

## **BIRMINGHAM CITY COUNCIL**

### **PUBLIC REPORT**

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

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

**Date of Meeting:**   **19<sup>th</sup> June 2018**

**Subject:**            **Birmingham Audit Annual Report 2017/18**

**Wards Affected:**    **All**

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

- 1.1 This report is the culmination of the work completed during the course of the year and provides an objective annual opinion on the adequacy and effectiveness of the systems of internal control. It highlights any significant issues that have arisen from internal audit activity during the year.
- 1.2 The report provides Members with information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2017/18, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 It also sets out the Internal Audit Charter and Internal Audit plan for 2018/19.

#### **2. RECOMMENDATIONS**

- 2.1 Members are asked to accept this report and the annual assurance opinion for 2017/18.
- 2.2 Members are asked to approve the 2018/19 Internal Audit Charter.

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

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

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

- 4.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan.
- 4.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

### **5. COMPLIANCE ISSUES**

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

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# Birmingham Audit Annual Report 2017/18

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19<sup>th</sup> June 2018

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## **1. Background**

- 1.1 The 2017/18 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 The Council continues to go through significant change, the drivers for this change being both organisational and financial. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2017/18 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2018/19 audit planning process.

## **2. Assurance Opinion**

- 2.1 The audit plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). My opinion will form part of the Annual Governance Statement (AGS), which the Council is legally required to produce.
- 2.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, reasonable assurance. No process can provide an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.
- 2.3 Our work is carried out to assist in improving control. 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; and corporate policies, rules and procedures are adequate, effective and are being complied with.

- 2.4 The model used to formulate the end of year opinion places reliance on assurance provided from other parties and processes. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion. The model is an evolving one which changes from time to time as the intelligence we collect on sources of assurance develops. The opinion for 2016/17 is based on the following sources of assurance and weightings:

Internal Audit work (planned, follow-up and fraud work)	65%
Assurance from the work of the External Auditor	10%
The AGS	15%
The Risk Management Process	10%

- 2.5 **Based on the audit work undertaken I am able to provide a reasonable assurance on the core systems of internal controls evaluated.** As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Corporate Director during the year. A summary of significant findings from our work (including the main financial systems), is included as Appendix A.

Whilst this assurance is impacted by the overall improvement that still needs to be delivered and adverse value for money opinion issued by the Council's External Auditors, the Improvement Panel, in its latest letter to the Secretary of State, recognise that significant changes are take place, including strengthening of the Council Management Team; establishment of the Children's Trust; the Council's first all-out elections; and progress against priorities. These changes are now moving the Council forward on a positive basis.

### 3. Added Value

- 3.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include:

- Our 'Schools' audit team working to support delivery of the improvement across Birmingham Schools.
- We have also worked closely with the Children and Young People Directorate to establish an effective response to concerns over financial management in schools. This has included input to the Directorate's strategic response, and reshaping our audit approach.
- Further embedding the audit data warehouse into service areas to secure process efficiency and proactively prevent fraud and error entering the system. An example of where the data warehouse has been invaluable is helping the Children's Directorate trace children who have gone missing from education.
- Using our data analytical capabilities to drive service improvement and efficiency. This includes the ongoing development of fraud and error tests which we will be ultimately be run on a continuous basis.
- Supporting the strengthening of information governance arrangements and implementation of the General Data Protection Regulations (GDPR) requirements.

#### **4. Quality, Performance & Customer Feedback**

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the PSIAS.

4.2 The PSIAS became effective from 1<sup>st</sup> April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

#### **4.3 Quality Assurance**

4.3.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS and internal quality standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

4.3.2 In line with PSIAS requirements a full external assessment of Birmingham Audit's compliance to the mandatory standards was completed in July 2016. This assessment identified that: *"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards"* and that *"the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control"*. During the year a PSIAS self assessment has been completed, this self assessment confirmed our ongoing compliance with the standards.

4.3.3 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. Internal quality audits on our ISO processes are undertaken annually, most recently in May 2018. As in previous years, only minor issues of non-compliance were identified, actions have been taken to correct these.

4.3.4 The Council's External Auditors, Grant Thornton, in their Audit Progress Report and Sector Update, Year ending 31 March 2018 state that:

*"Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective control environment."*

#### 4.4 **Inputs**

4.4.1 The 2017/18 internal audit plan contained 5,113 days. I am satisfied that there were adequate staffing resources available to me to deliver the audit plan and form an assurance opinion.

#### 4.5 **Outputs**

4.5.1 During the year we issued 296 final reports, containing 2482 recommendations. For comparison purposes during 2016/17 we issued 273 final reports containing 2816 recommendations.

<b>Reports by Type</b>	
Internal Audit Reviews	134
Follow-up Reviews	29
School Visits (including Follow-ups)	93
Investigations	40
<b>Total</b>	<b>296</b>

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

4.5.2 Audit and follow up reports are given a risk rating of 1 - 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Low - Non-material issues
2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance
3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

4.5.3 Of the 163 reports (134 Internal Audit and 29 Follow-up Reviews) issued during the year, 2 were given a red level 3 risk rating, 53 had an amber level 2 rating, 102 had a green level 1 rating, and 6 related to non-assurance work.

4.5.4 On a monthly basis a list of all final reports issued, together with their Council risk rating, is sent to Members of the Audit Committee, Cabinet and the Council Management Team. Under the agreed protocol, Members can request to see copies of specific reports.



