li> <li>• undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period.</li> <li>• Undertaken a trend analysis for the first 10 months of the financial year.</li> </ul> <p><b>Further work planned:</b></p> <p>We will</p> <ul style="list-style-type: none"> <li>• reconcile the annual payroll to the ledger and to the segmental analysis accounts note.</li> <li>• undertake substantive testing of payroll payments in April/May to ensure payroll expenditure is recorded in the correct year.</li> <li>• complete trend analysis of monthly and weekly payroll payments covering 2014/15 and comparing to 2013/14 and determine whether substantive testing required.</li> <li>• review of payroll accrual processes and determine whether substantive testing required.</li> <li>• undertake substantive testing of the completeness of year end payroll creditors</li> <li>• undertake substantive testing of the completeness of IAS19 pension liabilities.</li> <li>• agreement of employee remuneration disclosures in the financial statements to supporting evidence</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Undertake a predictive analytical review based on DWP statistics</li> <li>• Perform the initial testing of benefit expenditure by following the Audit Commission HBCOUNT methodology.</li> <li>• Review the reconciliation between Benefits system and general ledger</li> </ul>

## Other risks identified (cont'd)

Other risks	Description	Audit Approach
Property, Plant & Equipment	Risk that property plant and equipment is improperly expensed	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.</li> </ul> <p><b>Further work planned:</b></p> <p>We will</p> <ul style="list-style-type: none"> <li>test a sample of additions to confirm they are capital items</li> </ul>
Property, Plant & Equipment	Risk that property plant and equipment activity is not valid.	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.</li> </ul> <p><b>Further work planned:</b></p> <p>We will</p> <ul style="list-style-type: none"> <li>test agreement of the fixed asset register to the accounts and supporting notes</li> <li>sample test PPE additions and disposals including compliance with capitalisation requirements</li> </ul>
Property, Plant & Equipment	Risk that revaluation measurement is not correct.	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.</li> </ul> <p><b>Further work planned:</b></p> <p>We will</p> <ul style="list-style-type: none"> <li>undertake test of revaluation cycle, including instructions to valuer and valuer's report.</li> <li>Evaluate compliance with revised requirements of the code for valuation particularly in relation to schools</li> </ul>

## Other risks identified (cont'd)

Other risks	Description	Audit Approach
Property, Plant & Equipment	Risk that property plant and equipment allowance for depreciation is not adequate.	<p><b>Work completed to date:</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.</li> </ul> <p><b>Further work planned:</b></p> <p><b>We will</b></p> <ul style="list-style-type: none"> <li>test depreciation and impairments, including evidence of review of Useful Economic Lives and mathematical accuracy</li> <li>test of surplus or deficit on disposal</li> </ul>

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
NEC Group Ltd	Yes	Targeted	Subsidiary	Specific (targeted) scope procedures to be performed.
NEC (Developments) PLC	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Birmingham Technology Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Performances (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Acivico Limited	Yes	Targeted	Subsidiary	Specific (targeted) scope procedures to be performed.
Birmingham Museum and Art Gallery Trust	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach.
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach.

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Assessment of the Council's financial resilience
- Review of the Medium and Long Term Financial Strategy
- Council's arrangements for prioritising resources and development of additional revenue streams
- Council's arrangements for identifying savings and efficiencies
- Council's arrangements for funding Equal Pay liabilities
- Council's responses to the issues raised in the Kerslake report

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

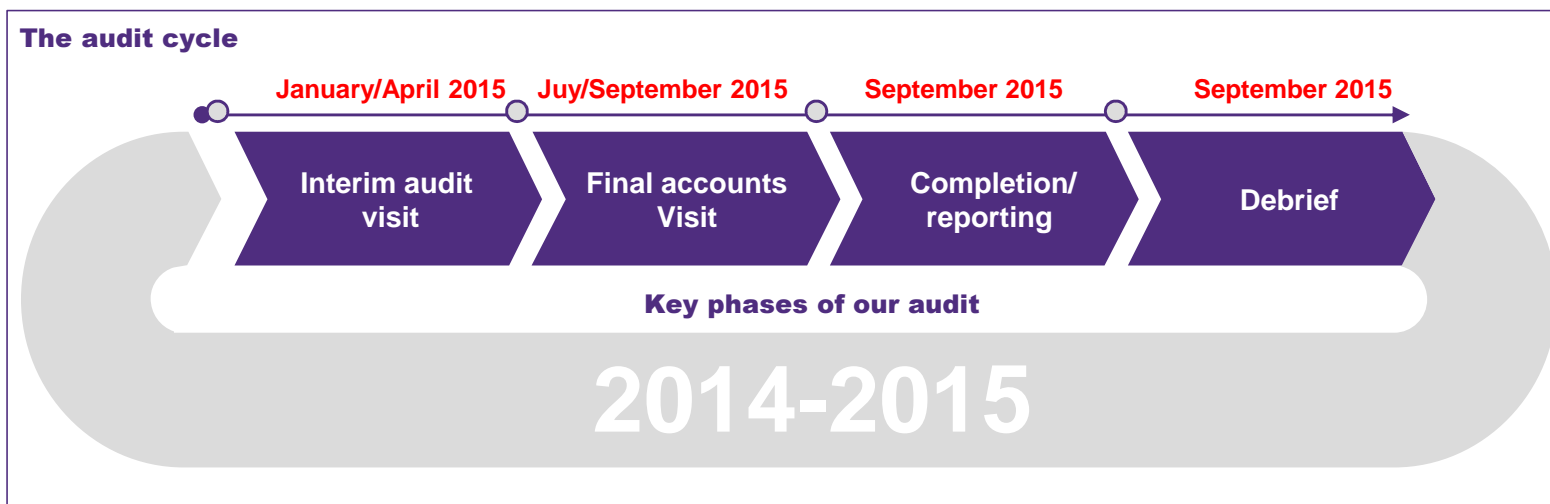
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have substantially completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