#### 4.6 Performance and Customer Feedback

4.6.1 As at 31<sup>st</sup> March 2018 we had completed 98% of planned jobs against an annual target of 95%.

4.6.2 Throughout the year we have sought feedback from our customers by attending management teams and capturing comments via our ISO processes.

4.6.3 Both internal and external customers continue to provide positive feedback on the services provided, examples include:

*‘.....in particular for her cooperative and professional approach to this audit, which has been a useful exercise.....’*

*‘.....for the way you conducted the audit. You were professional and efficient and very pleasant to work with, thank you!’*

#### 4.7 Corporate Fraud Team

4.7.1 In common with other public bodies, the Council has a duty to protect the public purse. The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. A sub-team within CFT is established to specifically tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. In response to legislative changes and reductions in resources we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance. We are continuing to develop analytical tests designed to detect fraud and error, ultimately these tests will be run on an automated, continuous basis to maximise efficiency and potential savings.

4.7.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) during the year.

	<b>2016/17</b>	<b>2017/18</b>
Number of outstanding investigations at the beginning of the year	14	10
Number of fraud referrals received during the year	111	115
Number of cases concluded during the year	115	97
Number of investigations outstanding at the end of the year	10	28

4.7.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned. We have continued to ensure that our processes are as lean as possible to ensure we can balance the caseload against available resources.

4.7.4 In addition to the above, the team have carried out proactive exercises looking at attendance and at serious and organised crime in procurement, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Data analytical techniques have also been used to review and identify any potentially fraudulent transactions. The Team have delivered fraud awareness training and have issued various bulletins to raise awareness of fraud.

4.7.5 The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications. Last year the team recovered 87 properties and cancelled 152 housing applications prior to letting. The team also identified Housing Benefit

overpayments totalling £826,748 and Council Tax changes of £1,077,096. This shows that, in addition to the obvious social benefits deriving from the work, there is also a real financial saving from preventing and / or terminating fraud.

4.7.6 Our annual fraud report will be presented to Committee Members at the September meeting.

## **5. The Internal Audit Charter**

5.1 On an annual basis Members are asked to approve the Internal Audit Charter. The charter for 2018/19 is attached as Appendix C. It sets out the objectives; framework and services delivered by Birmingham Audit, and details the relationship with the Audit Committee, our business plan objectives, the statutory requirements around our service and outlines the rationale behind the annual audit plan.

## **6. Internal Audit Plan**

6.1 The 2018/19 plan contains 4,681. This compares to 5,113 in 2017/18 (a decrease of 432 days or 8.5%). This reduction results from the need to decrease resources in order to manage the service within the budget envelope that is available. The reduction in resources has been minimised by maximising income and appointment of an audit apprentice.

6.2 The 2018/19 plan was approved by members at the November Audit Committee meeting. The table below shows a summary split of audit days over the different categories of work we undertake, previous year information is given for comparison purposes. A detailed breakdown of the plan is given in Appendix D.

	<b>17/18</b>	<b>17/18 Days</b>	<b>18/19</b>	<b>18/19 Days</b>
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>5113</b>	<b>100%</b>	<b>4681</b>
Main financial systems	18%	905	16%	730
Business controls assurance	34%	1735	39%	1830
Investigations	16%	830	18%	830
Schools (Non Visits)	3%	155	2%	105
Schools (Visits)	19%	945	15%	720
Follow up work	4%	200	3%	150
Ad-hoc work	3%	178	4%	186
Planning & reporting	2%	125	3%	120
City initiatives	1%	40	0%	10

6.3 A half-yearly report will be produced to update Members on progress with the delivery of the 2018/19 plan.

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

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

During 2017/18 we issued 2 reports where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

#### **Information Assurance Framework**

The Council's Information Assurance Framework (IAF) was established in 2012, and set out key roles and responsibilities for:

- facilitation / management of robust and effective governance of information assets;
- fostering of a culture which values and protects the information used; and
- improving security to maintain compliance with the Public Sector Network (PSN) and NHS N3 network requirements.

Since then there have been significant changes to how the Council uses and manages data. Looking forward there will be requirements to increase information governance and IT security arrangements to enable continued connection to secure public sector networks.

Our assessment against the Information Assurance Maturity Model (IAMM) identified a low level of compliance against the model. Since the completion of our work, the Council has set a plan to achieve level 2 compliance and secured additional resources to implement the plan. The initial focus of this plan is to deliver the critical actions required for the Council to comply with the General Data Protection Requirement (GDPR).

Follow-up reviews will be undertaken during the year to confirm the successful deliver of this plan.

## **Adequacy and Progress of the Maximising Independence of Adults (MIA) Programme**

The MIA Programme was established to deliver the Council's future Vision of Adult Social Care and to support the delivery of directorate savings targets. The three priorities of the Programme are:

- Improving the customer journey.
- Shaping the market (service transformation).
- Prevention.

We identified that the Programme was unlikely to deliver the required outcomes or achieve the identified savings. Since the completion of our work the MIA programme has been replaced with the 'Adult Social Care and Health Directorate Improvement and Business Plan'. The plan is four-year programme of change that defines how Directorate services will be delivered in the future. It also outlines how potential barriers and obstacles to service change will be overcome and the required service improvement outcomes and financial savings delivered. A review of the delivery of 'Adult Social Care and Health Directorate Improvement and Business Plan', which will include assessing whether the expected targets and outcomes are being delivered, is scheduled for September.

## **2. School Visits**

Throughout 2017/18 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of maintained schools. We have continued to review and update our work programme to ensure appropriate coverage across the key areas.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school, the appropriateness of roles, core values and the culture of tolerance / mutual respect. Where concerns have been raised these have been appropriately escalated and support provided. No significant concerns were identified from the surveys.

Overall, we continue to find that the majority of schools have effective systems in place, and staff and Governors are complying with key processes. Inevitably, we do identify areas where improvements are required, these are summarised below:

- Financial Governance – weaknesses continue to be identified in the delegation framework. Whilst these do not stop schools functioning effectively, it does mean that there is not always the required clarity around financial responsibilities. Improvements are required in the financial reporting to Governors to allow sufficient scrutiny and challenge. Also, there are still a proportion of schools that are not completing a statement of internal control, completing it incorrectly, or not recording its approval.

We are anticipating that with the re-launch of the Schools Financial Procedures Manual (SFPM) last November, which includes revised templates, we shall see an improvement in these areas.

We have seen a steady improvement in the recording of gifts and hospitality and development of strategic risk registers considering both financial and non-financial risks. The majority of schools are also now completing their Schools Financial Value Standard on an annual basis, although it is not always submitted to the Council by the deadline or its approval recorded.

- Budget Planning – whilst day-to-day financial management is well established a high proportion of schools are relying on their carry forward surplus to set a balanced budget. This poses a risk for future years when the surplus has been utilised unless action plans to reduce expenditure / increase income are developed. It is not surprising that this continues to be an area of significance as the financial challenges in schools grow. We are working closely with Council officers to ensure an appropriate response to this emerging risk.
- Purchasing – There continues to be an area where greater compliance is needed and appropriate divisions of duties established.
- Attendance - Attendance remains well managed and effective arrangements are in place. There are two areas that continue to require further development – the retention of sufficient records where pupils leave a school in year and ensuring correct codes are used to record attendance/absence.
- Safeguarding – Schools were well aware of their responsibilities in relation to safeguarding children under their care and take responsibilities seriously. There remains the need for improvement in respect of monitoring IT and internet use and undertaking due diligence prior to lettings to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements. Schools are rolling out prevent training, this training needs to be appropriately recorded.

### **3. Risk Management**

Risk management continues to be embedded within the Council. The Corporate Risk Register is reviewed by the Council Management Team and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee. The risk management policy, strategy and toolkit is currently being reviewed and updated and a supporting E-learning module developed.

### **4. Corporate Governance**

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. We carried out several audit reviews in 2017/18 covering governance in specific service areas.

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

The AGS 2017/18 identifies seven significant issues: Children's Safeguarding; Financial Resilience; Major Projects; Equal Pay Claims; The Improvement Agenda; Safety Implications for Tower Blocks and the Homeless Reduction Act

### **5. Main Financial Systems**

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2017/18 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

#### **Financial Control / Ledger**

The Council continues to face financial challenges. A letter from the Birmingham Independent Improvement Panel, dated 8th March 2018, states "The Council also recognises that it has not yet brought its day to day expenditure into line with its revenue. Balancing its revenue



budget has therefore required, and continues to require substantial draw down of the Council's reserves. This position is not sustainable and high quality strategic financial management and difficult decisions will be required to achieve financial sustainability."

From the work we carried out during the year, we did not find any fundamental or material issues and are able to provide assurance that, in general, effective arrangements are in place for the proper management and control of the Council's finances. Finance are currently undertaking another restructure, which will result in fewer resources to undertake their work, it is too early to evaluate the impact of this.

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

The gross payroll cost as at the end of period 12 for 2017/18 was £697m; this has reduced from £725m in the previous year. The payroll system is stable and functioning well. Processes are in place to maintain the accuracy and quality of information, including HMRC's real time information and from February 2018, Local Government Pension Scheme requirements.

Work on the content and functionality of the Employee Portal has continued with the aim of improving accessibility and ease of manager and employee self-service. There continues to be a mixed economy of manager and employee self-service along with the Ask HR function. However, the volume of calls to the Employee HR/Payroll telephone line remains higher than we would have expected.

Processes and controls are in place and operated by HR staff and Payroll staff to ensure that the payroll is accurate and that staff are paid correctly and statutory and voluntary deductions are correct. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases, this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of directorate overpayments remains low in comparison to the number of payments made (0.2%), managers still need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

### **Accounts Payable (AP)**

In 2017/18, over 512,000 invoices were paid by AP, for main creditors (including feeder file transactions).

99.4 % of invoices were paid within 30 days of receipt into AP. 86% of invoice sent directly to directorates, rather than AP, where paid within 30 days of the invoice date.

The average monthly purchase card spend was over £8.9m, well above the target of £250k, maximising the rebate received by the Council.

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

## **Procurement**

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

Our high-level review of the arrangements in place to improve contract management and implement best practice across the Council, identified examples of good practice, however, there is more that needs to be done. As a result, the Corporate Commissioning Board has been refocused and emphasis on contract management increased. In line with this refocusing the Board has been renamed to the “Commissioning and Contract Management Board” (CCMB). Contract managers are now invited to attend CCMB to provide an update on progress in implementing audit recommendations relating to the contract they manage. Arrangements will also be strengthened through the introduction of a CCMB assurance report and the creation of a Contract Managers Network.

Our audit on due diligence in procurement identified that the overall approach contained elements of best practice but there are opportunities to make the process more robust, both in terms of the accuracy of application and the development of a wider coverage within the checks undertaken. As a result of the audit, a working group has been established to consider and implement a suitable approach to enhanced due diligence, in order to mitigate the risk of serious and organised crime.