## Results of interim audit work (cont'd)

	Work performed	Conclusion
<b>Review of information technology controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We found five issues that we have brought to management's attention to ensure these are considered.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have identified a potential material weakness with the authorisation of journals. This weakness was reported in the 13/14 Audit findings report.</p>	<p>We have raised a recommendation relating to authorisation of authoriser access journals. (see appendix 1)</p>
<b>Early substantive testing</b>	<p>We have undertaken early testing in the following areas:</p> <ul style="list-style-type: none"> <li>• Employee remuneration – Substantive testing to gain assurance over the occurrence and accuracy of payroll expenditure</li> <li>• Operating Expenditure – Review and interrogation of expenditure codes in order to select samples in advance of our final accounts visit.</li> <li>• Grants – Review of grants received to date and selection of samples in advance of our final accounts visit</li> </ul>	<p>Our early testing has not identified any issues which we wish to bring to your attention.</p> <p>We will complete our testing during our final accounts visit.</p>
<b>Opening balances</b>	<p>We have confirmed that the 2014/15 ledger opening balances agree to the 2013/14 audited closing balances. We have reviewed the code changes made for clearer reporting.</p>	<p>Our work has not identified any issues relating to the opening balances for 2014/15.</p>
<b>Value for money</b>	<p>We have completed our initial risk assessment to identify areas that require further review and assessment.</p>	<p>Our early review has not identified any issues which we wish to bring to your attention.</p> <p>We will complete our work in order to give a VFM opinion by the statutory deadline</p>

# Key dates



Date	Activity
December 2014/January 2015	Planning
February/April 2015	Interim site visit
June 2015	Presentation of audit plan to Audit Committee
July/August/September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to those charged with governance (Audit Committee)
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	417,420
Grant certification	26,600
<b>Total fees (excluding VAT)</b>	<b>444,020</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
Group Governance Review	33,000
Finance Birmingham (tax advice, due diligence support and secondment)	97,100
Innovation Birmingham (tax advice)	8,000
Certification of grant claims (outside Audit Commission/PSAA requirements)	11,250
<b>Total</b>	<b>149,350</b>

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan and include other services carried out since 1 April 2014. We obtained Audit Commission approval for all work once the other services fee was in excess of the 20 per cent (£83,484) threshold. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Appendix

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	For authoriser access journal entries, there should be authorisation by someone other than the person raising the journal.	High	A compensating journal control will be introduced which will require review of a monthly sample of unauthorised journals entered by senior staff to ensure journals are valid and accurate.	Implemented Assistant Director of Financial Services



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# Audit Committee Update for Birmingham City Council