As well as the work we have undertaken to provide an overall assurance, we have undertaken other work on procurement and contracts which was specifically requested by service areas. This included a review of the Independent Living Service, where recommendations were made to

strengthen the tender documentation, draft contract, proposed contract management and performance framework, and procurement advertisement.

### **Accounts Receivable (AR)**

The invoicing and recovery of sundry debt is an essential part of the Council's financial management processes and reliance is placed on services achieving their sundry income targets. The value of sundry debts raised in 2017/18 was £698m (excluding Housing Benefit Overpayment debts Debts). Overdue sundry debts (over 90 days old) as at 31/3/2018 was £8.3m.

The AR processes were found to be operating appropriately, with effective processes in place for raising bills and recovering debt.

### **Benefits Service**

Housing Benefit payments equate to around £560million, which is returned to the Council through the subsidy grant.

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). The introduction of Universal Credit (UC), which replaces many existing benefits (for working age people), began in April 2013 and transition to full service completed on February 14th 2018. DWP state that full migration (of any claims that are not already on UC) will be begin between April 2019 and 2022. The Benefit Service has a housing benefit caseload of 102,000 with 123,000 households receiving CTS.

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

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

Council Tax is one of the ways the Council receives the money it needs to provide local services. The amount paid is levied through a valuation banding system based upon the sale value of the property as at 1 April 1991, which is set by the Valuation Office Agency. The Council is responsible for setting the council tax rate for each of the valuation bands in their area, and collecting the revenue. In England, the local

authority is free to set the level of council tax, but must hold a referendum if the percentage increase in a given year is greater than a level set by the Secretary of State (currently 2%). Certain reductions, which are set out in national council tax law and regulations are applicable through various discounts and exemptions. Exemption from council tax means that there is no liability to pay council tax, and generally applies to properties. A discount from council tax usually relates to people.

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office. Properties are assessed in a rating list with a rateable value, a valuation of their annual rental value on a fixed valuation date using assumptions fixed by statute. A business rates bill may be reduced by having one or more reliefs applied to it, such as reliefs for empty properties, or for charities. Reliefs are administered by the local authority and they do not affect the rateable value of a property. While some are mandatory, others are at the discretion of the local authority, who also have to bear, in whole or in part, the costs of some reliefs.

The administration, billing and collection of Council Tax and Business Rates transferred back to the control of the Council in 2017 from Service Birmingham. Our reviews have highlighted that there were no major improvements in the review and movement of accounts at enforcement levels since the transfer of the service back to the Council and the review procedure (expected to be implemented in June 2017) was not in place. However, since the appointment of a new Head of Service in September 2017 the business has improved processes in the various recovery areas and has set up two additional recovery teams to cleanse all of the accounts in recovery with an outstanding action on them.

Collection rates are, 94.50% for Council Tax and 97.05% for Business Rates as per the QRC4. The Council is on target to achieve its required collection rates as part of its financial budget setting process.

## **Rents**

The Rent Service is responsible for the collection of rent from council tenants. This requires liaison with Place Directorate staff in the Letting Suites who have face to face contact with the tenants when the tenancy is set up together with regular contact across the Tenancy Estate Management teams. The level of rent arrears is closely monitored, and action is taken to assist current (secure and introductory tenants) and former tenants to clear arrears. Discretionary housing payments (DHP) can be made to those in particular hardship subject to approval by the

Benefit Service. A proportion of tenants who are in receipt of Universal Credit (UC), which includes housing costs, are receiving assistance from a pilot team set up within the Rent Service. DHP applications can still be considered from UC tenants if their UC includes housing costs.

Improvements have been made in the monitoring of Rent accounts to lessen the need for manual intervention and reduce arrears. Recovery action is now targeted based on the level of arrears. The processes introduced by management since the inception of the Introductory Tenancy Arrears Team are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly.

The creation of the Eviction Prevention panel has been instrumental in assisting customers to sustain tenancies – over 100 evictions prevented to date. It has also had a direct impact on former tenancy arrears by preventing approximately £250,000 being accumulated. With the advent of the Homeless Reduction Act, the panel plays its part by giving council tenants every opportunity to remain in their properties.

As a result of an unsuccessful attempt to redirect rent refund an end to end process review was completed, this review verified that appropriate checks had now been established to detect fraudulent transactions.

## **6. Information Governance / Technology (IT) Issues**

The successful delivery of Council services would be undermined in the absence of accurate, reliable and timely information and an efficient technology platform. Recent high profile cyber targets on organisations, including key public sector bodies, highlight the vulnerability of public sector bodies and the risks to citizens. The General Data Protection Regulations (GDPR) will soon be in effect (May 2018) which will bring with it additional requirements to manage information effectively. The Council has also embarked on a major change programme which will involve the transition of IT services from Capita back to the Council.

Our work has been targeted 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 Capita Information Communication and Digital Services (ICTDS).

## Council

GDPR will soon be enacted into UK law, like many organisations the Council is still working towards compliance. Through our work we have supported the developed of an action plan to help the Council in its GDPR preparations.

Our information governance reviews identified:

- concerns over the completion of the mandatory Information Governance training;
- that data processing agreements with 3rd parties, who handle personal information on our behalf, are not always in place;
- targets for responding to information access requests have dipped below agreed performance targets and will not meet the reduced timeframes for responding to requests required by GDPR;
- continued concerns over the management of system user accounts. During periods of significant organisational change it is essential that IT access is tightly controlled to avoid data breaches and possible inappropriate activity occurring; and
- a low level of compliance against the information Assurance Maturity Model (IAMM).

## Capita ICTDS

Following a period of stability the Council experienced a number of major unplanned outages, during a relatively short period of time, which affected our SAP systems. Our investigation found that the SAP application platform was being hosted on an out of support and end of life Unix operating system.

Our reviews continue to provide a reasonable assurance over the IT infrastructure (network, directory service, data centres).

## Council / Capita

Our follow up work has identified that the overall governance and reporting arrangements surrounding the management of IT projects have improved. However, there remains a need for more effective lessons learnt and benefit realisation processes. We have assessed a number of major projects throughout the year to provide an assurance that the projects are on track to deliver their key objectives and are subject to appropriate project governance.

The Information Communications and Digital Strategy is now in its second year of delivery. The strategy sets out how Information and Communications Technology and Digital technologies (ICTD) will support the way in which council services will be provided in the future. Our initial review of the implementation of the strategy highlighted the need to document the Critical Success Factors within an ICT implementation plan and use this to monitor successful delivery. Delivery of the strategy will continue to be a focus of our work over the coming year.

Our work on the BACS system and SAP Payment files identified a number of service incidents. The Council is investigating these incidents to ensure these issues do not reoccur.

The Information Assurance Board has been re-instigated, with ownership from the Corporate Management Team, the Board will have a key role in ensuring that information risks are identified and responded to.

### Final Reports Issued During 2017/18

#### Audit Reviews (134 Reports):

Key to linkages to the Council's areas of priority, core objective of good governance, Corporate Risk Register and financial assurance:

1. Children (a great city to grow up in)
2. Jobs & skills (a great city to succeed in)
3. Housing (a great city to live in)
4. Health (a great city to lead a healthy and active life in)
5. Good Governance
6. The Corporate Risk Register (CRR - based on the version which went to Audit Committee in March 2017)
7. Financial Assurance

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Information Assurance Framework	High	3					✓		✓
Adequacy and Progress of the Maximising Independence of Adults programme	High	3				✓			
Education Infrastructure - Project Management	Medium	3	✓						
IT Procurement	Medium	3					✓	✓	✓
Egress - Secure Email	Medium	3					✓		
Third Party Service Provision - Information Security	Medium	3		✓			✓	✓	
SEGWEB PLACE	Medium	3				✓			
Information Governance – General Data Protection Regulation (GDPR) Readiness	Medium	3					✓	✓	
Data Sharing	Medium	3					✓		
Security Council House	Medium	3					✓		
Place Directorate – Budget Management & Monitoring	Medium	3					✓	✓	✓



Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Staff Usage Car Parks	Medium	3					✓		
Internal Fostering Recruitment	Medium	3	✓						
Birmingham Resilience - Emergency Planning	Medium	3						✓	
Safeguarding – Adults	Medium	3				✓			
Equipment Loan Scheme	Medium	3					✓		✓
Residential Care Centres	Medium	3				✓			
Housing Options Service Review	Medium	3			✓				
Direct Payments – Workflow	Medium	3				✓			✓
Pathways Over 18 Care Leavers to Employment	Medium	3	✓	✓					
Section 117	Medium	3				✓			
Corporate Contract Management	Medium	3					✓		✓
Road Safety - Highway Improvement Schemes	Medium	3					✓		
Contract Management - Provision of Transport Services	Medium	3	✓				✓		
Due Diligence	Medium	3					✓		
Fees at Independent Schools	Medium	3	✓						✓
RBIS Batch Processing and Housing Benefit Subsidy Claim	Medium	3							✓
Schools Purchase Cards	Medium	3	✓						✓
Recording and Banking of School Income	Medium	3	✓						✓
Individual Budgets Summary Reports	Medium	3				✓			✓
Children's Direct Payments Summary Report	Medium	3	✓						✓
CareFirst	Medium	3	✓			✓	✓		
Museums - Management Arrangements	Medium	3					✓		
Financial Control Review	Medium	3							✓
SAP Unplanned Outages	Medium	2					✓		
N3 Network	Medium	2				✓			