**Year ended 31 March 2015**

June 2015

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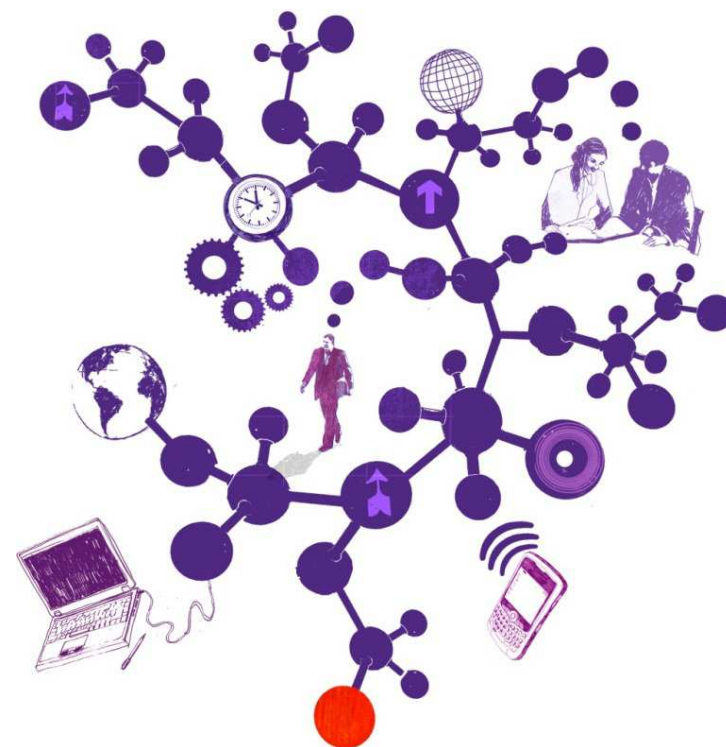
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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# Progress at June 2015

Work	Planned date	Complete?	Comments
<b>2014-15 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	June 2015	Yes	Our audit plan is included as a separate agenda item
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing.</li> </ul>	February – March 2015	Yes	We have completed our interim audit work and summarised our findings in our audit plan
<b>2014-15 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – September 2015	No	We have had regular meetings with officers on accounts progress and issues. We are planning to start our audit of the accounts during June.

# Progress at June 2015

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2014/15 VfM conclusion comprises: <ul style="list-style-type: none"> <li>• assessment of arrangements in place for securing financial resilience</li> <li>• assessment of arrangements for challenging how the Council secures economy, efficiency and effectiveness</li> </ul>	February – July 2015	No	Our value for money work is in progress
<b>Other areas of work</b> Review of group governance	March 2015	Yes	We have completed our review of group governance and discussed our findings.
<b>Other activity undertaken</b> Meetings with Members, Officers and others	On going		We are continuing to meet periodically with key members and officers and the vice chair of the Improvement Panel.

# Spreading their wings: Building a successful local authority trading company

## Grant Thornton

Our report, 'spreading your wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



# Welfare Reform Review: Easing the burden

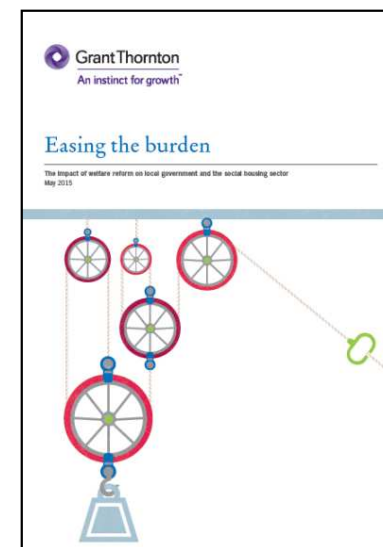
## Grant Thornton

Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.



Hard copies of our report are available from your Engagement Lead or Audit Manager.

# The Queen's Speech 2015 – what it means for local government

## Local government issues

The Queen's Speech was presented to Parliament on 27<sup>th</sup> May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

# Local Government New Burdens

## Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5<sup>th</sup> June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

# English devolution – local solutions for a successful nation

## Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

*Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.*

# Understanding your accounts – Member guidance

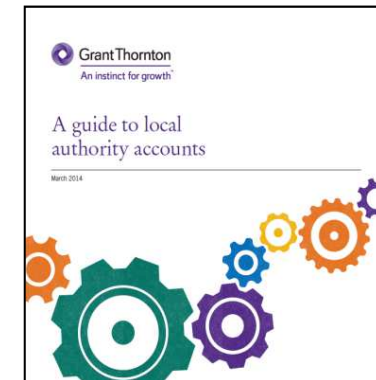
## Accounting and audit issues

Local authority Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members to the Audit Committee may find this guide helpful.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



# 2014/15 Accounts hot issues

## Accounting and audit issues

As part of our audit of local authorities 2014/15 accounts we will be considering the following issues

**Accounting for schools** – in particular the judgements made on whether to include non current assets for voluntary aided and voluntary controlled schools on the Council's balance sheet

**Provisions for business rates appeals** – as a result of a change in rules relating to business rates appeals we do not expect to see provisions for unlodged appeals in 2014/15 accounts

**Early payment of pension contributions** – we expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund and the accounting judgements and treatment in the 2014/15 accounts should reflect the advice received

**Inclusion of overtime in the calculation of holiday pay** – authorities that are likely to be affected in a material way by the Employment Appeal Tribunal judgement on the extent to which overtime pay should be included in the calculation of holiday pay should include an appropriate provision in their 2014/15 accounts



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