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
ICTD Strategy	Medium	2					✓		
Home Based Care	Medium	2				✓			
Improved Better Care Fund	Medium	2				✓	✓		
Children in Care Placement Services	Medium	2	✓					✓	
Social Worker Practice - Performance Monitoring Children	Medium	2	✓					✓	
Social Worker Practice - Performance Monitoring Adults	Medium	2				✓			
Corporate Parenting	Medium	2	✓				✓		
Delivery of Mandatory Support to Clinical Commissioning Groups	Medium	2				✓	✓		
People Commissioning Directorate Performance	Medium	2				✓	✓		
Adult Direct Payments Summary Report	Medium	2				✓			✓
Benefits Service – Revenues Notifications Impacting on Benefit Claims	Medium	2							✓
IT Projects People - ACAP Portals	Low	3				✓	✓		
IT Asset and Configuration Management	Low	3					✓		
Schools Themed Work Compliance with Cheque Book Accounting System	Low	3	✓						✓
School Themed Work - Income Control	Low	3	✓						✓
Schools Income - Unannounced Cash Counts	Low	3	✓						✓
CareFirst IT Review	Low	3	✓			✓	✓		
Greater Birmingham and West Midlands Brussels Office	Low	3					✓		
Responsive Repairs and Maintenance Services, Gas Servicing and Capital Improvement – Contract Management	Low	3			✓		✓		
Risk Management - Corporate Strategy and Performance	Low	3					✓	✓	
Web Services	Low	3					✓		
IT Applications - CareDirector Youth (CareWorks Raise)	Low	2	✓						
IT Applications – Change Control	Low	2					✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Corporate Voice Solution	Low	2					✓		
IT Emerging Issues – Yammer	Low	2					✓		
IT Projects - Web Application Security	Low	2					✓	✓	
SAP Birmingham Children's Trust	Low	2	✓						
SAP Interface Files and Reconciliation	Low	2	✓						
Bulk Print Service	Low	2					✓		
IT Incidents / Problems	Low	2					✓		
Information Governance - Records Management	Low	2					✓	✓	
Information Governance - Planning Applications Compliance with Data Protection Guidelines	Low	2					✓	✓	
Fixed Assets IT Systems – ArcGIS	Low	2					✓		
Fixed Assets IT Systems – Manhattan	Low	2					✓		
Council Tax - Exemptions and Discounts	Low	2					✓		✓
Messaging Services	Low	2					✓		
Illegal Money Lending Team	Low	2							✓
Former Tenancy Arrears	Low	2			✓		✓		✓
Arrears Recovery including escalation	Low	2			✓				✓
Procurement Process - Design, Construction and Facilities Management	Low	2					✓		
Non Invoiced Income - Birmingham Wildlife Conservation Park	Low	2							✓
NNDR Charity Relief	Low	2							✓
NNDR Void Inspections	Low	2							✓
Ethics	Low	2					✓		
Council Tax and Business Rates Management and Monitoring Arrangements	Low	2							✓
Council Tax Suppressions	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Corporate Payroll - Purchase of Annual Leave Scheme	Low	2							✓
Temporary Changes to Contracts	Low	2					✓		
Corporate Payroll End of Year Report	Low	2							✓
Benefit Service - Backdate and Retrospective Claims	Low	2							✓
Handling of New Benefits Claims	Low	2							✓
Acivico - Procurement of Consultants	Low	2					✓		
Debt Collection Agencies Management and Monitoring Arrangements	Low	2							✓
Accounts Receivable End of Year Report	Low	2							✓
Accounts Receivable - Billing Activities	Low	2							✓
Accounts Receivable - Creation of Business Partners	Low	2							✓
Accounts Payable End of Year Report	Low	2							✓
N3 Network - Level 2 Accreditation Compliance Checks	Low	2				✓	✓		
Northgate Housing IT Review	Low	2			✓		✓		
Corporate Review of Personal Use of Vehicles	Low	2					✓		
Traffic Management - Policy and Delivery	Low	2					✓		
Housing Allocations	Low	2			✓				
Nursery School Funding	Low	2	✓						✓
Government Grants	Low	2							✓
Customer Services	Low	2					✓		
Corporate Payroll - SAP Transaction Testing	Low	2							✓
Vehicle Assets	Low	2					✓		
Tooling Loan Funding Programme	Low	2		✓					✓
Non-HRA Assets	Low	2					✓		✓
Legal and Governance - Business Unit Assurance Statement	Low	1					✓		
Client Services (Strategic Sport) and Events - Assurance Statement	Low	1					✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Adoption and Fostering - Foster Carer Payments	Low	1	✓						✓
Rent Collection and Charges Credits Balances	Low	1							✓
NNDR Discounts - Retail Premises Reoccupation Relief	Low	1							✓
Corporate Payroll - Redundancy payments	Low	1							✓
Corporate Payroll - Payroll Exception reporting	Low	1							✓
Corporate Payroll - Allocation of Pensions	Low	1							✓
Corporate Payroll - Starters and Leavers Transaction Testing	Low	1							✓
Housing Benefit Overpayments	Low	1							✓
Corporate Strategy Team - Business Unit Assurance Statement	Low	1					✓		
Housing Benefit Non - Dependants	Low	1							✓
Benefits Service - Suspended Claims	Low	1							✓
Northgate Automatic Solution	Low	1					✓		✓
Accounts Receivable - Management and Monitoring Arrangements	Low	1							✓
Debt Progression Instalment Plans	Low	1							✓
Accounts Payable - Input Tax	Low	1							✓
Accounts Payable – Management and Monitoring arrangements of the Procure to Pay Service	Low	1							✓
Accounts Payable (AP) - CP1 Payments	Low	1							✓
Urgent Payments - Faster BACS	Low	1							✓
EDSI - Management of Payments	Low	1							✓
Risk Management - Assessment and Support Planning	Low	1					✓		
Accounts Payable - Vendor Master Data	Low	1							✓
Direct Payments - Interim Report	N/A	N/A				✓			✓
Disabled Children's Social Care	N/A	N/A	✓			✓			
Property Management	N/A	N/A					✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Looked After Children - Out of Area	N/A	N/A	✓					✓	
Children with Disabilities Interim Report	N/A	N/A	✓					✓	
Grants	N/A	N/A					✓		

**Follow Up Reports (29 Reports):**

Title	Risk Rating Council
Network Management Follow Up	Medium
Disability Facility Grant- VAT Coding Follow Up	Medium
Markets Follow Up	Medium
Birmingham Resilience - Business Continuity Follow Up	Medium
Engagement of Individuals - HMRC Rules Follow Up	Medium
Local Growth Fund Management Arrangements Follow Up	Medium
Deprivation of Liberty Safeguards 2nd Follow up	Medium
Fleet Services – Review of Management Arrangements Follow Up	Medium
IT System Security Follow Up	Low
IT Procurement Follow Up report	Low
Mobile Phones Follow Up	Low
IT Projects People - ACAP Portals - Follow up	Low
PCI DSS Follow Up Report	Low
IT Project Governance Follow Up	Low
Information Governance - DfE Returns Follow-up	Low
Fixed Assets IT Systems Follow Up	Low
BACS Follow Up	Low
Destin Procedures Follow Up	Low

<b>Title</b>	<b>Risk Rating Council</b>
Adult Education - Students from Abroad Follow Up	Low
Annual Tenancy Visits Follow Up	Low
Child Protection Case Review Follow Up	Low
Provision of Adult Substance and Misuse Treatment and Recovery Services – Service Delivery Follow Up	Low
Personal Education Plans - 2nd Follow Up	Low
Accounts Receivables - Creation of Business Partners - Customers - Follow up	Low
Petty Cash Follow Up – People	Low
Petty Cash Follow Up – Place	Low
Regeneration Accountable Body Governance Arrangements - 2nd Follow Up	Low
2nd Follow Up - Enforcement Litter and Fly Tipping Follow Up	Low
Tenant Management Organisation Support Team Follow Up	Low

**Investigation Reports (40 Reports)**
**School Visits (87 Reports, 6 Follow-up Reports)**

## **Internal Audit Charter 2018/19**

### **1. Introduction**

#### **1.1 This charter sets out Birmingham Audit's:**

- purpose, authority and responsibilities;
- establishes Birmingham Audit's position within the organisation, including reporting relationships with the 'board';
- covers the arrangements for appropriate resourcing;
- defines the scope of internal audit activities and role of Internal Audit in any fraud-related work; and
- includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

It also sets out the objectives, framework and services delivered by Birmingham Audit (which are in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS)). The detailed actions to deliver the charter are contained within the Birmingham Audit Business Plan.

#### **Notes:**

1. *The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive or Corporate Director Finance & Governance.*
2. *Statutory officer roles with regards to Internal Audit:*

*Chief Executive and Assistant Chief Executive - ensure there is an open, honest, transparent and accountable culture in operation within the Council and are available as and when required by Internal Audit.*

*Corporate Director Finance & Governance - is responsible for ensuring the sound financial administration of the Council and effective systems of Internal Audit. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.*

### **2. Purpose, Authority & Responsibilities**

#### **2.1 Birmingham Audit's primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.**

#### **2.2 In accordance with section 12 of the Financial Regulations:**

- each Corporate Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and



must make its services available as and when required for audit both internally and externally;

- Corporate Directors must respond in writing to any recommendations contained in audit reports in accordance with agreed protocols; and
- the Assistant Director Audit and Risk Management on the authority of the Corporate Director Finance & Governance, shall have authority to:
  - enter any Council premises or land at all reasonable times;
  - have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties;
  - require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination; and
  - require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

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

- 2.3 Birmingham Audit's responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.
- 2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that Birmingham Audit staff will:
- be fair and not allow prejudice or bias to override objectivity;
  - declare any interests that could potentially lead to conflict;
  - sign a confidentiality statement;
  - not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
  - use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;
  - be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;

- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements; and
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

### **3. Position within the Organisation (including reporting relationship with the board)**

- 3.1 Birmingham Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Birmingham Audit will not have any operational responsibilities.
- 3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by Birmingham Audit lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by BA will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.
- 3.3 The Assistant Director Audit and Risk Management will report the results of audit work in accordance with the Birmingham Audit Protocol.

### **4. Resourcing**

- 4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. Birmingham Audit has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.
- 4.2 During 2018/19 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.

- 4.3 We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.
- 4.4 We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.
- 4.5 If the Assistant Director Audit and Risk Management, or those charged with governance, consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of Birmingham Audit, or prejudice the ability of Birmingham Audit to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

## **5. Scope**

- 5.1 The scope of the internal audit function will embrace the internal control system of the Council. It covers all financial and non-financial related activities of the Council at all levels of its structure.
- 5.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the Assistant Director Audit and Risk Management will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.
- 6.3 Birmingham Audit will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities Birmingham Audit will take this into account. Where the results indicate that insufficient work has been done then Birmingham Audit may undertake a separate review.
- 5.4 The scope of audit work extends to services provided through partnership arrangements. The Assistant Director Audit and Risk Management will decide, in consultation with all parties, whether Birmingham Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the Assistant Director Audit and Risk Management will agree appropriate access rights to obtain the necessary assurances.
- 5.5 Birmingham Audit will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.

- 5.6 Birmingham Audit will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events, and working groups.

5.7 Other Work

Where appropriate resources exist, Birmingham Audit will make provision within the plan for the review of key systems or key services provided by:

- the Council on behalf of other organisations; and
- others on behalf of the Council. In order to achieve this Birmingham Audit will require access to partner records, systems and staff. This access should form part of any partnership contract between the Council and the partner.

The decision to include it in the plan will be dependent on the level of risk identified and whether reliance can be placed on opinions provided by others.

5.8 Fraud & Corruption

Section 14 of the Financial Regulations states the following:

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

Birmingham Audit will assist managers to minimise the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, Birmingham Audit will, in

appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by Birmingham Audit will adhere to all Council policies.

Where Directorates require Birmingham Audit to attend disciplinary hearings as a management witness, sufficient notice, ie: 10 working days, should be given.

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

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

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

Where appropriate audit staff will be rotated to avoid any conflict of interests.

## **7. The Audit Committee**

7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:

- their approval of the internal audit charter and audit plan, and monitoring of progress against them;
- the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues;
- access to all reports. Those considered to be of the highest risk will be highlighted and brought to their attention; and
- performance management information will be provided.

7.2 We will attend the committee meetings, and contribute to the agenda.

7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.

7.4 Our progress reports will include the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

- 7.5 Annual / half year update reports will be produced. The annual report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

## **8. Business Plan Objectives - 2018/19**

- To deliver an internal audit service that meets professional and mandatory standards, adds value and delivers suitable assurance to the Council.
- To deliver an effective counter fraud service to prevent, detect and deter fraud and error and to assist law enforcement agencies through the provision of intelligence.
- To deliver a creditor statement reconciliation audit, maximising overpayment recoveries.

## **9. Statutory Requirements**

- 9.1 There is a statutory requirement for Local Authorities to have a counter fraud and internal audit function. This service is provided for the Council in-house by Birmingham Audit working in partnership with a number of external bodies. The Assistant Director Audit and Risk Management provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.
- 9.2 The services we provide are in accordance with the following legal and professional requirements:

Legal:

- Accounts and Audit Regulations 2015
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 2003
- Criminal Procedures Investigation Act 1996
- Data Protection Act 1998
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 2002
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2008
- Regulation of Investigatory Powers Act 2012
- Social Housing Fraud (Power to Require Information) Regulations 2014
- The Protection of Freedoms Act 2012
- Theft Act 1978

- Welfare Reform Act 2012

Professional Requirements:

- Relevant CCAB professional guidance including the Public Sector Internal Audit Standards
- Relevant IIA guidance
- Information Security - BS EN ISO27001:2013

- 9.3 Birmingham Audit reports to the Section 151 Officer under the Local Government Act 2002. The legislative driver for internal audit and counter fraud continue to evolve.
- 9.4 The Council 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, Leader, Section 151 Officer and 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 and identify any significant governance issues.
- 9.5 We have a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An integrated assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.
- 9.6 The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. Our opinion will be prepared using the following sources of assurance: Internal / External Audit work, the AGS process and Risk Management processes. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.
- 9.7 We give an opinion on the internal control environment which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by 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; and
- school activities.

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

- The Future Council programme has presented new risks as well as opportunities. We will continue to contribute to driving forward the change agenda ensuring our planning process is future focused.
- The audit plan for 2018/19 has been compiled based on a number of factors, ie:
  - the level of risk associated to each entity;
  - the level of assurance associated to each entity; and
  - any reviews that fall under the 'must do' categorisation, ie: those which are required to be undertaken as part of the minimum internal audit standard.

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

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

- All of the risks contained within the Corporate Risk Register are included within the Council's Assurance Map, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability, be added to the audit plan.
- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.



- We will assess ourselves against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.
- We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the National Fraud Initiative (NFI).
- Follow up audits will be undertaken in accordance with the agreed policy.
- Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

Consultancy work is defined as:

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

Consulting services may include but are not limited to:

- School financial health checks;
- facilitation of workshops;
- assistance in the completion of financial returns; and
- representation on Boards etc.

The purpose, scope and approach for each piece of consultancy work will be agreed prior to commencement of the work.

- A Charging Policy has been implemented. This means that some elements of work will only be undertaken if resource is available and the client is willing to pay.

**Proposed Internal Audit Plan 2018/19**

	Days	Total
<b>Financial Systems (including computer audits where appropriate)</b>		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	90	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	<b>730</b>
<b>Business Controls Assurance</b>		
Work in Progress b/fwd. from 2017/18	30	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	<b>920</b>
<u>Adults and Health</u>		
Air Quality	10	
Assessment & Support Planning	25	
Better Care Fund	20	
Carers Strategy	20	
Commissioning	20	
Delayed Transfers of Care	10	
Delivery of Improvement and Business Plan	15	
Enablement	15	
Integrated 3rd Sector funding	15	
Integrated Personal Commissioning	20	
Prevention Agenda	15	
Public Health	30	
Placements	20	
Seven Day Working	15	
Transitions to Adulthood	20	<b>270</b>
<u>Children and Young People</u>		
Contract Monitoring - Birmingham Children's Trust	50	
Children Services (Education)	50	
Pupil Premium - Accountability and Usage	10	

	Days	Total
Safeguarding & Development – BCSB	40	
Safeguarding Corporate Overview	40	190
<u>Economy</u>		
Accountable Body	30	
Car Parking - Civil Enforcement	20	
Youth Employment Initiative	10	60
<u>Finance and Governance</u>		
Ethics	5	
Governance	20	
New Service Delivery Vehicles	10	
Risk Management	10	
Self-Assessment - AGS Process	10	55
<u>Place</u>		
Equality, Community Safety and Cohesion	25	
Homelessness	20	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	
Housing Improvement - Capital Works Programme	20	
Waste Management	30	295
<u>Strategic Services</u>		
Improvement Agenda	20	
Project Management	20	40
		<b>1830</b>
<b>Investigations</b>		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	<b>830</b>
<b>Schools - Non Visits</b>		
Consortium / Forum	20	
Deficits	20	
Facilities Management and Repairs	15	
Themed Work	50	<b>105</b>
<b>Schools - Visits</b>	720	<b>720</b>
<b>Follow Up Work</b>		<b>150</b>
<b>Ad Hoc Work / Contingency</b>		<b>186</b>
<b>Planning and Reporting</b>		<b>120</b>
<b>City Initiatives</b>		<b>10</b>
<b>TOTAL</b>		<b>4681</b>